

# Riigi Kinnisvara

2019 | Annual Report



**Riigi Kinnisvara would like to thank everyone who contributed their time and effort to the 2019 annual report.**

**Special thanks to the authors and advisors**

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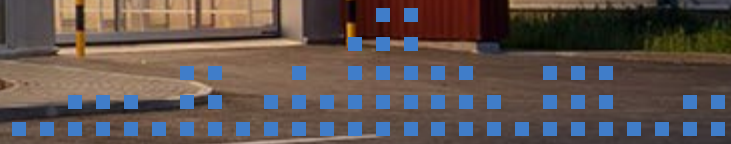
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# Management report



*Kihnu rescue depot*



# Address of the Chairman of the Supervisory Board

Dear reader,

The mission of Riigi Kinnisvara involves more than just being a successful real estate company. We are engaged in fulfilling strategic and budgetary objectives of national importance and ensuring long-term competitiveness of the Estonian state. In comparison with private undertakings, our role arising from owner's expectations in fulfilling state functions and providing public service for development, management and maintenance of necessary real estate, involves both more opportunities and obligations. We regard the unique position entrusted to us with consistent sense of perspective and responsibility. As a socially responsible company, we constantly and on all management levels, contribute to adherence to good management practice and promotion of excellent operating culture and real estate environment.

On the one hand, we represent a modern and efficient company, on the other hand, our success should be assessed not merely based on the figures in income statement, but based on modernisation and improved efficiency of state real estate environment entrusted to us, considering the needs and opportunities of the state as a whole. I believe that the results and trends of the last completed financial year have been reasonably balanced and bring joy to the company and all its stakeholders alike.

Next financial year represents for the company a period for mid-term reviews and elaborating on further targets, actions and pace. A wider analysis of feedback and results of meeting owner's expectations and achieving strategic priorities set for 2017-2020, started in previous financial year at the initiative of the supervisory board, will be expressed in owner's expectations

updated for next periods and strategy for 2020-2023.

In addition to the usual factors, operating environment will be significantly affected by decisions concerning Estonia made for new EU budget period 2021-2027 and the situation on the Estonian labour market, which primarily concerns cooperation partners providing subcontracting to the company. Thus, in upcoming years, RKAS will continue to focus its efforts on real estate management and steady moderate growth arising from improved use and efficiency of state real estate. Our adaptability must create a strong foundation to our essential task – to be the centre of excellence of real estate environment and services for the state and through that ensure modernisation and efficiency of the real estate environment entrusted to us.

I would like to thank everyone who have contributed and continue to contribute to the success of Riigi Kinnisvara!

Sulev Luiga  
Chairman of the Supervisory Board  
of Riigi Kinnisvara





## Address of the Chairman of the Management Board

Dear reader,

The task of Riigi Kinnisvara consists in ensuring modern and good quality work environment for people working in state agencies. We take care of the functions related to real estate environment to support Estonian officials, rescue workers, police, judges, teachers and many others focusing on their main duties. This is our contribution to the development of the country.

We wish to provide our customers with the best real estate solutions. Success requires cooperation of all those involved.

In comparison with previous year, investments of RKAS in real estate development have decreased to some extent, but we added a few remarkable service projects. During the year, we invested approximately 31 million euros in our asset portfolio. Major development activities included technical installation for new Tallinn Prison, construction of common internal security buildings in Pärnu and Sillamäe, completion of new building of Grain Seed Centre of the Estonian Crop Research Institute in Jõgeva and rescue depots in Kihnu and Lihula. We commenced construction works of Nõmme and Lilleküla rescue depots in Tallinn and completed design work of Music and Ballet School in Tallinn.

In addition to the development of our own real estate, we also provide project management service to our customers. We continued cooperation with the Ministry of Education and Research for development of state gymnasiums. In autumn, we completed the construction of Kohtla-Järve state gymnasium and started design work for gymnasiums in Tabasalu, Kuressaare and Laagri, we

carried out architectural competition for state gymnasiums in Paide, Narva, Rakvere, and Mustamäe district in Tallinn. We also completed the new building of boarding school facilities of Rakvere Vocational School.

In 2019, in the framework of service project, we organised architectural competitions for the new Environmental House building of the Ministry of the Environment, and the building of Estonian National Public Broadcasting in Tallinn, coordinated the design of new building of Viljandi Hospital and Health Centre, and the reconstruction of Estonian National Library.

RKAS transfers the real estate unnecessary for state agencies through public auctions. The sales volume hit the all-time high in 2019 – unnecessary objects were realised at sales price of 17.2 million euros. There were approximately 120 sales objects, two thirds of them consisted in residential premises. We commenced complicated, but exciting sales process of historical Patarei Sea Fortress in Tallinn and the transaction was successfully realised already in early 2020.

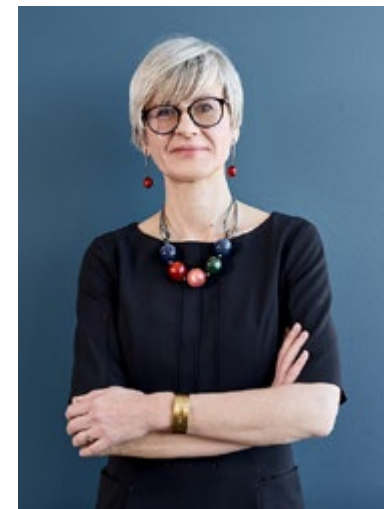
The most large-scale project in previous year was the establishment of state houses in the county centres across Estonia. The purpose of the project was to improve accessibility to public services, ensure modern work environment for the employees of state agencies and save on real estate expenses. The state houses development programme concerns 18 buildings in 13 county centres and it will continue until 2025.

Another project with huge impact was preparation of real estate management plans for the properties used by nine ministries and their subunits. Project

involved, inter alia, determining the short-term and long-term repairs and investment needs and the priority and potential use of the buildings for relevant areas of governance. On the central government level, it provides a great overview of state assets and allows making more reasonable optimisation and investment decisions regarding the use of real estate.

We do our best to develop our team and be a professional partner for our customers and cooperation partners. The best solutions are found in cooperation. Pursuant to the feedback from our partners and customers, we are on the right path. Thank you all so much!

Kati Kusmin  
Chairman of the Management Board



## Brief overview of the company

Riigi Kinnisvara AS (RKAS) is an enterprise established for more efficient development and management of state real estate. The shares of the company are 100% in the ownership of the Republic of Estonia and governed by the Ministry of Finance. In 2021, Riigi Kinnisvara will celebrate its 20th anniversary.

RKAS operates as national centre of excellence in the field of real estate – our customers include state agencies and public service providers, to whom the company provides property management, development, procurement and project management services. Main function of the company consists in transparent and efficient development and management of state real estate, and transfer of real estate unnecessary for governance purposes.

Riigi Kinnisvara employs 216 people across Estonia (on 31.12.2019), representative offices are located in Tallinn, Tartu, Pärnu and Jõhvi.

Riigi Kinnisvara is one of main public procurers in Estonia. In 2019, we carried out 940 procurement proceedings with total value of 88 million euros. On 31 December 2019, RKAS owned and managed 1,507 buildings (closed net area of 1.66 million m<sup>2</sup>) on 872 registered immovables. Company's annual investment in 2019 totalled approximately 31 million euros.



## Finances

Sales revenue (million €)	136
Operating profit (million €)	36
Net profit (million €)	35
Level of investments (million €)	31
Volume of assets (million €)	644
Return on asset portfolio (%)	9

## Asset Portfolio

Number of immovable properties (no)	872
incl. owned	683
Total area of registered immovables (m <sup>2</sup> )	5 935 587
Closed net area of buildings in portfolio (m <sup>2</sup> )	1 688 118
incl. owned	1 063 116

## Employees

Number of employees as of the end of the year (persons)	216
Staff turnover (%)	12

## Procurements

Total number of public procurements (no)	940
Total volume of public procurements (million €)	88

## Sales

Number of sold objects (no)	120
Revenue from sold objects (million €)	17

# Significant events

## January



We opened new remote workplaces in Viljandi state house.

The Ministry of Economic Affairs and Communications chose Viimsi state gymnasium as the best BIM cooperation project of the year.

## February



Ground-breaking of the boarding school facilities of Rakvere Vocational School.

Riigi Kinnisvara organised cooperation seminar “Building lifecycle” for Estonian architects, designers, builders and owner supervision specialists.

Ground-breaking of the building of Grain Seed Centre of the Estonian Crop Research Institute.

## March



Opening of Viljandi state house.

DAGOpen won the architectural competition for new Viljandi Hospital and Health Centre.

Kavakava won the architectural competition for the Environmental House.

Opening of Lihula rescue depot.

## April



Kadarik Tüür Arhitektid won the architectural competition for new building of Estonian National Public Broadcasting.

Ground-breaking of Kohtla-Järve state gymnasium.

Opening of the Estonian Embassy in Moscow after its reconstruction.

Jass Kaselaan won the artwork competition for the boarding school facilities of Rakvere Vocational School.

## May



Starting the sales process of Patarei Sea Fortress.

Johannes Valdma and Allar Esko won the artwork competition for Kohtla-Järve state gymnasium.

## June



Opening of Kihnu Rescue Depot.

International Architecture Awards chose the Victims of Communism Memorial and Officers Monument as the best object in museums and cultural buildings category.

Ground-breaking of Nõmme rescue depot.

Riigi Kinnisvara announced students' research and development scholarships for spring semester.

## July



Publication of the recipients of funding from the support measure for improving energy efficiency of central government buildings.

Salto Arhitektid won the architectural competition for Paide state gymnasium.

Announcement of architectural competitions for Rakvere, Mustamäe and Narva state gymnasiums and Kesklinna Põhikool.

Vergo Vernik won the artwork competition for the Supreme Court building.

## August



Sirkel & Mall signed the contract for designing Estonian National Library.

Conference on EFFECT4buildings project in Tartu and Viljandi.

## September



Opening of Kohtla-Järve state gymnasium.

The Victims of Communism Memorial, Estonian Embassy in Moscow, courthouse at Lubja street, main building of eu-LISA and Rapla state gymnasium were nominated for the architectural awards 2019.

Opening of the building of Grain Seed Centre of the Estonian Crop Research Institute in Jõgeva.

## October



Ground-breaking of common internal security building in Pärnu.

Opening of the training building of Folk Culture Centre in Viljandi.

## November



Salto Arhitektid won the architectural competition for Narva state gymnasium and Kesklinna Põhikool.

Arhitekt Must won the architectural competition for Tallinn Mustamäe state gymnasium.

The Victims of Communism Memorial was awarded the title of the best building design in structures category.

Ground-breaking of common internal security building in Sillamäe.

## December



The Victims of Communism Memorial was awarded the title of Good Public Space 2019.

Nikolai Esimene OÜ made the best offer to purchase Patarei Sea Fortress.



*Estonian Crop Research Institute plant  
breeding reserach center*





Estonian Embassy in Moscow

## About the company

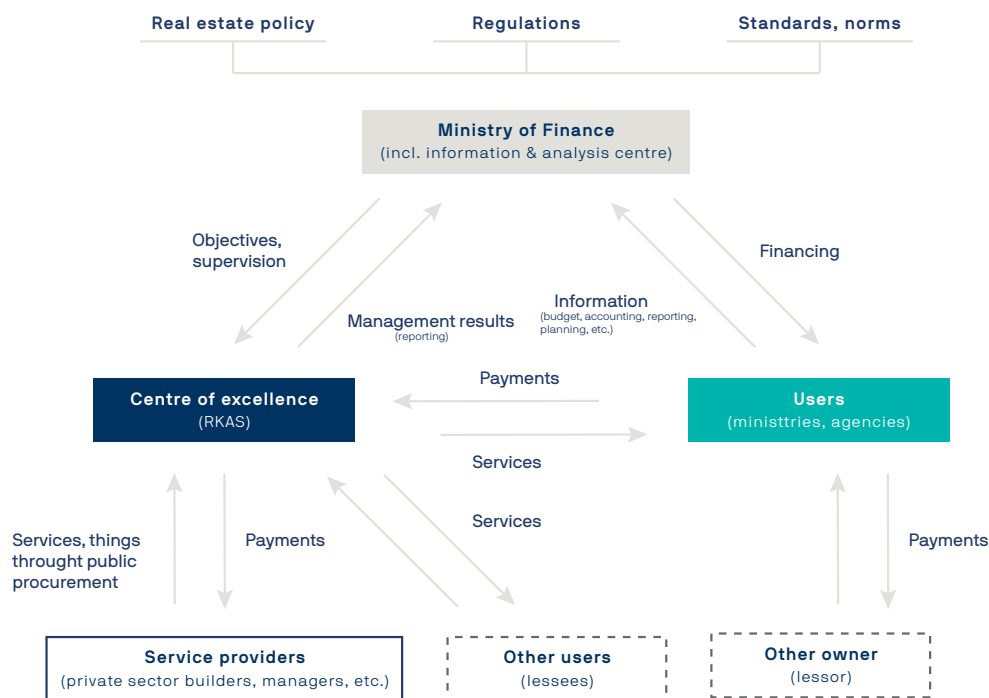
### Role and business model of Riigi Kinnisvara

Riigi Kinnisvara (RKAS) is a real estate development and management company and our customers include ministries and the subunits in their area of governance. Main objectives of RKAS include:

- Releasing state agencies from the duty of dealing with real estate and allowing ministries and agencies to focus on their main functions,
- Operate as the centre of excellence in the field of real estate,
- Achieving economies of scale through centralising the activities related to management and development of real estate.

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 the operation of a company. According to the state's real estate strategy, the state governs its real estate through. This means that state agencies hand built-up immovable properties over to Riigi Kinnisvara as non-monetary contribution and then lease necessary buildings, and RKAS transfers unnecessary buildings. Investments are made via RKAS according to real estate management plans and paid for as part of lease payments. 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:



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

Pursuant to the decision of the Government of the Republic that entered into force in 2018, state agencies and RKAS were granted more discretion in planning investment properties. Until then, all investment decisions were made by the government, the discretion of ministries was less significant. According to the 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 full extent.

In the process of state budget strategy, making decisions regarding real estate is supported by real estate management plans prepared for nine ministries under the leadership of RKAS, which provide a good basis for long-term planning of investment properties, assessment of the need for repairs, optimisation of used premises, and more efficient management of operating costs of 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 granted RKAS an annual allocation limit, to the extent of which RKAS can name particular objects and execute investments based on the evaluation criteria agreed with relevant governance area.

## Mission, vision and values of Riigi Kinnisvara

### 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 in the field and all employees proud of their work and company, their colleagues and joint achievements, and customers who serve as the best advocates and ambassadors of the company.

### Key values

We are aware that the majority of our activities and decisions are under constant public scrutiny. Our common organisational culture and values are key factors in the successful implementation of the strategy. Key values support the achievement of our goals, unite the team and make us successful in our area.

We are:

### Committed

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

### True to our words

- We stick to our promises, deadlines and agreements.
- We are honest, our actions 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.

### 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.





Viljandi state house

## Strategy

### Strategy of the state's real estate activity

The strategy of the state's real estate activity (Ministry of Finance, 2007) sets our 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 manner in social, ecological, spatial design and economic terms, 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.
4. To ensure the integrated and coordinated management of the development, administration and maintenance activity of real estate required to perform public functions and create essential organisational foundations, legal regulations, information systems and a motivation mechanism necessary for that purpose.

In 2016, the state as the sole shareholder set the following owner's expectations for RKAS:

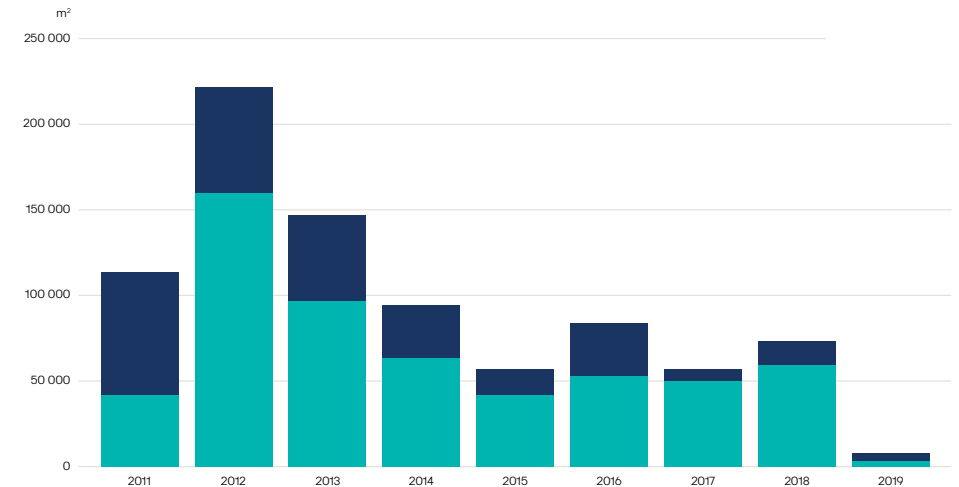
1. Serving as a centre of excellence to provide property environment and services to state agencies.
2. Centralisation and optimisation of the property used by the state and its expenses.

3. 3. Development of the company and the state's real estate competence by being a strategic partner to the Ministry of Finance.
4. Cooperation with the private sector in order to guarantee the best solutions for state agencies in market competition.

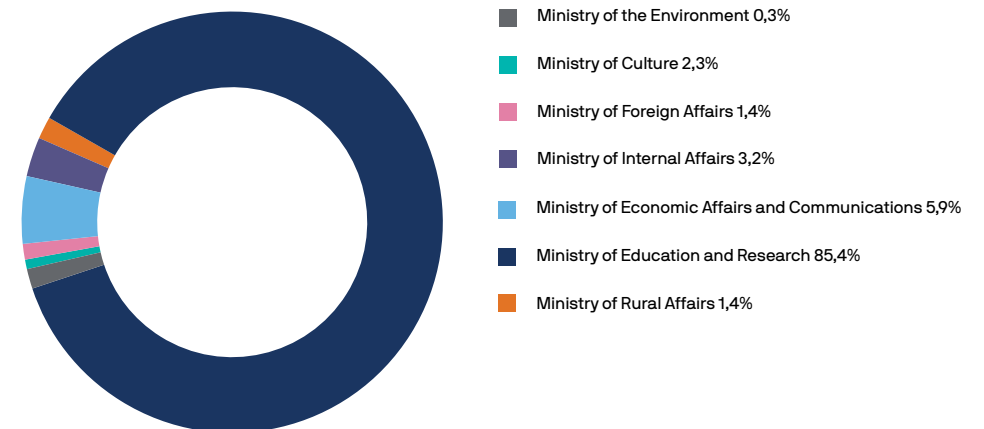
The general strategy of the state's real estate activities foresees a transition from decentralised management of real estate to an integrated management system that allows for more effective development and upkeep of the real estate environment. The objective of integrated real estate management is to achieve and maintain the scale effect of expenses and economically better justified decisions in conditions where resources are limited, and balanced rights and responsibility. According to the strategy, majority of the state's real estate will be transferred to RKAS who – as the centre of excellence – can develop and manage it more transparently and efficiently and organise sale of the unnecessary property. It has been agreed in the strategy that RKAS will not take over the buildings of Estonian foreign embassies under the governance of the ministry of Foreign Affairs and real estate in use and under the governance of the Ministry of Defence; however, the Ministry of Defence will transfer unnecessary real estate to RKAS.

In 2019, RKAS took over 2,602 m<sup>2</sup> of necessary and 3,517 m<sup>2</sup> unnecessary building stock. Necessary real estate was included in the administrative and development portfolio and unnecessary real estate in the sales portfolio.

**Closed net area of buildings delivered to RKAS**



**Real estate in state ownership by governance at the end of 2019**



Administrator of real estate	Area of registered real estate, m <sup>2</sup>
Ministry of Internal Affairs	20 273
Ministry of Rural Affairs	8 675
Ministry of Education and Research	533 627 *
Ministry of Culture	14 660
Ministry of the Environment	1 684
Ministry of Foreign Affairs	8 950
Ministry of Economic Affairs and Communication	36 641
<b>Total</b>	<b>624 510</b>

\* includes buildings in contractual portfolio of RKAS with total area of ca 486,000 m<sup>2</sup>.

After deducting the area of the Ministry of Education and Research and the Ministry of Internal Affairs covered by administrative contracts and objects already in process of transfer from the real estate in state ownership not delivered to RKAS, then the total area not delivered to Riigi Kinnisvara as planned constitutes only approximately 100,000 square meters of building stock.

### Strategy of Riigi Kinnisvara

Based on the strategy of the state's real estate activities, the strategy of RKAS is phrased as follows:

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



Kohtla-Järve state gymnasium



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,

### Clear and efficient services and processes

- Clarity of services and processes
- Concept of informed customers
- Quality data and supporting IT- applications

### Motivated and competent employees

- Competency
- Effectiveness



### Sustainable and balanced financial behavior

- Optimization plans of areas of administration and regional centres
- Internal specialization and scale effect
- External sources of funding to support increase in volumes

### Satisfied customers

- Increasing customer satisfaction  
Strengthening trust as a center of excellence

## Main strategic topics

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

The strategic model described above allows to continue concentrating the management of the state's real estate in a single centre of excellence and thereby find possibilities for optimisation, long-term planning of expenses, and 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 the priority and success of the actions is assessed once a quarter. 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 metrics used to assess the achievement of goals are established by the supervisory board of RKAS alongside the budget for the next budgetary year. In 2020, we will sum up previous strategy period, agree on strategic priorities and set objectives for the next strategy period 2020–2024.



# Economic activities

## Overview of market conditions

Assessments on the Estonian economy have been predominantly positive in recent years. While economic growth was 1.7% and 2.1% in 2015–2016, it was 4.9% in 2017, which provided a context for discussions about potential overheating of the economy. However, analysts expected the economic growth to slow down in the future, and indeed it dropped to 3.9% in 2018. Despite both the Ministry of Finance and Eesti Pank estimated up to 3.4% growth rate in autumn, the actual growth in 2019 was somewhat more positive, reaching 4.3%.

In the context of weak trade partners and insecurity caused by trade disputes between the United States and China, Estonian economic growth is expected to slow down in the next few years. Against the background of weakening economic growth, record low unemployment is expected to increase and wage growth to slow down. Meanwhile, the increase of consumer price index will remain rather weak. Eesti Pank estimates 2.3% economic growth for 2020 and approximately 2.0–2.2% for 2021–2022.

In view of global uncertainty, the economy of main Estonian trade partners is expected to cool down, which in turn leads to poor export perspective – export volume of goods and services will slow down. Increase in wages is expected to decelerate, which causes certain reduction in consumption. As an exception, Eesti Pank pointed out housing demand, which will maintain current level in near future due to low interest. Corporate investments will be rather modest in a few next years, considering the overall uncertainty.

Although Eesti Pank predicts approximately 5% wage increase for the next few years, the energy prices and tax increase are lower than in previous years, which contributes to slow growth of consumer price. While CPI was 2.3% in 2019, it is expected to be 2.5% in 2020 and 2% from there on.

Increase in the government expenditure will assumedly slow down, mainly after 2020. Decelerated wage increase means also reduced growth of pensions. Furthermore, investment costs will hit the brakes in 2021, when EU funding period for 2014–2020 ends and the implementation of structural funds is reduced in new budget period. According to the estimation of Eesti Pank, nominal budgetary position of general government will remain in small deficit for the next two years.

In its meeting in December, the Governing Council of the European Central Bank decided to retain deposit facility at its former interest rate –0.5%, i.e. the environment with negative interest will persist. Competition on the corporate loan market continues, regardless of 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. In general, companies will still have good financing opportunities, despite slightly increased interest margins.

The economic sentiment indicator that reflects business assessments was stable in the first half of the year but started to decline in June. By the end of 2019, it was 96.9 (103.6 in 2018), which is below long-term average. There has been an increase in the number of companies, who expect decrease in their usual number of orders. Meanwhile, the decrease in assessments on companies' economic situation and estimated demand has occurred across different sectors (except for trade) and is particularly noticeable in construction and industry. The sectors relying on domestic private consumption are much more confident than the sectors depending on export.

The seasonally levelized certainty indicator of construction sector was 11 points in September and 8.8 in December 2019. Only 10% of all respondents expect the increase of production output in construction sector within the next three months (a year ago it was 16%). The greatest factor inhibiting work was insufficient demand – that was mentioned in 41% of cases. However, the share of lack of labour as the factor inhibiting construction has dropped significantly in comparison with previous year, from 42% to 25%. According to Statistics Estonia, there was a slowdown in average wages in construction in III quarter of 2019.

Construction price of offices monitored by RKAS based on public procurements increased by 4.7% compared to the same period previous year, increase in IV quarter of 2018 was 4%.

Minimum wage in 2020 is 8% higher than in 2019, i.e. 584 euros per month, which is similar to the growth last year. In November 2019, trade unions and employers reached an agreement regarding the future – minimum wage in 2021 will be 40% of the average national income. Employers and trade unions will fix particular figure in summer 2020. Increase in minimum wage may, in the long-term, transfer to the prices of labour-intensive property maintenance services (e.g. upkeep).

*Overview was compiled before the Government of Republic announced the state of emergency on 12 March 2020 and is based on the data published by that time by the Ministry of Finance, Eesti Pank, Estonian Institute of Economic Research and Statistics Estonia. The impact of COVID-19 and the state of emergency established to control its spread in companies is described in Note 22 to the annual accounts: Events after report date.*

## Economic performance

Compared to the same period in 2018, the sales revenue of Riigi Kinnisvara in 2019 increased by nearly 30 million euros and reached 136.2 million euros. During 2019, the revenue from sales of unnecessary real estate totalled 17.2 million euros (7 million euros in 2018). Rental income in 2019 was 82.8 million euros, exceeding the result of previous period by 18.1 million euros. Increase is mostly due to the development projects completed already in 2018, which were rented out throughout 2019: new Tallinn Prison, new Tallinn courthouse in Lubja Street, Tallinn European School and the Victims of Communism Memorial at Maarjamäe. New building of Grain Seed Centre of the Estonian Crop Research Institute in Jõgeva was completed in September 2019.

The revenue from mediated services in 2019 was 35.2 million euros, which is 1.8 million euros more than in previous period. Interest income from financial lease contracts decreased, because local governments realised the repurchased rights of the right of superficies in 2017 and 2018, where RKAS renovated school buildings in the framework of national school investment programme and LGs used them on the basis of long-term lease contract. Realisation of repurchase right was prescribed in all programme contracts.

In 2019, the cost of products sold was 97.1 million euros, which increased by 14.6 million euros compared to previous period. Sales costs of inventories increased by 8.1 million euros in 2019, because both the quantity of assets sold and their book value were higher, while sales profit also increased. Expenses of administrative objects increased by 1.8 million euros, mainly because of addition of completed objects in administrative portfolio. Depreciation of administrative objects increased by 5.3 million euros, which was in proportion to the volume of assets of objects owned and completed.

Operating profit in 2019 was 36.3 million euros (18 million euros in 2018). Operating profit margin was 26.6%, i.e. it increased by 9.7% compared to previous year. Financial costs in 2019 were 1.1 million euros, decreasing by 27,000 euros compared to previous period due to lower base interest rate. Net profit in 2019 totalled 35.2 million euros (16.9 million euros in 2018).

In terms of real estate development, RKAS is focused on the development of special buildings (e.g. rescue depot buildings, schoolhouses, etc.) and office premises. In 2019, investment amounted to 30.7 million euros (65 million euros in 2018). The largest investments resulted from capitalised repairs of management objects (6.8 million euros), the largest objects included the common internal security building in Pärnu (4.7 million euros) and technological installation for new Tallinn Prison (2.9 million euros).

Completed development objects handed over to the clients included the building of Grain Seed Centre of the Estonian Crop Research Institute in Jõgeva, rescue depots in Kihnu and Lihula, Folk Culture Centre building in Viljandi as well as the premises of the Ministry of Education and Research and its subunits at Tõnismägi 5a Tallinn.

Compared to 31.12.18, share capital on 31.12.19 amounted to 237.2 million euros, increasing by 1.5 million euros mostly due to the addition of objects as non-monetary contributions. Increase in owner's equity by 36.5 million 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 444.7 million euros on 31.12.19. Overall, the company has maintained set goals and operated within the limits of general government.

<b>Main financial ratios describing the main activity of the company</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net profit margin (net profit / sales revenue)	25,8%	15,8%	15%
Operating margin (operating profit / sales revenue)	26,6%	16,9%	16,8%
Return on equity (net income / average shareholder's equity)	8,3%	4,3%	4,4%
Equity ratio (equity / assets)	69,1%	67%	64,6%
Return on assets (net income / average total assets)	5,6%	2,8%	2,9%
Return on real estate portfolio ((operating profit + depreciation) / annual average real estate portfolio) *	11,6%	8%	8,6%

\* 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).

<b>Main performance indicators describing the main activity of the company (in million euros)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
1. Revenue	136,2	106,5	106,2
2. Operating expenses	0,9	0,9	0,7
3. Wages and benefits of staff	7,9	8,2	8,1
4. Payments to capital providers	1,1	1,1	1,9
5. Investments in the community	0,1	0,1	0





## Development trends of the company in 2020

We continue compilation and annual updating of real estate management plans for areas of governance. Management plans have turned out to be a very positive and practical solution to ensure reasoned and quality decisions on long-term planning of investments. We have compiled a good overview of the needs of built-up real estate of the central government, which is updated on an annual basis. Wishes and needs exceed available resources, thus it is crucial to make the right decisions. Life span of a building and investment may vary from 30 to 50 years, making it crucial to agree on the terms of reference for investment. Optimisation of real estate at the disposal of the state, both in terms of the size of premises and efficiency of investment, is still very important.

Cooperation across different areas of governance in real estate development has increased. The most extensive example of such cooperation consists in the state houses programme that started in 2018 and will end in 2025, where a single building can accommodate up to 20 different state agencies. Another major cross-ministerial project that will be completed in a few of years is the reconstruction of Estonian National Library, which is designed to accommodate National Library in the area of governance of the Ministry of Culture and also National Archive in the area of governance of the Ministry of Education and Research. We have also started preparing for a new exciting project, which, in a few years, will result in establishment of common laboratory building in Tartu. The Health Board (Ministry of Social Affairs), Estonian Veterinary and Food Laboratory, Agricultural Research Centre (Ministry of Rural Affairs) and Estonian Environmental Research Centre (Ministry of the Environment) have already expressed their interest in moving their laboratories in that new centre.

Due to increasingly rapid pace of changes in our environment, it is increas-

ingly more difficult to design real estate development, including work and service environment. Life span of a building and investment may be 30 to 50 years, but in some cases state agencies find it very challenging to estimate possible situation in a couple of years, not to mention a longer period. However, it is still necessary to have a long-term plan as well. Active digitalisation of the services of state agencies significantly reduces the physical area needed to provide such services. State has shown a very positive initiative by recruiting specialists based on their place residence (e.g. Environmental Agency).

As it is difficult to predict all future needs, we – in cooperation with state agencies – have to find solutions that allow necessary flexibility of the spatial programme. The best example in terms of flexible spatial solutions consists in the operation-based offices of the Social Insurance Board or underlying mindset of the Tax and Customs Board that the services are developed and provided depending on the customer's location – upon change in the number or needs of customers, they adjust their location accordingly. The task of RKAS is to help its customers in considering their future needs and ensure flexible physical and contractual environment for responding to potential changes.

As a centre of excellence in the area of state real estate, RKAS is ready to offer its knowledge and experience on a wider scale. Referring to RKAS as voluntary central contracting authority in the field of real estate services (more specifically in real estate development and property maintenance) contributes to improved quality of the real estate environment of public sector and both national foundations and local governments can use the knowledge and experience of RKAS more conveniently if they involve us as a partner. That idea has been supported by all major professional associations – the Estonian Association of Architects, Estonian Association of Construction Entrepreneurs, Estonian Property Management Association, et al. For example, if a

foundation has to organise public procurement once in five years, it can be difficult to manage without previous experience and get quality results. RKAS can help.

## Long-term projects in 2020

### State houses programme

In 2018, the cabinet of the government of the republic issued a resolution approving the concept of state houses, main purpose of which consisted in improving the area efficiency of real estate in state ownership and reducing national investment burden. Implementation aimed at gathering the agencies scattered in different buildings in county centres into one physical location. This results in one so-called state house instead of several buildings that provide public services and require constant investments; unnecessary buildings are sold.

The second objective consists in reducing the area used by state agencies from 30 m<sup>2</sup> to 20 m<sup>2</sup> per employee. Every optimised square metre would mean savings on operational costs and investments for the state. In order to reduce area used, it was suggested that there will be no individual seminar rooms, kitchen and customer service area for every agency, instead they will be put in cross-usage.

When designing the first state house, it became clear that accommodating different agencies in a single physical building was not as easy as it seemed on paper. State houses represent an entirely new concept, which, inter alia, requires changes in the organisation of work of concerned agencies. Currently, the agencies are used to servicing their customers wither at their

office or service area. Also, it is not common practice to share recreational area. In addition to area efficiency and savings on state investments, the state houses project also focuses on creating new service and work environment.

The first state house was opened in Viljandi in 2019. Common buildings of the subunits of the Ministry of the Environment and the Ministry of Rural Affairs were completed in Jõhvi and Rakvere in early 2020. Next year, state houses will be completed in Rapla and Jõgeva and in 2022 in Valga. In parallel to construction works, new state houses are designed for Paide, Pärnu and Viljandi. The purpose of the project is to improve accessibility to public services, ensure contemporary work environment for the employees of state agencies and save on real estate expenses. The project concerns total of 18 buildings in 13 counties and entire project capacity should be realised by 2025.

## Real estate management plans of governance areas

In 2018, we set an objective to compile real estate management plans for the institutions in the area of governance of nine ministries, comprising the properties used by the institutions regardless of its ownership. Management plans give an overview of the condition of entire property, initial need for investments and repairs, and optimisation possibilities. On state level, management plans give an opportunity to optimise the area across different areas of governance and a single view for long-term planning and prioritizing real estate resources. Real estate management plans are updated on an annual basis.

The government allocated to Riigi Kinnisvara a fixed annual limit for implementing priority needs arising from the real estate management plans and realising investments, to the extent of which Riigi Kinnisvara can determine and realise suitable objects according to agreed evaluation criteria. In 2020,

in addition to investment in state houses, there are other development projects – large investments such as Nõmme and Lilleküla rescue depots, office building at Riia mnt 15 in Tartu, and several minor investments – carried out within the framework of optimisation fund limit. Total intended optimisation fund limit for 2020-2023 is 118 million euros.

## Development of digital business environment

As a centre of excellence, RKAS continues to attribute importance to digitalisation and development of information systems. We have made large investments for that purpose in the past couple of years. This has led to the completion of five integrated information systems: user register, property administration contracts register, registered immovables register, job applications information system and invoice processing information system. A single integrated digital work environment has also pointed out shortcomings in data quality, which require constant focus. Company's database contains over 1,500 buildings and the requirements for automatization continue to grow.

When creating information systems, we consider that all services provided by RKAS undergo the organisational structure to great extent – the task of information systems consists in seamless work, so that all operations started in the information system can be completed without problems.

Digitalisation is not limited to only the information systems described above; it comprises the company on a wider scale. Information systems must grow along with the organisation. In 2019, we commenced switching over to electronic invoices, which involved a change that was straightforward from technological aspect but complicated in terms of communication with service providers and customers. IT challenges today are rarely associated with technology alone. Changing world requires the information systems to consider not only technology, but also the peculiarities of an organisation, products

and services provided, business model, customer relations and competitors. Digital transformation at RKAS is an ongoing process and we are glad to admit, that besides our own organisation, the software we have created is used by other agencies of the public sector. We commence cooperation with Tallinn University of Applied Sciences, to develop a methodology for assessing the condition of buildings and plan future repair works of our real estate portfolio. BIM (building information model) and building lifecycle management are defined more clearly and we have to focus on how to maintain our data updated in a manner unnoticeable by users.

## Complex testing of buildings

In order to achieve a result that has high quality and functionality, it is necessary to perform complex testing in the final stage of construction work, which will provide confirmation regarding the functionality of the building or structure and compliance of indoors climate, energy efficiency and safety with set requirements.

Construction is a process with many participants. Testing plan is prepared in design stage, when selecting technical and structural solutions that best fulfil customer's objectives. Along with basic project, the design contractor submits the plan for ensuring the quality of various utility systems and energy efficiency of the building and provides guidelines for testing various aspects. Complex testing plan allows individual and general testing of various systems (low and high current, automation, ventilation, heating, cooling, water and sewerage, etc) of the building after the completion of construction period; it also tests interoperability of different systems (e.g. programmed exclusion of heating and cooling interoperability). Main contractor plans and owner supervision specialist checks the performance of complex testing.

The principles of complex testing were developed by the engineers of RKAS. The first test took place in January 2018. Over the past two years, complex testing has been used for accepting more than 20 new buildings and extensively reconstructed buildings. Construction market has adopted complex testing, seen their benefits and today they are considered an integral part of the process of acceptance of a structure. One definitely positive aspect is that the number of errors found by the contracting authority shows a declining trend: buildings operate at prescribed functionality and less resources are spent on eliminating deficiencies during guarantee period. We will continue applying complex testing to entry of buildings into service and are ready to provide our services in the public sector to greater extent.

## Digital construction

Since 2015, all construction designs commissioned by RKAS must be created as BIM-models. BIM comprises 3D geometry of the building, where every single component can be individually identified, and each element has its own characteristic information. Elements are linked to both geometrical and non-geometrical data.

RKAS uses models primarily for checking the design documentation and for virtual visualisation of the building to customers. Due to machine-readable data and elements' interconnections in the model, building design documents can be verified in semi-automated manner. If the model complies with prescribed requirements and is systemic, the software easily allows defining the request, which is then checked by PC to the extent of entire building. Simple checks are used for finding geometrical conflicts (crossing, cutting, overlapping elements) and more sophisticated automated checks are interdisciplinary (such as sanitary ware and minimum distance between power sockets or the distance of ventilation exhaust element from doors and

windows). Renewal of BIM requirements takes place in parallel with improving automatic checks are generating new ones. This is necessary so that we could improve project quality, reduce risks and spend fewer manhours and – consequently – less money.

Thanks to using BIM, many design errors can be found in early stages. It is significantly cheaper to solve the shortcomings digitally before commencing construction works, than deal with these issues during the construction phase. Putting problems off to next stages of the project often involves increased cost for both the contracting authority, contractor and eventually to the customer. Machine-readable data allows the contracting authority to check whether all data required for property management and maintenance have been submitted. In the as-built model, all equipment and construction products must be linked to relevant product information sheet and operating and maintenance instructions.

Using BIM-technology is mandatory for all new buildings and reconstruction projects commissioned by RKAS (except for repairs and partial reconstructions). In 2020, active design work is performed for Saaremaa, Paide, Laagri and Tabasalu state gymnasiums and Environmental House, building of Estonian National Public Broadcasting, Viljandi Hospital and Health Centre, a building at Teaduse 4/6 in Saku, and several state houses.

Take a look at Patarei Sea Fortress drone video.



## Real estate portfolio

### Portfolio division

RKAS real estate portfolio is divided into five groups:



#### Administrative portfolio

properties that belong to RKAS, are covered by lease contracts and are in regular use;



#### Development portfolio

properties, the potential of which can likely be increased through development activities, and assets with active development process;



#### Sales portfolio

unnecessary assets, keeping of which is no longer expedient in view of the needs of the state and which RKAS has decided to transfer, 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;



#### Intermediate lease portfolio

registered immovables, where RKAS is both the lessee and lessor of the section of the building belonging to third party.

In 2019, the real estate portfolio of RKAS (administrative, development and sales portfolio, hereinafter referred to as asset portfolio) contained 683 registered immovables with area of 5.9 million m<sup>2</sup>. These registered immovables had 1,112 buildings with closed net area of 1.1 million m<sup>2</sup>. Contractual portfolio contained 171

registered immovables with total area of 8.6 million m<sup>2</sup>. These registered immovables had 383 buildings with closed net area of 565,082 m<sup>2</sup>. Intermediate lease portfolio contained 8 registered immovables with total area of 67,213 m<sup>2</sup>, these registered immovables had 12 buildings with closed net area of 59,921 m<sup>2</sup>.

## General information on the portfolio in 2019

Portfolio	Immovables, number	Number of buildings	Closed net area, m <sup>2</sup>	Rental area, m <sup>2</sup>	Rented, area m <sup>2</sup>	Vacancy
Sales portfolio	238	287	103 053	102 138	9395	90,8%
Administrative portfolio	400	719	886 095	780 726	715 103	8,4%
Development portfolio	45	106	73 968	67 598	18 582	72,5%
<b>TOTAL</b>	<b>683</b>	<b>1112</b>	<b>1 063 116</b>	<b>950 462</b>	<b>743 080</b>	<b>21,8%</b>
Contractual portfolio	181	383	565 082			
Intermediate lease portfolio	8	12	59 921	48 903	48 903	0,3%
<b>TOTAL</b>	<b>872</b>	<b>1507</b>	<b>1 688 118</b>	<b>999 365</b>	<b>791 983</b>	<b>20,8%</b>

## Portfelli rahaline vaade 2019. aasta seisuga

Portfolio	Acquisition cost *, EUR	Cashflow		NOI **
		Inflow, EUR	Outflow, EUR	
Sales portfolio	15 721 486	135 207	-850 272	-715 064
Administrative portfolio		94 896 196	-37 258 037	57 638 159
Development portfolio	584 315 055	596 472	-770 342	-173 871
<b>TOTAL</b>	<b>16 588 364</b>	<b>95 627 875</b>	<b>-38 878 651</b>	<b>56 749 224</b>
Contractual portfolio	616 624 906	11 565 597	-11 187 307	378 290
Intermediate lease portfolio	0	8 966 276	-8 671 127	295 149
<b>TOTAL</b>	<b>6 301 237</b>	<b>116 159 747</b>	<b>-58 737 085</b>	<b>57 422 662</b>

\* Acquisition cost of assets without possible write-downs.

\*\* NOI - net operating income.

## Changes in real estate portfolio of RKAS in 2019

- The number of immovables dropped from 788 to 683 objects or by 13.3%, which was mainly due to decrease in the number of immovables in administrative portfolio;
  - the number of assets in administrative portfolio decreased by 75 registered immovables or by 15.8% due to moving large number of apartments to the sales portfolio;
  - o the size of the development portfolio decreased by 16 registered immovables or by 3.4% due to completion of objects;
  - o the size of sales portfolio decreased by 14 registered immovables or by 2.9%.
- Built-up closed net area in the real estate portfolio decreased by 3.5% or by 39,014 m<sup>2</sup>.

- Vacancy of the real estate portfolio remained at the level of 19–22% throughout the year and was 20.8% by the end of the year. Vacancy of the administrative portfolio remained between 8–9% throughout the year and was 8.4% by the end of the year.
- Over the year, the return on real estate portfolio moved within the range of 6.6–8.1%, increasing to 9.2% in December. The increase resulted from changes in accounting when calculating lease income from Estonian National Museum.

### Regional division

Approximately 66% of registered immovables and 69% of built-up area in RKAS portfolio is located in north and south regions. West and east regions are somewhat smaller.

	Adminis- trative portfolio	Develop- ment portfolio	Sales portfolio	Contractual portfolio	Intermedi- ate lease portfolio	Total			
	Built-up closed net area, m <sup>2</sup>					Total number of registered immovables	Share	Built-up closed net area, m <sup>2</sup>	Share
North region	384 599	57 709	35 513	165 672	43 942	311	36%	687 435	41%
West region	115 222	5854	17 963	142 766	3314	186	21%	285 119	17%
East region	124 993	550	15 457	88 746	10 862	112	13%	240 608	14%
South region	261 281	9855	34 119	167 897	1803	263	30%	474 956	28%
<b>Total</b>	<b>886 095</b>	<b>73 968</b>	<b>103 053</b>	<b>565 082</b>	<b>59 921</b>	<b>872</b>	<b>100%</b>	<b>1 688 118</b>	<b>100%</b>



## Service portfolio

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 and upkeep, development and repair works, as well as purchase, sales and rental of real estate.

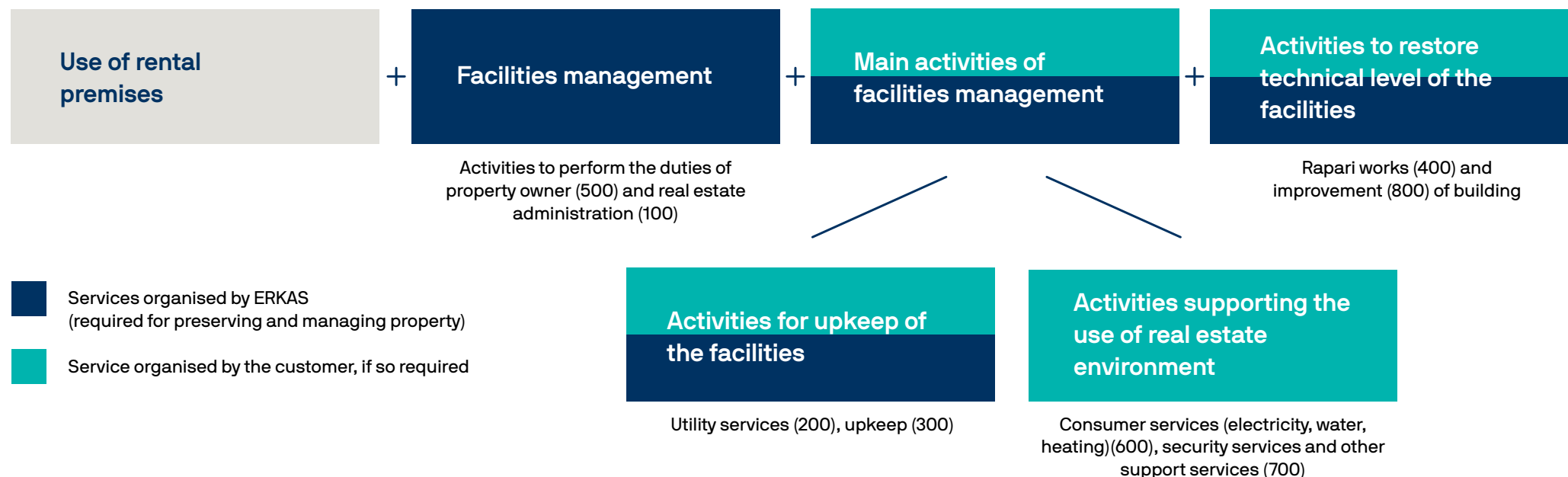
### Real estate management

RKAS provides full property management 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 by procurement.

As a person liable to public procurement, RKAS selects cooperation partners through public procurement. Unless it is a value-based procurement, the tenderer offering the best price wins. Based on security measures or function of the building, an exemption is made to special administrative objects (such as prisons), where special proceedings apply if necessary. Main areas, where maintenance services are bought in, include utility, upkeep (incl. interior and exterior upkeep) and security services (incl. technical and manned guard).

We provide the following property maintenance services:

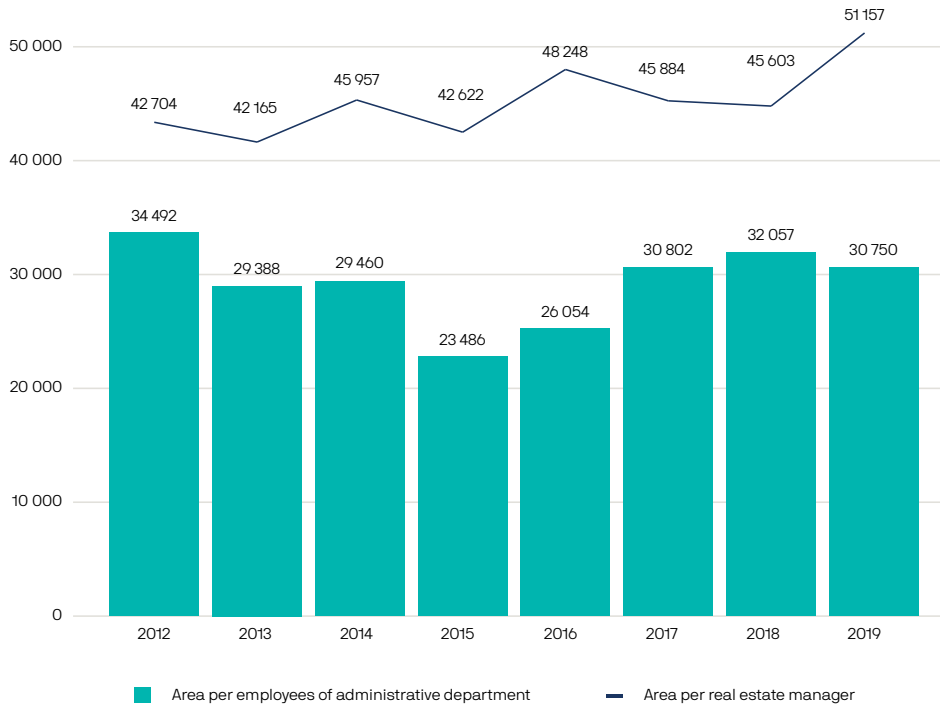
Administrative services provided by RKAS focus on ensuring the quality of maintenance services, timely response to job requests and enquiries submitted by customer, carrying out scheduled repair works according to agree-



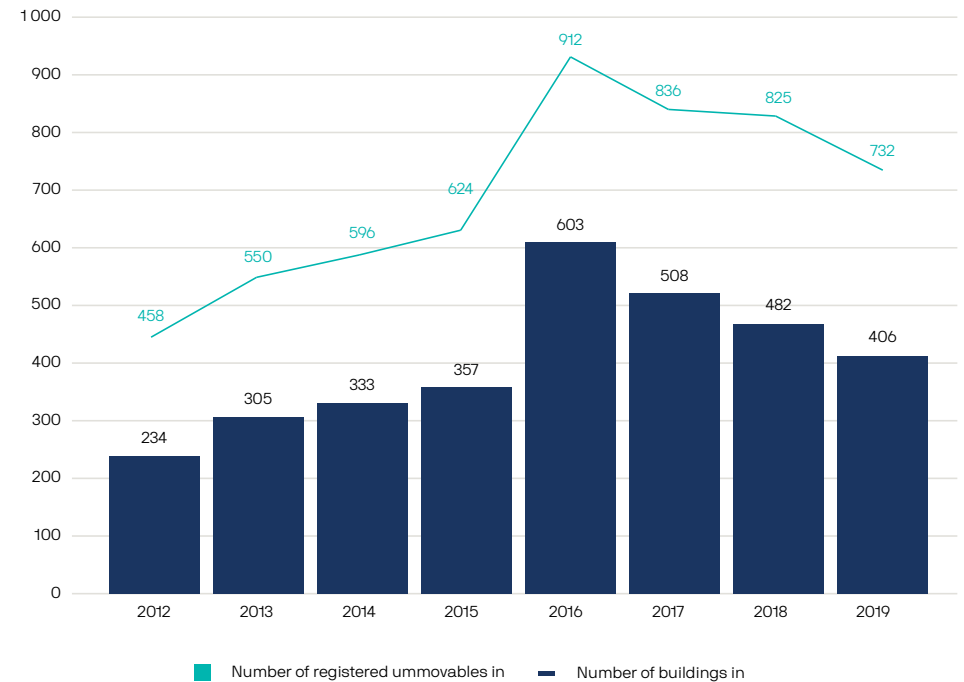
ments and time plan, and preventive utility maintenance to avoid the occurrence of emergencies.

In 2019, the greatest challenge in administrative services consisted in taking over the administration of the buildings of institutions of the Ministry of Education and Research (vocational schools and institutions of applied higher education, museums across Estonia) with total closed net area of approximately 380,000 m<sup>2</sup>. Provision of services commenced on January 1 and it has shown an upward trend.

### Administered net area per employee



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



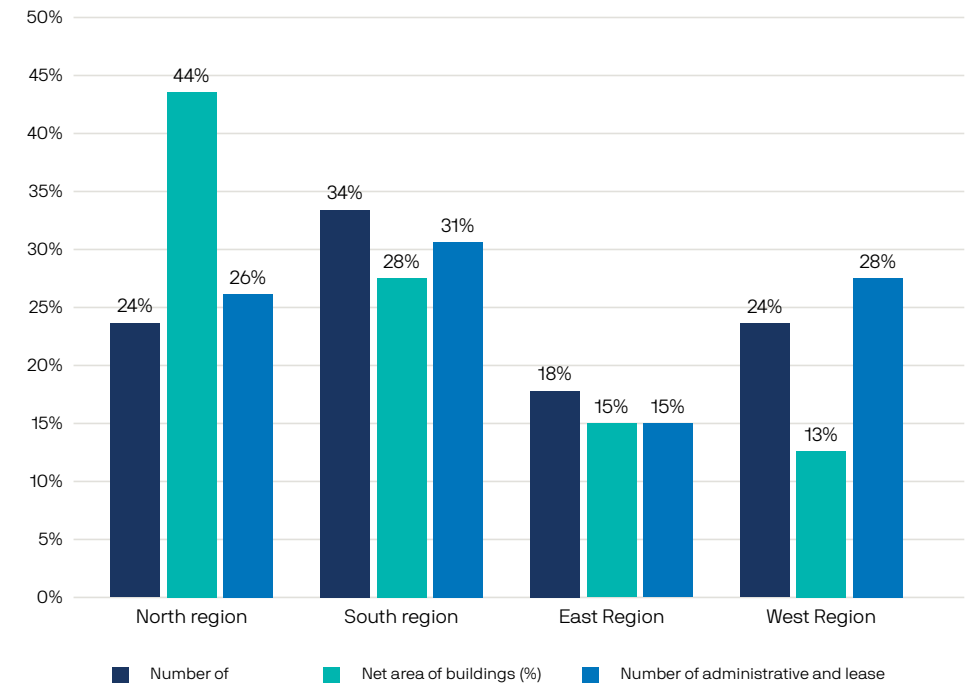
In 2019, we started to provide services at the new asset portfolio objects completed during the year:

1. Tabivere rescue depot – 01.2019
2. Narva tn 34, Rakvere – 02.2019
3. Narva mnt 175, Tartu – 03.2019
4. Kivilõppe fish protection cordon, Viljandi rural municipality – 08.2019
5. Kivimurru, Võrumaa – 09.2019
6. Turu tn 1, Kärđla – 12.2019

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

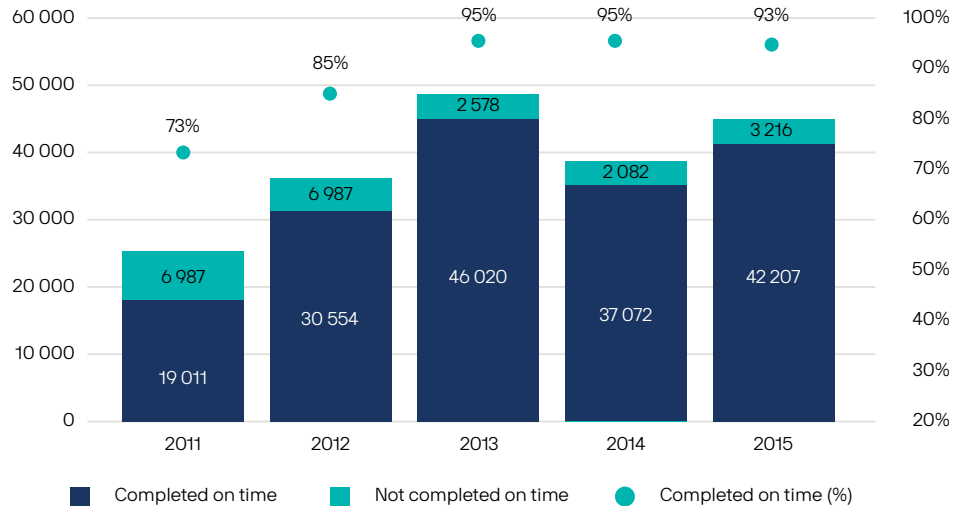
1. Institute of the Estonian Language
2. Estonian Literary Museum
3. Estonian Youth Work Centre
4. H. Eller Music School in Tartu
5. Hiiumaa Vocational School
6. Ida-Virumaa Vocational Education Centre
7. Järvamaa Vocational Education Centre
8. Kehtna School of Economics and Technology
9. Kuressaare Vocational School
10. Pallas University of Applied Sciences
11. Luua Forestry School
12. Olustvere School of Service and Rural Economy
13. Pärnumaa Vocational Education Centre
14. Rakvere Vocational School
15. Rapla State Gymnasium
16. Räpina School of Horticulture
17. Tallinn Construction School
18. Tallinn Lasnamäe Mechanics School
19. Tallinn School of Economics
20. Tallinn Polytechnic School
21. Tallinn School of Service
22. Tallinn Centre of Industrial Education
23. Valgamaa Vocational Training Centre
24. Vana-Vigala Technical and Service School
25. Viimsi State Gymnasium
26. Viljandi Vocational Training Centre
27. Võrumaa Vocational Education Centre
28. Kohtla-Järve State Gymnasium

## Regional distribution of administrative portfolio



RKAS provides customers with operative solutions through customer support service, which can be accessed by phone, via website or by e-mail, submitting a job request. In 2019, the number of requests amounted to 45,000, on average 124 contacts on a daily basis. The number of requests increased by 6,219 or 16% compared to previous year and the number of requests completed on time increased by 5,135 compared to previous year. The share of requests completed on time was 93%.

### Sales of unnecessary real estate

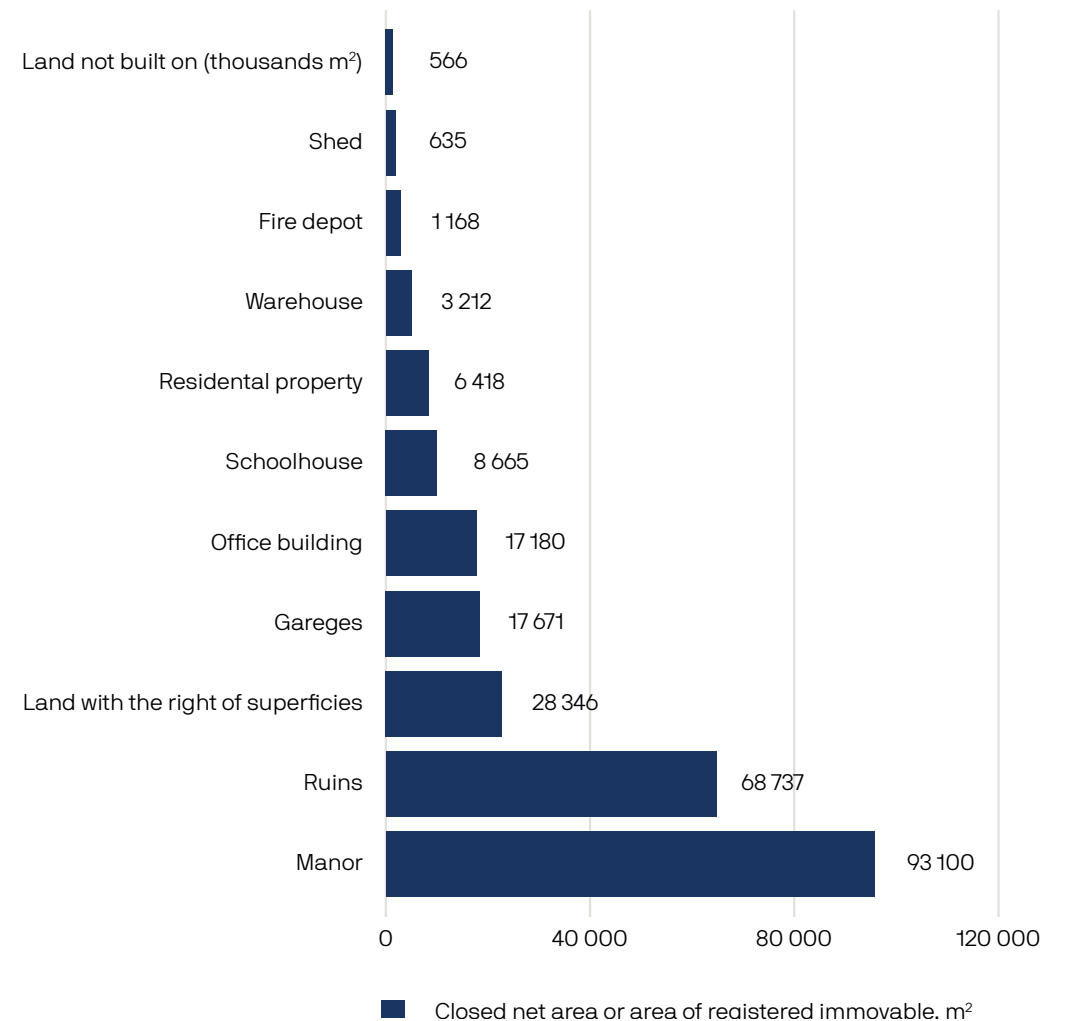


### Sales of unnecessary real estate

Operational model of RKAS prescribes sales of unnecessary real estate through public offer. During the year, RKAS transferred unnecessary real estate for total of 17.2 million euros. A total of 119 registered immovables were sold; the object with the largest sales revenue was the former building of the Ministry of Economic Affairs and Communications at Harju 11 in Tallinn (sales price 6.1 million euros). Other remarkable transactions included the sales of the former buildings of State Audit Office for 2 million euros and Health Board for 1.5 million euros.

In 2019, we started extensive and complicated sales process for transferring historical Patarei Sea Fortress in Tallinn. Sales process was completed in February 2020 at sales price 4.6 million euros.

### Significant purchase and sales transactions in 2019 by category



## Significant purchase and sales transactions in 2019

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, EUR
Harju 11 / Müürivahe 1, Tallinn	Office	4991,3	1976	26.03.2019	6 086 000
Parda 3, 5, 7, Tallinn	Office	2624,2	931	17.01.2019	2 026 100
Kotka 2, Tallinn	Office	2702,6	2688	21.01.2019	1 525 000
Vallikraavi 14, Tartu	Culture	1336,1	2592	21.01.2019	603 000
Juuliku forage laboratory, Juuliku village, Saku rural municipality	Rural economy	971	4999	22.01.2019	197 881
Maidla Children's Home, Maidla village, Maidla rural municipality	Welfare	1943	93 100	08.02.2019	151 700

In addition to the objects listed in the table, Kammeri School was transferred at the sales price of 2.1 million euros – the transaction was based on execution of school repurchase right prescribed by school investments programme by former tenant.

## Real estate development

Investment properties and real estate valuation focus mainly on the development of special buildings (e.g. rescue depot buildings and schoolhouses) and office premises. Development projects are divided into two: investments in own real estate portfolio and service projects (incl. project management, consultancy, procurements). Investments in n service projects are compensated by the customers.

Riigi Kinnisvara creates real estate environment necessary for the state by developing new buildings or reconstructing existing ones. Real estate development ensures energy efficiency of buildings, effective use of area and improved functionality of buildings, which in turn ensures good quality and motivating environment for work, provision of services or studies.

The development process starts by compilation of terms of reference, ascertaining the type of environment required by the user. Admittedly, this is the most critical part of entire development process. As we intend to provide the customer with integrated real estate environment, cooperation with customer is crucial in both design and construction process. In 2020, we want to include in our team an architect and hopefully make a qualitative leap in compilation of the terms of reference.

Based on the feedback from RKAS team and cooperation partners, we have updated the guidelines developed in RKAS “Technical requirements for non-residential buildings”. We transferred these requirements to a web platform, which is significantly better solution in terms of user comfort. Formerly, we used to prescribe solutions, but the updated version defines objectives that we wish to achieve.

In 2019, in cooperation with the International Centre for Defence Studies, we completed the methodology for determining security classes of buildings. This is a unique tool, which helps us and the users of the building to think through the security requirements for the building. It also provides a basis for preparing the security concept and important input to the terms of reference of entire development project. The first tests have shown that customers find it useful and we intend to apply this methodology to all our real estate developments.

## Investment properties

Several minor objects with significant local importance were completed in 2019. One object to be highlighted is the construction of Kihnu rescue building, where project realisation was complicated due to the location of the object. We made significant progress with the state houses project. In 2019, we commenced design work of Rapla, Jõgeva and Valga state houses. In 2019, our investment properties were valued at approximately 31 million euros, including 6.8 million euros worth of capitalised repairs.



Kihnu rescue depot

## Objects in asset portfolio completed in 2019:



### Lihula Rescue Depot

**Customer:** Rescue Board  
**Address:** Piiri 10, Lihula  
**Project started:** June 2018  
**Time of completion:** March 2019  
**Closed net area:** 370 m<sup>2</sup>  
**Cost:** 500,000 euros + VAT  
**Designer:** Õsel Projekt OÜ  
**Builder:** Pro Ehitus OÜ, KRTL OÜ



### Kihnu rescue depot

**Customer:** Rescue Board  
**Address:** Valve registered immovable, Lemsi village, Kihnu rural municipality  
**Project started:** January 2017  
**Time of completion:** June 2019  
**Closed net area:** 540 m<sup>2</sup>  
**Cost:** 1,7 million euros + VAT  
**Designer:** Arhitektuuribüroo Stuudio Paralleel  
**Builder:** Pärnu REV Ehitus OÜ



### Grain Seed Centre of the Estonian Crop Research Institute

**Customer:** Estonian Crop Research Institute  
**Address:** Seemne 10, Jõgeva small town, Jõgeva rural municipality  
**Project started:** March 2017  
**Time of completion:** August 2019  
**Closed net area:** 1118 m<sup>2</sup>  
**Cost:** 1,9 million euros + VAT  
**Designer:** Arhitektuuribüroo BOA OÜ  
**Builder:** Ehitustrust AS



## Gable roof hall of Kuusiku experimental centre

<b>Customer:</b>	Agricultural Research Centre
<b>Address:</b>	Kuuseheki 6, Kuusiku small town, Rapla county
<b>Project started:</b>	May 2019
<b>Time of completion:</b>	February 2020
<b>Closed net area:</b>	443 m <sup>2</sup>
<b>Cost:</b>	300,000 euros + VAT
<b>Designer:</b>	AB Anu Kuningas OÜ
<b>Builder:</b>	Evicon Ehitus OÜ / Tesron Ehitus OÜ Sweco EST OÜ

## Service projects

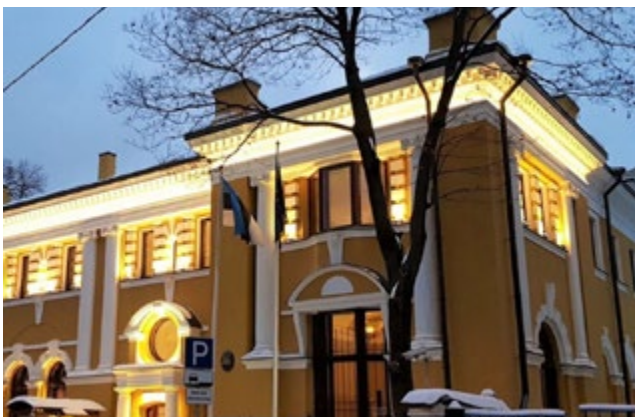
RKAS provides of real estate development and project management services. One major customer is the Ministry of Education and Research, in cooperation with whom we have built and opened 14 new state gymnasiums and there are 10 more new state gymnasiums to be built. In 2019, state gymnasium building was completed in Kohtla-Järve, design works of Tabasalu, Laagri and Kuressaare state gymnasiums are nearing to completion. In 2019, we also organised the architectural competition for Narva and Mustamäe state gymnasiums.

In 2019, the building of the Estonian Embassy in Moscow was reconstructed under a service project. The project itself started in 2014 and cost approximately 20 million euros. Reconstructed embassy building was nominated for the annual award issued by Estonian Association of Interior Architects and Cultural Endowment of Estonia.

Over the past three years, RKAS service projects have led to investment properties totalling 150 million euros.



## Objects completed in 2019 as service project:



### Estonian Embassy in Moscow

**Customer:** Ministry of Foreign Affairs  
**Address:** Malõi Kislovski pereulok 5,  
 Moscow, Russian Federation  
**Project started:** 2014  
**Time of completion:** April 2019  
**Closed net area:** 5,600 m<sup>2</sup>  
**Cost:** 20 million euros + VAT  
**Designer:** Innopolis Insenerid OÜ  
**Builder:** Nordeo E AS



### Kohtla- Järve State Gymnasium

**Customer:** Ministry of Education and  
 Research  
**Address:** Pärna tn 47, Kohtla-Järve  
**Project started:** May 2016  
**Time of completion:** September 2019  
**Closed net area:** 2,793 m<sup>2</sup>  
**Cost:** 5,5 million euros + VAT  
**Designer:** architectural BOA OÜ  
**Builder:** Nordecon AS



### Boarding school facilities of Rakvere Vocational School

**Customer:** Ministry of Education and  
 Research  
**Address:** Piiri 8, Rakvere  
**Project started:** April 2017  
**Time of completion:** November 2019  
**Closed net area:** 2,957 m<sup>2</sup>  
**Cost:** 5,1 million euros + VAT  
**Designer:** architectural BOA OÜ  
**Builder:** Merko Ehitus AS



Eesti  
Taimakasvatuse  
Instituut

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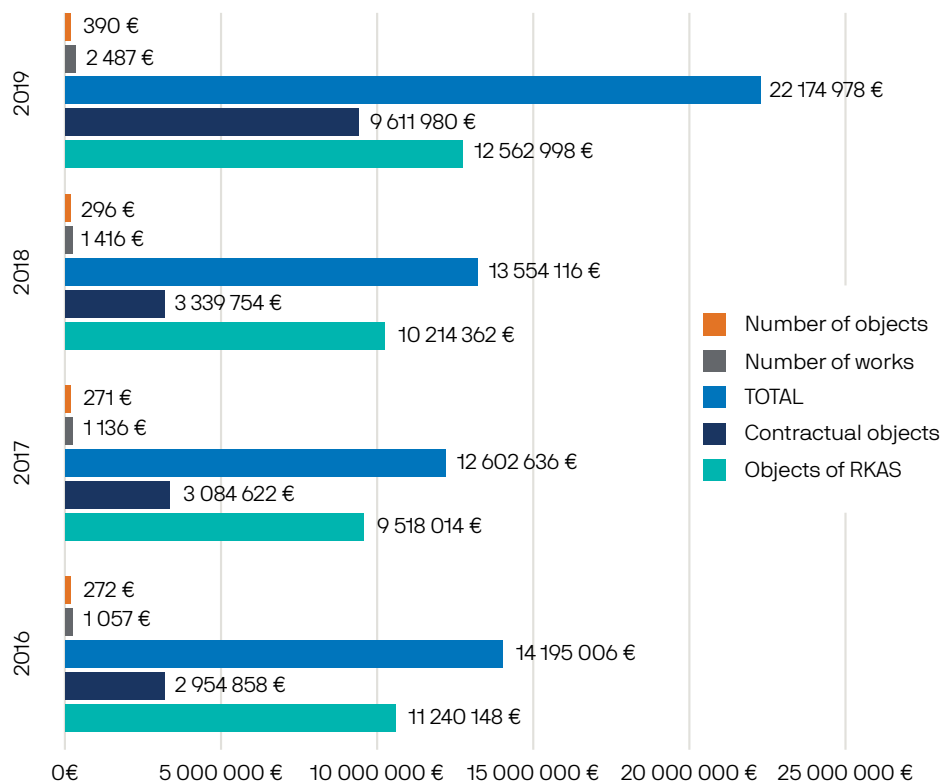
Estonian Crop Research Institute's  
work of art "Tera"



## Organisation of repair works

In 2019, RKAS performed repair works for approximately 22 million euros. This included works performed for 12.5 million euros in objects owned by RKAS and 9.6 million euros in contractual objects owned by third parties to whom we provide administrative service. In total, 2,487 repair jobs were carried out in 390 different objects. By organising repair works, we wish to ensure preservation of the condition of used premises.

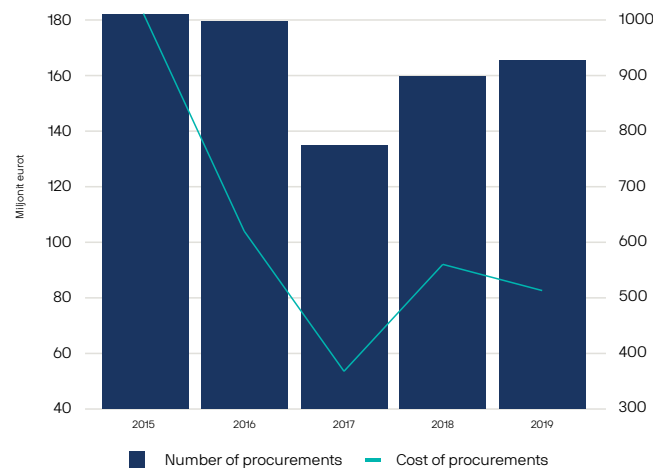
### Repair works 2016-2019



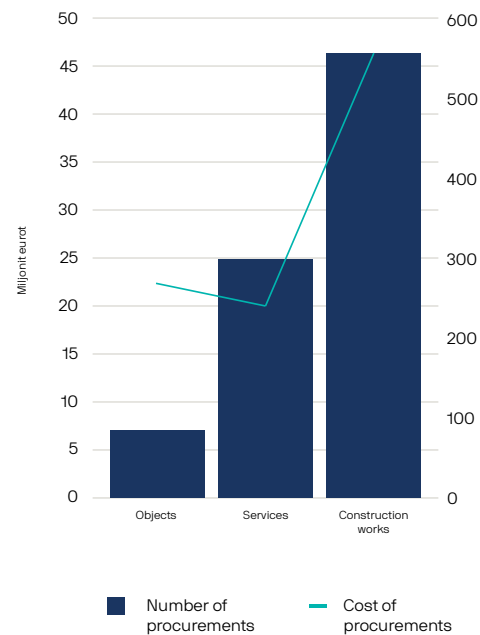
## Procurement activities

Procurement activities play a crucial role in daily business of RKAS. The company performs all purchases in compliance with the Public Procurement Act and internal regulation prepared based on that act and published on company homepage. Procurements are carried out and procurement materials are processed in a special environment, which also allows preparing and monitoring procurement plan and constant monitoring of procurements. As one of the biggest organisers of public procurement, RKAS organised 940 procurements in 2019 with total volume of approximately 88 million euros. In terms of the types of procurement procedures, those under the threshold of a simplified procurement were organised the most (76%), their cost constituted 13% 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 46.6 million euros. Divided by procurement objects, the largest number of procurements were

### Total number and cost of procurements



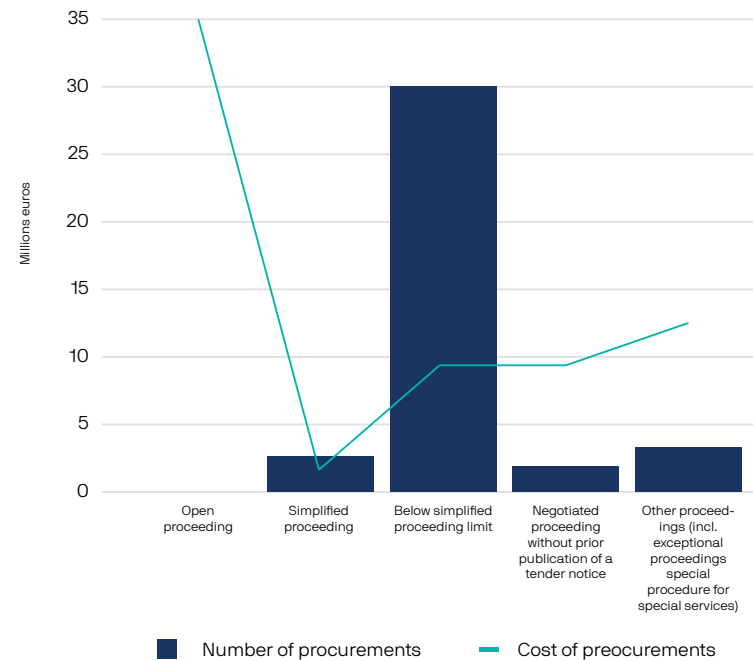
## Procurements in 2019 based on object of procurement and estimated cost



building procurements, which made up 60% of all procurements and 53% of the total cost of procurements.

As a result of long-term experience of procurement specialists, the documents and procedures related to procurement activities have reached a level,

## Total number and cost of procurements



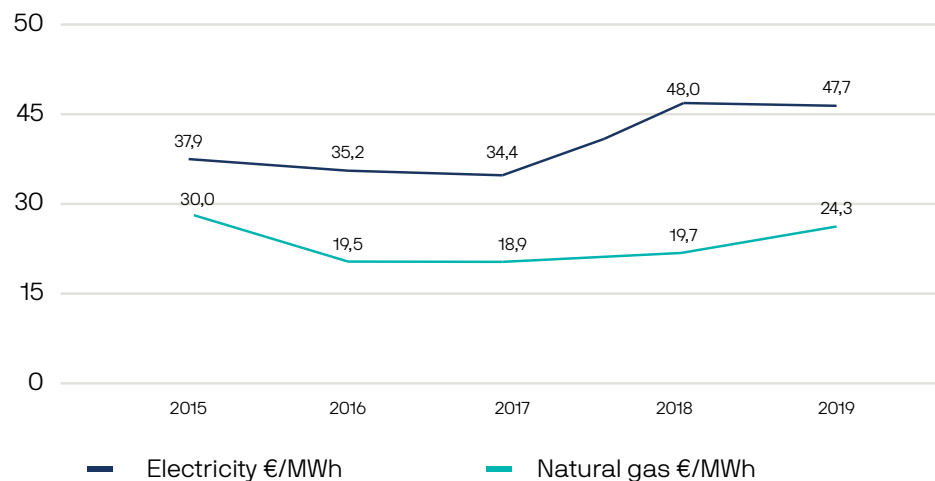
where the tenderers disputed only one procurement in 2019. That dispute was not satisfied. In comparison, the tenderers disputed three procurements in 2018, one of which was satisfied in further proceeding.

## Joint procurements of energy portfolio

Since the opening of electricity and natural gas markets, RKAS has provided its customers convenient complex service for purchasing energy. Our energy portfolio has grown constantly, and we have included 13 ministries and sub-units purchasing electricity and 6 for purchasing natural gas. The 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.

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.

## Prices of electricity and natural gas in public contracts in 2014–2019



In 2019, we organised scheduled new public procurements for conclusion of framework contracts for purchasing electricity and natural gas for the next four years. We organise mini procurements with the partners of the framework contract in order to find the tenderer offering the best price for given period. We acquired green energy produced from renewable energy sources for Hool-ekandeteenused AS and are willing to offer that service to other customers in the future.

## Organisation of competition for commissioning works of art

Pursuant to the Commissioning of Artworks Act, one percent of the cost of a public building is allocated to commission of artworks and through that improve the public space aesthetically. Potential commissioning comprises traditional oil or acrylic painting, drawings and sculpture as well as photographic art, installation, videos and objects of light and sound.

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 submitted designs in terms of aesthetic and functional properties and their impact on the environment pursuant to the criteria defined in the competition guide. The winner of the competition is artistically best artwork in consideration of location, the use of the building, the area of activity of the institution and the potential audience.

In preparing the competition guide and conducting the competition, Riigi Kinnisvara acts on the principle that the process must be transparent and unequivocal. The anonymous conceptual designs submitted to the competition for commissioning of the work of art are 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 must be appointed by the management board of an artistic association pursuing visual arts. Depending on the terms of reference and need, the jury members will also include the architect of the building, interior architect, an expert in cultural heritage or other area.

In 2019, RKAS organised competitions for the commissioning of a work of art that resulted in completion of four works of art with total value of 198,500 euros:

- Installation “Säde” (“Spark”), authors Taavi Kuningas, Argo Männik, Mihkel Urmet. Tallinn European School.
- Sculpture “Koduvalgur” (“Home guard”), authors Jass Kaselaan. Boarding school facilities of Rakvere Vocational School.
- Sculpture “Tera” (“Grain”), authors Fred Truus ja Rainer Kaasik-Aaslav. Grain Seed Centre of Estonian Crop Research Institute in Jõgeva county.
- Textile artwork “Säsi” (“Pith”), authors Johannes Valdma, Allar Esko and Sirli Pohlak. Kohtla-Järve Gymnasium.

In summer 2019, art competition was carried out for the Supreme Court building, the winner of which was conceptual design of sculpture “Tasakaal” (“Balance”) by Vergo Vernik. The work will be completed in spring 2020.

In late 2019, art competition was carried out for common internal security building in Sillamäe, the winner of which was conceptual design of installation “Mustikas” (“Bilberry”). The completion of work is scheduled by autumn 2020.

At the end of 2019, we announced two new art competitions for Võrumaa Vocational Education Centre and office building at Tartu mnt 85. The jury will decide on the winners in spring 2020.

Number of conceptual designs submitted to art competitions:

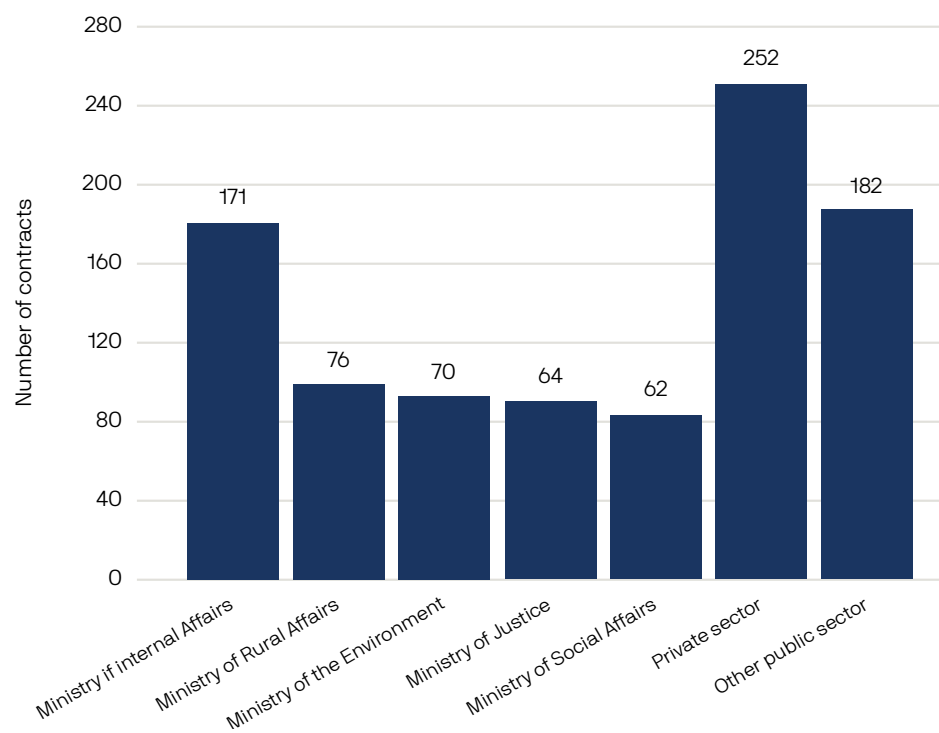
- Boarding school facilities of Rakvere Vocational School – 17
- Grain Seed Centre of Estonian Crop Research Institute – 17
- Kohtla-Järve Gymnasium – 10
- Supreme Court building – 25
- Common internal security building in Sillamäe – 17



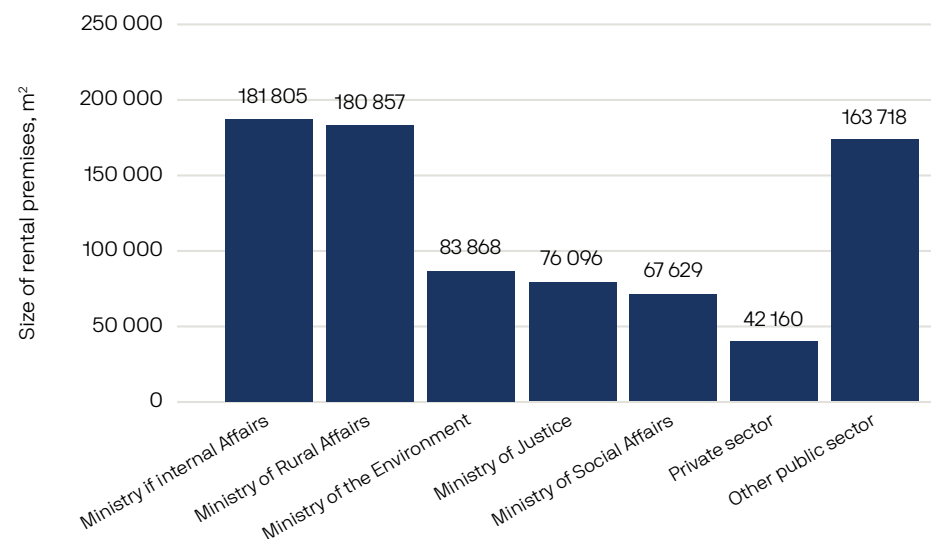
## Customers

Customer relations are maintained by major customer and property managers and regional managers of RKAS. Customer relations are divided between two levels: major customer managers maintain key customer perspective (i.e. areas of governance in the public sector and their subunits) and property managers take care of site-based customer relations (i.e. responsible users of specific properties). Site-based customer communication takes place according to customer plans, which set out main goals agreed with each customer and main activities of the year.

### Major customers by the number of lease contracts in 2019



### Major customers by the size of rental premises in 2019



### Major customers in contractual portfolio

Client	Area of contractual portfolio, m²
Ministry of Education and Research Ministry of Internal Affairs	477 526
Ministry of Culture	31 294
eu-LISA	5 039
Constitutional institutions and State Chancellery Tartu City Government	5 001
Ministry of Finance	4 513
Tartu City Government	2 476
Ministry of Finance	547

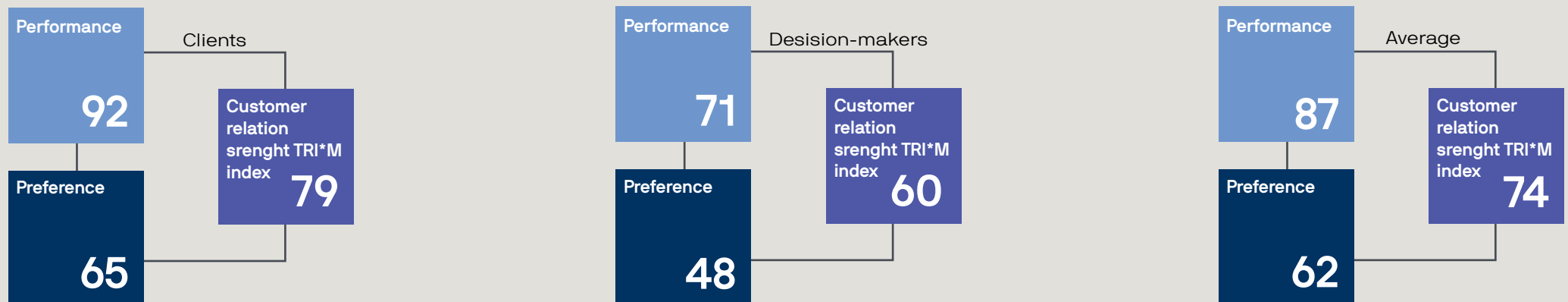
As at December 2019, RKAS manages 1,011 contractual customer relations, of which 876 are based on lease contract and 135 based on administrative contract. In case of lease contract, we are the owner of the property and provide the customer agreed upkeep services according to the lease contract. In case of administrative contract, the customer has granted the property in their ownership for us to manage and we ensure its upkeep and compliance with the customer's needs.

## Customer feedback

RKAS measures the strength of customer relations in cooperation with Kantar Emor since 2011. In 2019, we carried out customer satisfaction survey, which mapped various aspects affecting satisfaction and analysed their impact on customer relations. More specifically, it examined general satisfaction with RKAS and satisfaction with services and contact persons. Survey was carried

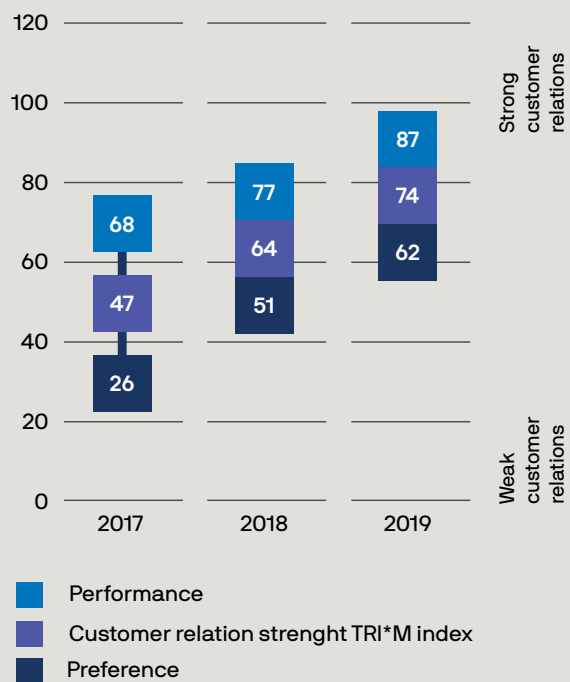
out by using international survey methodology for analysing customer satisfaction, TRI\*M, which measures the strength of customer relations, considering both rational satisfaction, behavioural loyalty, emotional attachment and surrounding environment.

The results of the survey of 2019 indicate significant increase in performance and preference compared to 2018, rising from 64 to 74. There was significant increase in the performance index, which was 87 in 2019 (77 in 2018). Compared to companies operating in the real estate sector in Europe, RKAS ranks among 33% of top companies.

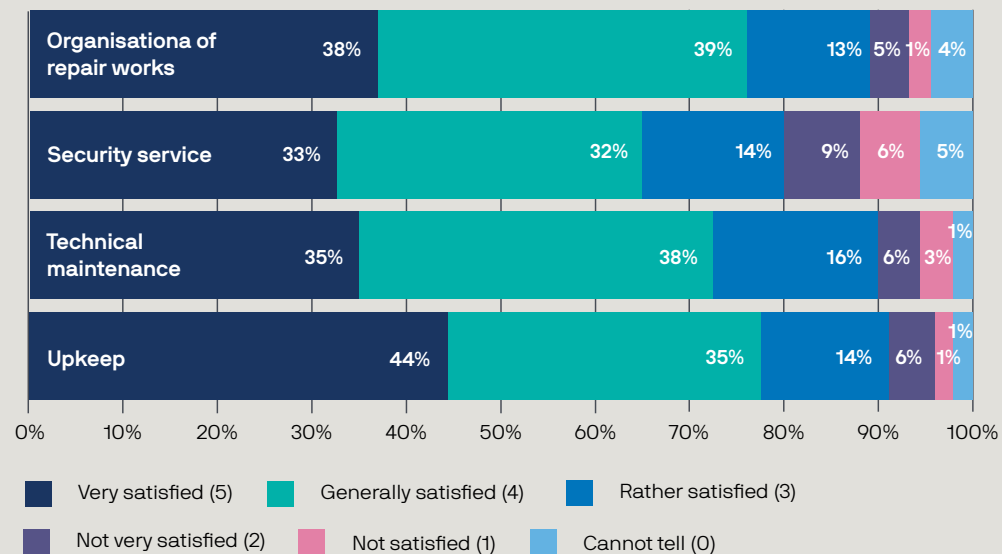




## RKAS TRI\*M index 2017-2019



## Overall satisfaction with RKAS services



In 2019, we continued measuring prompt post-contact customer feedback by using MyClient system provided by Kantar Emor, which gives prompt information regarding potential bottlenecks of the service provided, thus allowing us to respond in an operative manner. The assessment given to our services according to MyClient surveys in 2019 is presented below.



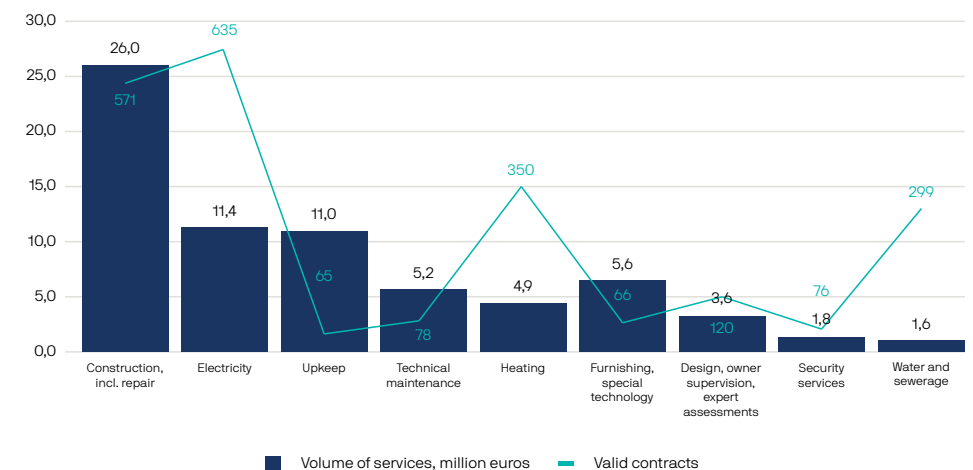
## Suppliers and service providers

In addition to the contribution of its employees, the satisfaction of RKAS customers depends to great extent on suppliers and service providers. In 2019, the company underwent several changes aimed at further development of partnership, which included establishing supplier relations department, defining the objectives of supplier relations and carrying out supplier relations survey for the first time.

## Supply volume

Supply volume in 2019 by different supply categories are presented below, total amount 55.7 million euros.

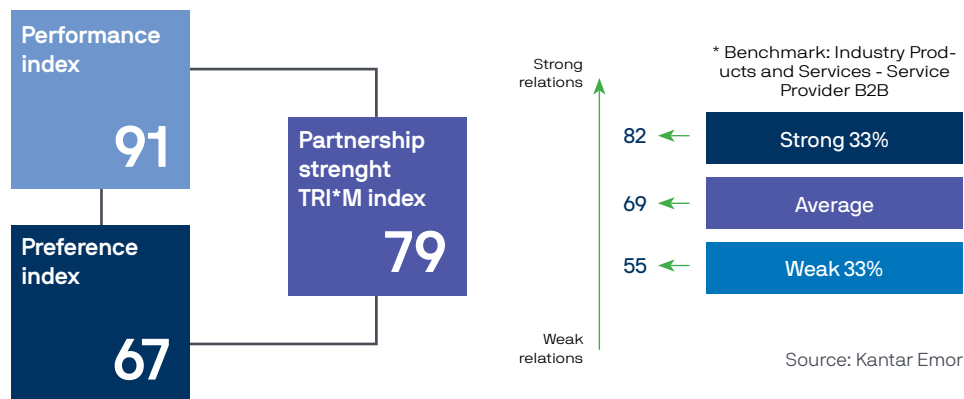
## Suppliers in 2019



## Supplier relations survey

The purpose of the survey was to map key strength of relations and development opportunities according to our suppliers and service providers. We used the same TRI\*M methodology as for customer feedback survey. That index evaluates partnerships based on two components – performance and preference.

Index of strength of RKAS supplier relations or TRI\*M in 2019



The source of reference base for survey results consists in global TRI\*M databases. According to the surveys of business relations regarding European products and services, RKAS ranks among top 33%, where positive results refer to strong partnerships.

Service providers are divided into the following segments in the supplier relations survey:

Development services	Maintenance services	Consumer services
Construction; Repairs; Furnishings and special technology; Design, owner supervision, expert assessments, surveys	Upkeep; Technical maintenance; Security services;	Electricity and heating, water supply and sewerage.

Development services received mostly positive assessment, but our partners expect us to give more feedback regarding consultancy services (design work, surveys, owner supervision and expert assessments). In case of upkeep services, we see opportunities to strengthen our relations with cooperation partners, either in the form of smooth process for accepting works or showing initiative in finding solutions. These are the areas of development that require the contribution from us and relevant companies in the future.



Kohtla-Järve state gymnasium

## Employees

In the end of 2019, RKAS had 216\* employees, i.e. the number of employees had decreased by 7 compared to previous year. The number of full-time employees in 2019 was 208 and 8 persons worked part-time. Operation of the company is divided between four locations: 153 people work in Tallinn (39 in real estate development, 45 in administrative services, 5 in customer relations, 9 in supplier relations and 55 in support units), 27 people in Tartu (9 in real estate development, 15 in administrative services), 12 people in Pärnu (2 in real estate development, 10 in administrative services) and 14 people in Jõhvi (2 in real estate development, 12 in administrative services).

In 2019, 30 new employees commenced work at the company. The voluntary turnover of employees was 12%, decreasing by two percentage points compared to previous year. In 2019, two employees returned from parental leave and two persons did their professional traineeship during that period. In 2019, the share of male employees in RKAS was 62% and female employees 38%. In comparison with the previous year, the share of male and female employees has remained the same. The company employed two persons with special needs.

In 2019, there were no violations that would indicate discrimination or violation of human rights. There were no labour disputes that would have reached the labour dispute committee.

RKAS adheres to applicable laws and legislation, it has established procedures for occupational safety and organisation of work environment. The company performs risk analysis to find out risk factors regarding work environment, which are then analysed and monitored. There are elected working environment representatives and established working environment coun-

cil, consisting of equal number of representatives elected by employer and employees. Employees undergo regular health check-ups. RKAS provides employees with means of work, work clothes and personal protection equipment. There were no occupational accidents in 2019.

\*number of employees is not a full-time equivalent.

## Commitment and satisfaction of employees

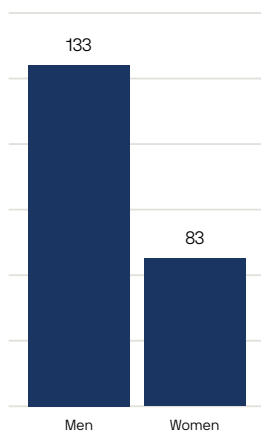
In December 2019, RKAS carried out annual survey of commitment and satisfaction among its employees. When comparing overall results of the organisation with the average results of public service, we can say that the commitment of RKAS employees exceeds that of the average result of public service. Moreover, the assessments have improved compared to 2018.

Besides commitment and general satisfaction, the survey covered sixteen other areas that affect the output indicators mentioned above. In most of these areas, respondents' assessments were more positive than reference group average.

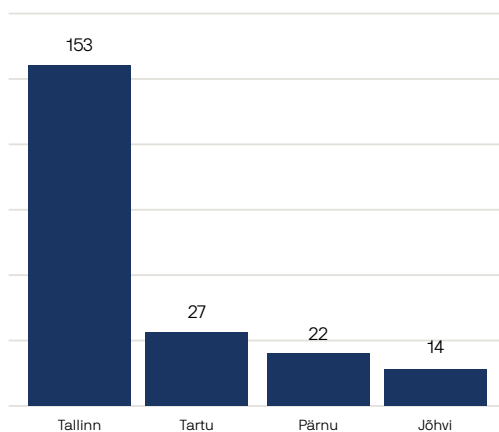
Respondents' assessments were above average response to public service with regard to flexibility of organisation of work, direct management, career opportunities, remuneration, role of top executive, employer's reputation, purposefulness of work, development opportunities and community at work. Across all RKAS, a more critical approach

was observed with regard to the clarity of respondents' role, workload, deep work and involvement in work and being informed. These areas need more attention in the organisation as a whole.

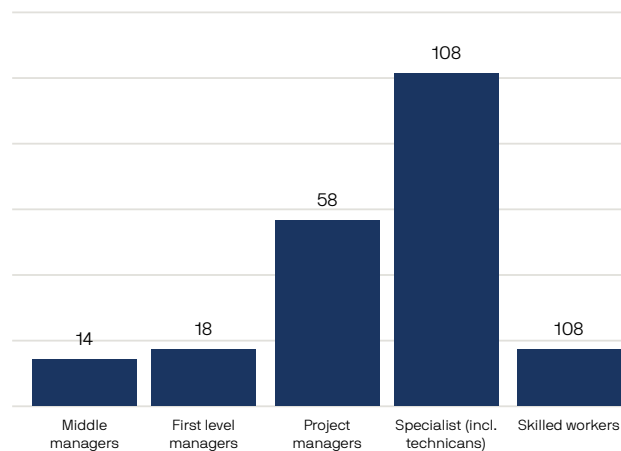
Employees by gender



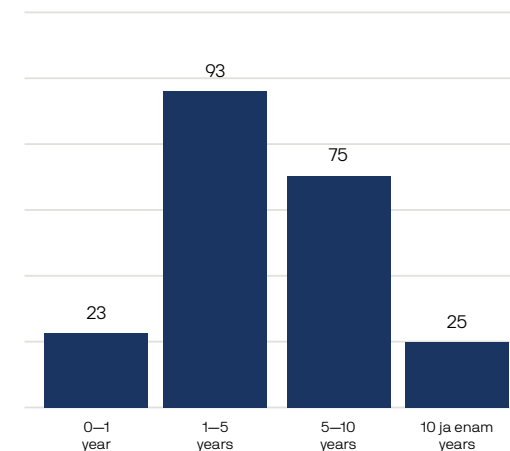
Employees by location



Employees by position



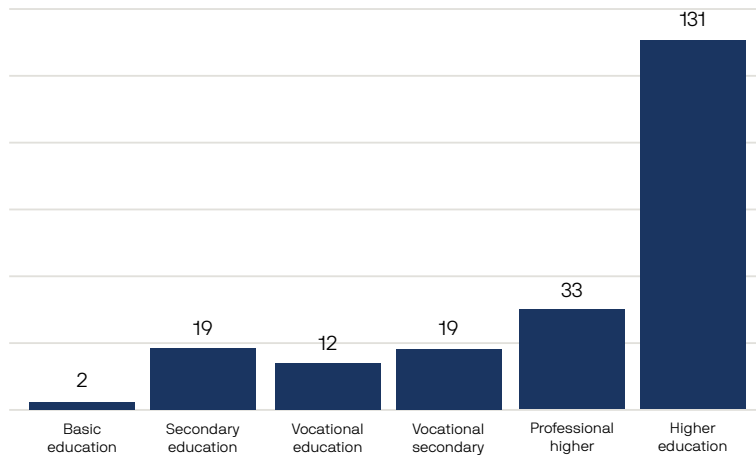
Employees by length of service



## Development of competencies

RKAS employees have very high level of education: 76% of employees has either applied higher education, bachelor or master's degree; two employees have doctoral degree. RKAS continues to support employees' studies at the institutions of higher education and their participation in professional training. In 2019, we invested in training of our employees 99,000 euros. We understand the importance of in-service training and 31% of our employees have professional certificates in certain speciality.

## Employees by education



67 employees have profession certificates in following areas:

Speciality	Persons
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)	5
Construction engineer, Levels 6–7 (Estonian Association of Construction Entrepreneurs)	8
Electrical engineer, Level 6 (Estonian Society for Electrical Power Engineering)	1
Real estate manager, Levels 4–6 (Estonian Property Management Association)	26
Property administration manager, Level 6 (Estonian Property Management Association)	5
Property upkeep foreman, Levels 3–5 (Estonian Property Management Association)	7
Cleaning manager, Levels 4–5 (Puhastusekspert OÜ)	2
Cleaner-instructor, Level 4 (Puhastusekspert OÜ)	4
Designer of security systems, Level 6 (Estonian Association of Security Enterprises)	1
Specialist responsible for security systems (Estonian Association of Security Enterprises)	1
Security manager, Level 5 (Estonian Association of Security Enterprises)	2
Authorised energy efficiency specialist, Level 8 (Estonian Society of Heating and Ventilation Engineers)	1
Certified energy efficiency specialist, Level 7 (Tallinn University of Technology)	1
Spatial environment planner, Level 7 (Estonian Association of Planners)	1



Lihula rescue depot

## Society

### Membership of associations and cooperation with professional associations

RKAS wishes to contribute to various areas in the society and has a membership of the following Estonian organisations:

- NPA Corporate Social Responsibility Forum;
- NPA Estonian Property Management Association;
- NPA Estonian Human Resource Management Association PARE;
- NPA Estonian Taxpayers Association;
- NPA Digital Construction – The Digital Construction Cluster;
- MTÜ Workplace Evolutionaries Estonia (WE hub);
- Estonian Society of System Engineers.

RKAS is represented at the Heritage Conservation Advisory Panel operating within the Ministry of Culture, the opinions of which 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.

Accessible society makes it possible for everyone to live their lives to the fullest. In Estonia, this objective is expected to be achieved by 2035. In order to attain this objective, the Government of the Republic established Accessibility Task Force in September 2019, which will prepare proposals and measures for ensuring accessibility in both public and private sector. Besides ministries,

state agencies and representatives of local governments and third sector, RKAS also contributes to the activities of that task force.

Riigi Kinnisvara 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.



TWN is a global organisation that connects top real estate managers of public sector, members of which include companies, government agencies and institutions from 17 countries.



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

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

EFFECT4buildings is a cooperation project aimed at improving energy efficiency measures applicable to existing public buildings in the Baltic region. Main contribution by RKAS consists in testing the applications that allow

energy monitoring of buildings. Energy monitoring deals with quick detection of potential overconsumption of energy by means of constant monitoring of the energy use of a building and proactive response to reduce such overconsumption.

Riigi Kinnisvara participated in social responsibility survey organised by Sustinere, which assessed sustainability of social and environmental impact, principles of responsible management and social role in general, with regard to activities described in annual reports of companies. Based on the results, Riigi Kinnisvara ranked among top 15 Estonian enterprises. We try to be more open, transparent, and focus on the issues of social responsibility.

## Supporting research and development activities

Cooperation with research and development institutions and universities plays an important role in raising the competence of RKAS and demonstrating innovative trends in the property sector as a whole. We have supported sectoral research and development activities since 2011, by awarding scholarships and research support twice a year. RKAS can support research and development projects to the extent of up to 0.5% of average consolidated net profit of three preceding financial years.

In addition to supporting research related to the objectives of RKAS, one of our priorities is to train competent successors, which is why we also support the allocation of scholarships to applied engineering master's and doctoral students with excellent academic results and whose area of study is linked to the area of activity of RKAS. Over eight years, we have supported research in real estate and construction sector with more than half a million euros and awarded scholarships to students in the amount of more than 100,000 euros.



We contribute to research and development activities in areas connected to:

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

In 2019, RKAS supported the study “Development of technical solutions for reducing radio frequency electromagnetic fields for indoor environment” carried out by the researchers of the NPA Institute of Environmental Health and Safety in the sum of 23,000 euros. The study examines the methods of testing the possibilities to reduce electromagnetic fields in used buildings and uses statistically reliable sample to develop efficient solutions to minimise the exposure of people staying in the building to radio frequency magnetic fields, while maintaining the benefits of modern technology.

Furthermore, RKAS allocated 18,000 euros to support the study carried out by the International Centre for Defence “Survey of security classes of buildings and applicable security measurers”, which is a follow-up project to the work started previous year. The objective of the study is to develop a methodology that allows using measurable parameters to determine optimum security class or set of applicable security measures for each object of RKAS, evaluate the compliance of existing measures and assess investment need.

In 2019, scholarships were allocated to the students listed below.

## Master’s students 2,000 euros each

Andres Nuija	Tallinn University of Technology, “Optimisation of classroom façade based on requirements for daylight factor and overheating in summer by the example of new school building in Tabasalu”
Kristi Merilo	Estonian Academy of Art, “Nature and child friendly school building as a tool for active learning”
Madli Kaljuste	Estonian Academy of Art, “Tidied rooms – demolition as lost potential”
Anni Martin	Tallinna Ülikool, “Semantic fields of Maarjamäe memorial – from World War II to the establishment of the Victims of Communism Memorial (1940–2018). Content analysis of media texts and archive materials”
Elina Liiva	Estonian Academy of Art, “Invisible borders and rules”
Mihkel Raev	Estonian Academy of Art, “Quo vadis, Paldiski”
Anno Tarvis	Tallinna Tehnikakõrgkool, “Energy efficiency of family houses of Children and Youth Support Centre in Pärnu”

## Doctoral students 3,000 euros each

Siim Tuksam	Estonian Academy of Art, “Modulated modularity: from massive special solutions to special solutions in mass production”
Lauri Hass	Tallinn University of Technology, “Development and experimental validation of large-scale 3D concrete printer reinforcement”
Tuule Mall Kull	Tallinn University of Technology, “Heating systems management and efficiency of heat output in near zero energy building”



# Eesti Taimekasvatuse Instituut

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## Ensuring accessibility

Accessibility must be considered a fundamental right of every person, as it allows full participation of an individual in daily living and information environment. Pursuant to the Constitution of the Republic of Estonia, all Estonian citizens and the citizens of foreign states staying in Estonia are equal and no one may be discriminated or subject to degrading treatment.

According to common thought, accessibility or lack thereof is seen as a problem concerning persons with reduced mobility. However, accessibility does not mean only absence of restrictions to physical movement, but also accessibility to information, transportation and sensory information regardless of person's age, physical abilities or state of health. Solutions are also required for children who cannot reach the cashier desk and ATMs, elderly people feeling uncomfortable when facing touch screens, people without access to e-services and many others..

As we know, ensuring accessibility is more effective when it is considered already in planning stage and takes into account the needs of all users. For example, ramps and low thresholds are necessary for wheelchair users, but also for people with baby prams and rollators.

Ensuring accessibility benefits from user-centred approach method, which focuses on a person and not on an object. Getting to know the user is crucial for finding functional solution. Estimated number of people older than 65 will increase and the number of working-age people will decrease significantly in Estonia by 2050. Many of the people older than 65 encounter certain restrictions regarding daily coping in one way or another. Thus, the issue of accessibility will gain importance because of demographic changes occurring in the society and should be considered when creating suitable living and working environment.

Based on extensive experience in managing public procurements and projects, and good cooperation with various institutions, RKAS can set an example and lead the way to solving accessibility-related key issues. Tuginedes suurele kogemusele riigihangete ja projektide juhtimises ning heale koostööle erinevate institutsioonidega, saab RKAS olla eeskujuks ja teenäitajaks ka ligipääsetavusega seonduvate sõlmküsimumuste lahendamisel.

## Heritage conservation and architectural heritage

RKAS first encountered heritage conservation already since the foundation of the company, as one of the first buildings delivered to the company was Pärnu courthouse at Rütli 19, which is situated in the heritage conservation area of Pärnu Old Town and resort. Pärnu courthouse is still in the real estate portfolio of RKAS. Over time, this building has been restored to a significant extent, thus ensuring authenticity of that dignified building up to this day.

Since 2015, RKAS has been represented at the Heritage Conservation Advisory Panel, 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 2019, RKAS owns 162 buildings in heritage conservation zone. In 2019, as in previous years, repairs were performed in 105 different buildings under heritage conservation or in heritage conservation area, in the course of which the condition of the buildings was improved or preserved. Total cost of such repair works in 2019 amounted to 6 million euros, which constituted 27% of repair works performed by RKAS in 2019.

In terms of major construction works managed by RKAS, the building of Estonian Embassy in Moscow was completed in 2019. Important object under

heritage conservation is Supreme Court building in Tartu, which is to be completed in the first quarter of 2020. In 2019, we commenced design work of the building Kesk tn 12 in Valga, construction works of which are expected to commence in the second half of 2020. Moreover, we started the design work for reconstruction of Estonian National Library, which is expected to be completed in the second quarter of 2021.

## Environment

### Energy consumption and energy efficiency

Reduced energy consumption and increased energy efficiency is one of the priorities of RKAS.

Energy efficiency of a building means a quantity of energy required for heating, cooling, ventilating, heating water and lighting of the building. This list also includes energy consumption depending mostly on the user.

Environmental impact arising from energy use of buildings is reduced by performing various repair works, regular monitoring of energy consumption and quick response to overconsumption, as well as increasing the awareness of the user of the building. New developments and large-scale reconstruction work meet minimum requirements for energy efficiency established in legislation.

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

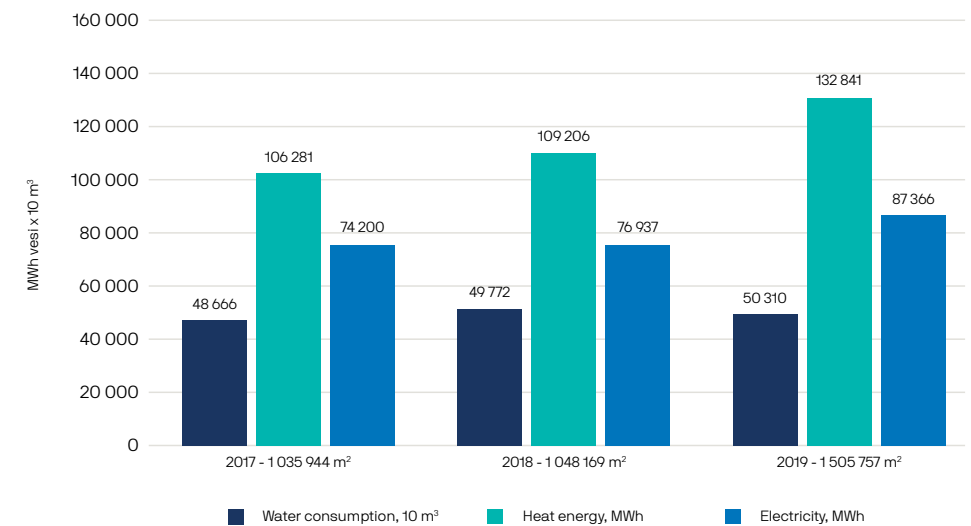
### Company's energy and water consumption

RKAS monitors energy and water consumption of managed buildings on a monthly basis, analyses data and develops measures for stabilising and reducing consumption.

Consumption within RKAS is marginal, constituting only 0.3% of the energy consumption outside the organisation. Consumption outside the organisa-

tion 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, area optimisation and repair works intended for improving energy efficiency.

The diagram below shows energy and water use indicators of the RKAS administrative and contractual portfolio within the last three years compared to portfolio increase. The portfolio has increased quicker than energy and water consumption, indicating positive result of contributions made to energy efficiency. Significant increase in portfolio in 2019 was due to supplementing the contractual portfolio with vocational education institutions under the Ministry of Education and Research.



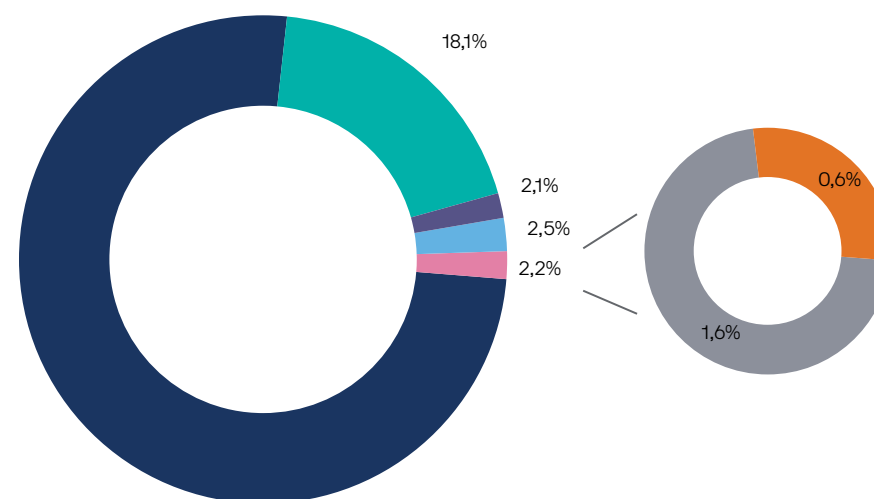


Kohtla-Järve state gymnasium

## Heat energy

RKAS portfolio uses mainly district heating to supply heat to buildings. Distribution of locally produced heat by different energy sources (incl. renewable sources such as pellets, wood) is shown below:

### Relative distribution of heat supply





Kohtla-Järve state gymnasium

## Electricity

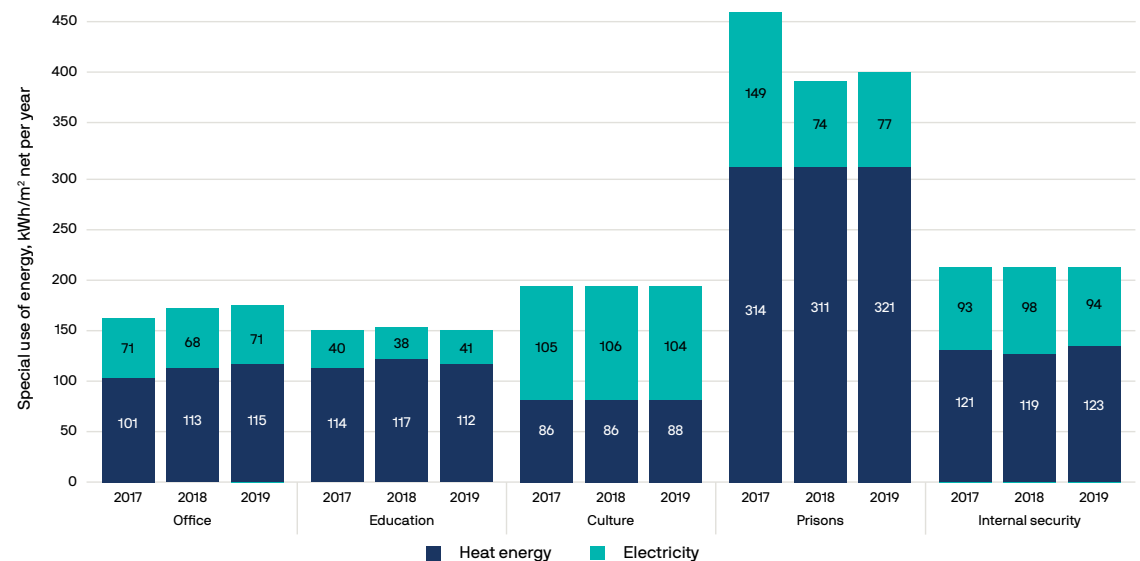
Quantities of supplied energy and water broken down by immovable properties with different intended use

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

The diagrams show buildings that have been in use for at least one full year, meaning that the result is not affected by the buildings completed in 2019 or major renovation projects.

Special use of energy and water has generally remained the same. Remarkable contributions are made to improve indoor climate,

## Comparison of energy and water consumption

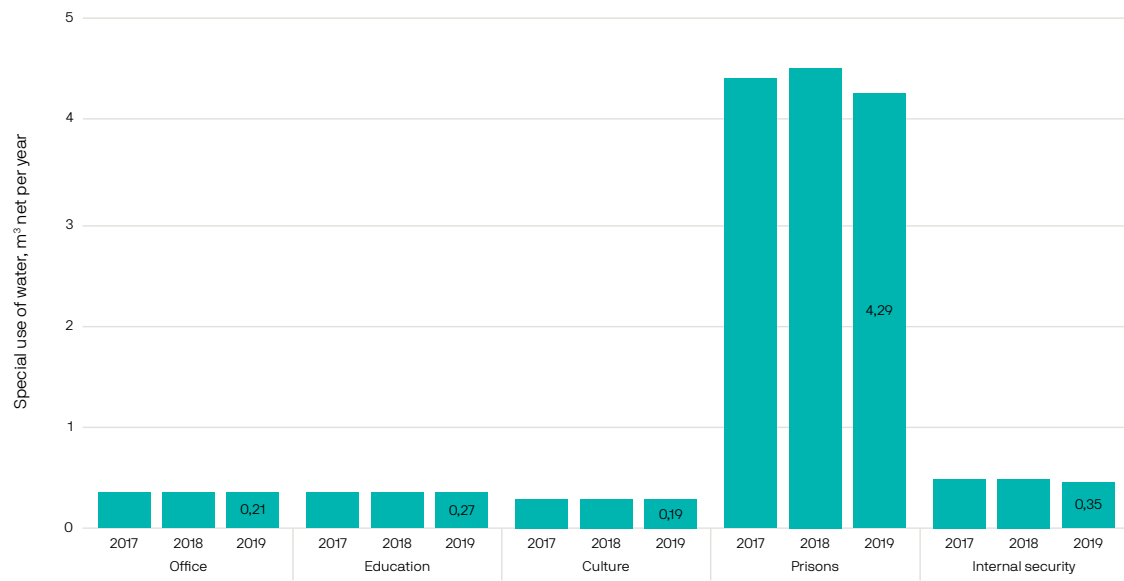




Estonian Embassy in Moscow

which sometimes increases the energy consumption of buildings (e.g. construction of cooling or ventilation systems to avoid overheating). The aim is to reduce the energy consumption of every single building, but savings cannot be achieved on the account of indoor climate and the health of people using the building. Great energy consumption stands out in case of prisons that operate 24/7 and 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).

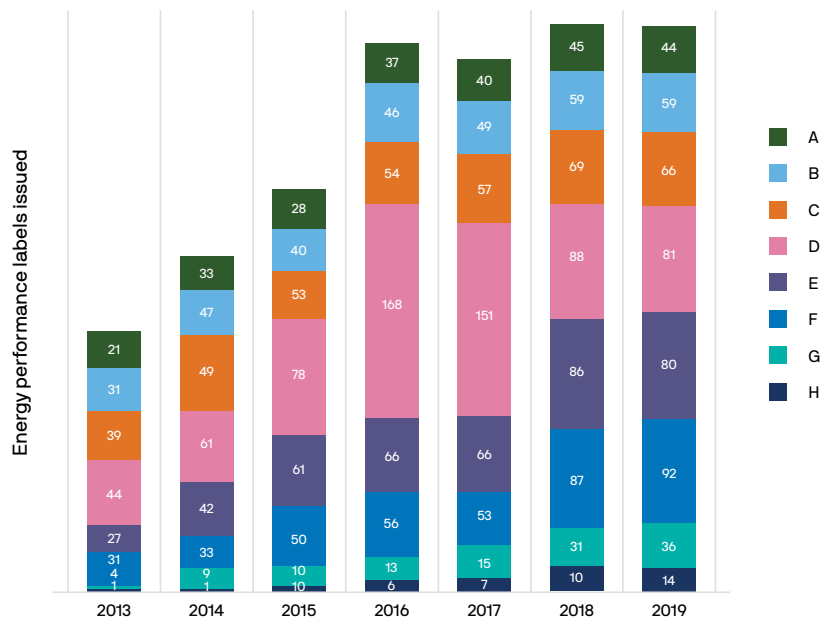
We monitor energy use on a monthly basis and carry out various repairs to improve energy efficiency to stabilise energy and water use. Consistent work helps to reduce overconsumption of energy and improve the quality of indoor climate.



## Energy-performance labels

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). 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.

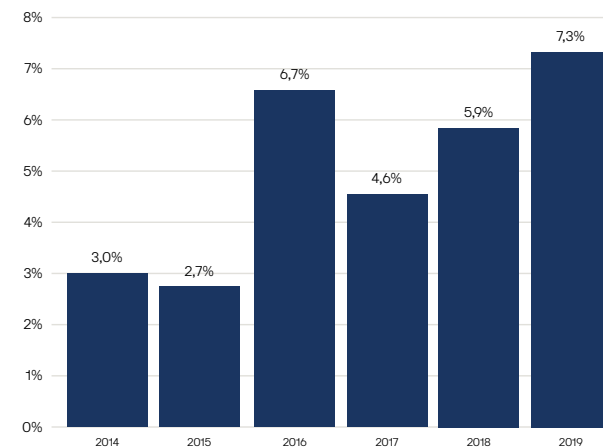
Pursuant to the Regulation of the minister of Business and Information Technology "Minimum requirements for energy efficiency of buildings", the energy-performance label class of an existing building must be at least C or better, in order to meet the minimum requirements for energy efficiency. New buildings developed by us 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 portfolio is shown on the diagram below.

Approximately 30% of the buildings in administrative and contractual portfolio meet the minimum requirements for energy efficiency. Pursuant to one obligation of the EU Directive on energy efficiency (2012/27/EU), every Member State must bring at least 3% of the buildings used by the central government that are subject to minimum requirements but do not meet these requirements, in accordance with the requirements, i.e. reconstruct them as at least a building with energy-performance label class C. We monitor the 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 achieved the compliance with minimum requirements of energy efficiency and fulfilled the requirement imposed by the European Commission with regard to the share of buildings in the portfolio used by the central government as shown below:

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





## Energy efficiency projects

### Support measure for improving energy efficiency of central government buildings

In 2019, RKAS applied for investment aid from the support measure for improving energy efficiency of central government buildings, which contributes to improved energy efficiency and indoor climate of central government buildings. RKAS applied for and was granted aid for reconstruction of 10 buildings and construction of two new buildings in total sum of 20.3 million euros. As a result of reconstruction, existing buildings are brought in accordance with minimum requirements of energy efficiency, new buildings will have energy-performance label class A. Aid was granted to the projects listed below.

Project	Address	Aid amount, EUR
Renovation of Rescue Board building in Rapla	Kevade 10, Sulupere village, Rapla rural municipality	325 222
Reconstruction of Rescue Depot in Nõmme	Jaama 4/Köver 4, Tallinn	326 486
Renovation of Rescue Board building in Keila	Ülejõe 2a, Keila	672 420
Reconstruction of Tartu Theme House	Riia 15, Tartu	804 209
Reconstruction of Lilleküla rescue depot	Paldiski mnt 47, Tallinn	844 256
Renovation of Environmental House in Pärnu	Roheline 64, Pärnu	898 230

Tabel continues on the next page



Lihula rescue depot

Construction of common internal security building in Sillamäe	Pavlovi 4, Sillamäe	1 004 290
Reconstruction of the police building in Valga	Puiestee 4, Valga	1 077 650
Reconstruction of state house in Jõgeva	Suur 3, Jõgeva	1 120 000
Reconstruction of the main building of Agricultural Board	Teaduse 2, Saku	1 745 693
Reconstruction of the building of Agricultural Research Centre	Teaduse 4/6, Saku	3 381 292
Construction of common internal security building in Pärnu	A. H. Tammsaare pst 61, Pärnu	8 146 250

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

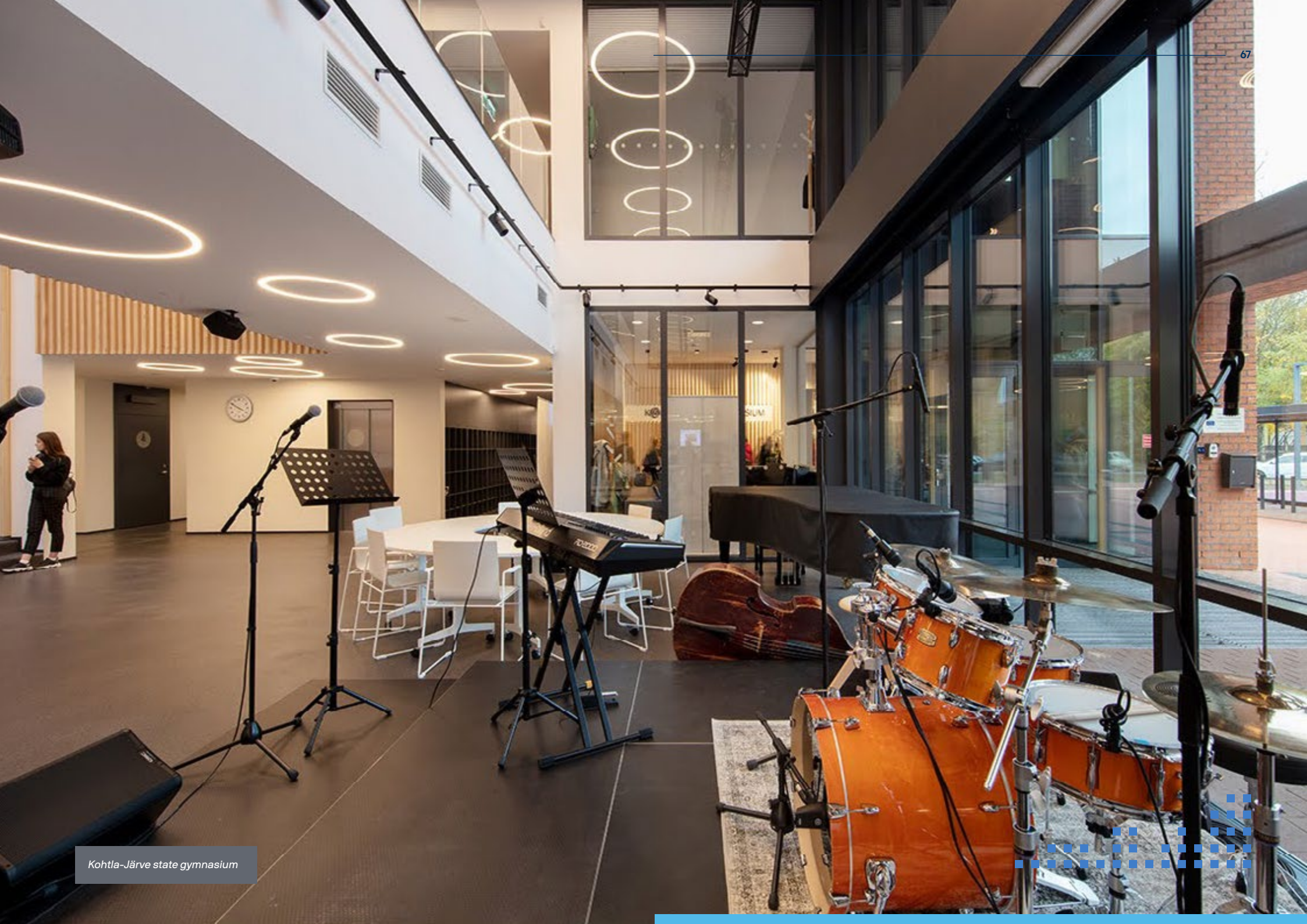
EFFECT4buildings is a cooperation project, the purpose of which is to increase the amount of energy efficiency measures implemented by the public sector in the Baltic region. The greatest contribution of RKAS consists in testing the applications that allow energy monitoring of the buildings. Energy monitoring consists in constant monitoring of the energy consumption of the building in order to promptly detect any excess consumption and proactive response to reduce such excess use. We are currently carrying out two parallel test projects, the first one of them tests five buildings (3 schools and 2 office buildings).

<b>Building</b>	<b>Financial savings achieved in 9 months, EUR</b>
Lasnamäe 2, Tallinn (office building)	-5040
Jaama 207, Tartu (office building)	-1405
Võru state gymnasium	-150
Tartu state gymnasium	-8807
Põlva state gymnasium	-1096

The second project involves testing software equipped with artificial intelligence, interfaced not only with energy meters, but also automation system of entire building. Tested software solution uses AI that performs continuous diagnostics of the automation system of the building and creates work order for technical maintenance crew upon detection of any issues. That solution also controls the climate systems of the building.

After the setup period, we managed to achieve considerable financial savings within two months.

<b>Building</b>	<b>Financial savings achieved, EUR</b>
Lubja 4, Tallinn (office building)	-16 600



Kohtla-Järve state gymnasium

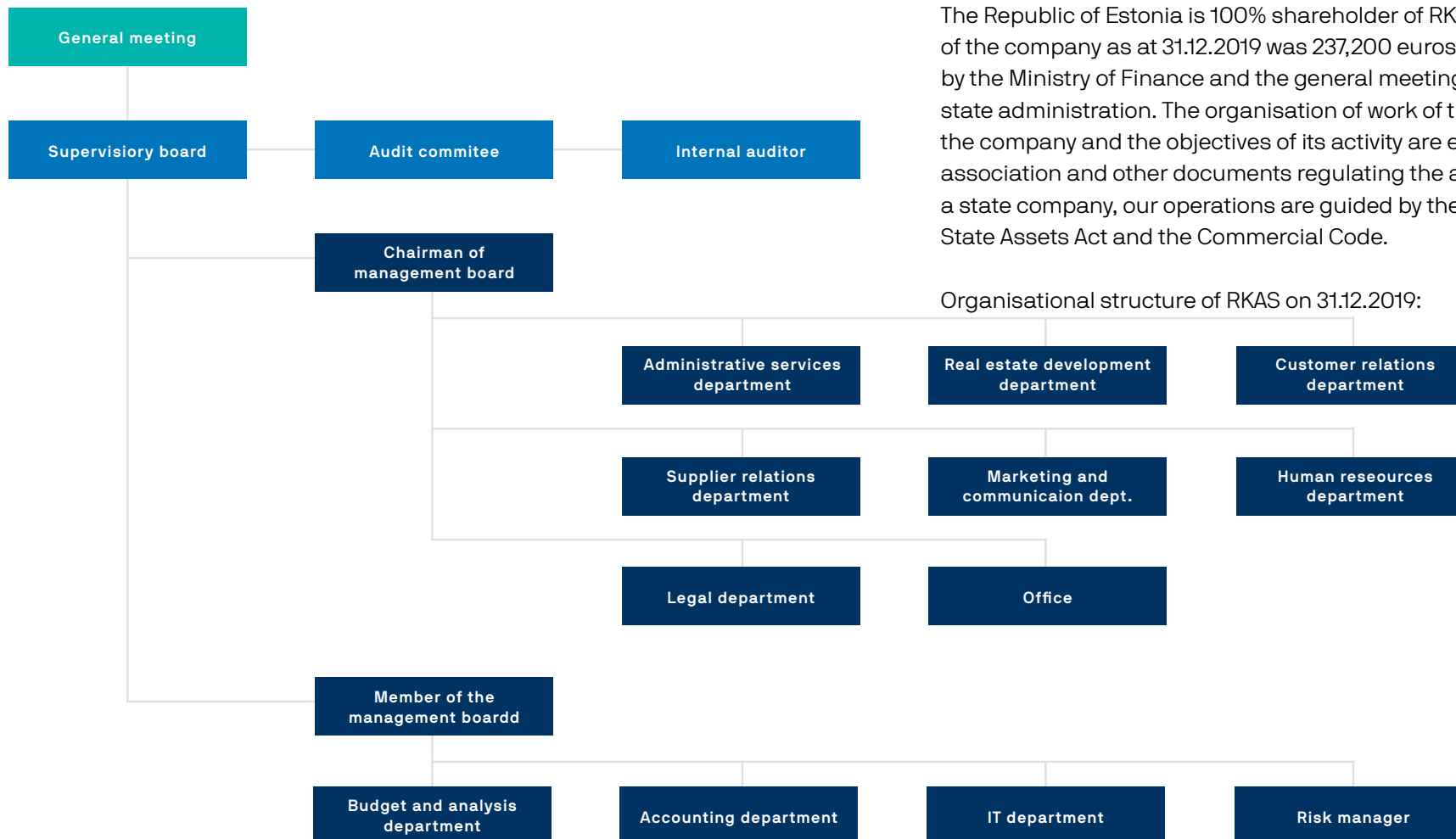


## Governance

### Organisation management

The Republic of Estonia is 100% shareholder of RKAS and the share capital of the company as at 31.12.2019 was 237,200 euros. The shares are managed by the Ministry of Finance and the general meeting consists in the minister of state administration. The organisation of work of the management bodies of the company and the objectives of its activity are established in the articles of association and other documents regulating the activities of the company. As a state company, our operations are guided by the requirements of both the State Assets Act and the Commercial Code.

Organisational structure of RKAS on 31.12.2019:



## Report on Good Practice of Company Management

Pursuant to the State Assets Act, RKAS as a state-owned company is under obligation to implement the good practice of company management (GPCM) and to describe the adherence to such practice in the annual report. RKAS is 100% state-owned company and the Government of the Republic has appointed the Minister of Finance as the person exercising the 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 of shareholders is the highest management body of RKAS. General meeting is competent to decide on the issues specified in subsection 298 (1) of the Commercial Code and other issues provided by law.

The management board decides and organises the calling of the general meeting pursuant to the provisions established by law. The supervisory board confirms the agenda of the general meeting. The resolutions of the general meeting are published on RKAS webpage within five business days after adopting the resolution, in accordance with the provisions of prescribed by law.

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

- clause 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;

- clause 1.2.3 – the management board shall, simultaneously with meeting the requirements for calling the general meeting 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;
- clause 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;
- clause 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 2019, the general meeting adopted 11 resolutions, which are published at [www.rkas.ee](http://www.rkas.ee).

### Management board and management

The management board is the managing body of RKAS, which represents and manages the company. Pursuant to the articles of association, the management board may have one to five members. Members of the management board are elected pursuant to the Commercial Code for a specified term of up to three years. In 2019, the management board included Piia Kallas (member of the management board until 31.03.2019), Andrus Ait (since 01.04.2019) and Kati Kusmin. At the moment of preparing the report, the management board of RKAS has two members. During 2019, the management board held 88 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 manage-

ment board for performance during one financial year is four times the average monthly fee paid in previous

financial year. Upon removal of the member of the management board on the initiative of the supervisory board prior to the expiry of the term of office of the member of the management board, RKAS shall pay such member a lump-sum severance payment to the extent of such member's remuneration of three months valid at the time of removal.

During 2019, the calculation of remuneration for the members of the management board include also the fee granted by the supervisory board for performance in 2018 as follows: Pii Kallas 66,713.28 euros (member of the management board until 31.03.2019; includes the non-competition fee paid after the expiry of the contract), Andrus Ait 60,887.88 euros, Kati Kusmin 130,683.72 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, which, in view of the specific nature of the company, makes the person responsible for the holding in the company proposals regarding the election and removal of the member of the supervisory board; the size of the composition of the supervisory board and duration of office of board members; and the rate of remuneration paid to the members of the supervisory board. Owner's interests are protected in the company through the members of the supervisory board, who are representatives of the ministry (Ministry of Finance) responsible for the holding in the company.

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 organises 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 at least once every three months. There were 8 supervisory board meetings held in 2019. Since 12.06.2017, based on the resolution of sole shareholder, the monthly remuneration of the chairman of the 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 2019, the supervisory board members included Marianne Paas (member of the supervisory board until 18.06.2019), Sulev Luiga (chairman of the supervisory board), Tõnu Toompark, Kaie Karniol, Ruth Laatre, Norman Aas and Tarmo Leppoja (member of the supervisory board since 18.06.2019).

Overview of remuneration paid to the members of the supervisory board in 2019: Sulev Luiga (chairman of the supervisory board) 12,000 euros, Tõnu

Toomark 6,000 euros, Kaie Karniol 6,704 euros (includes the fees of audit committee member), Marianne Paas 5,477 euros (includes the fees of audit committee member), Ruth Laatre 6,000 euros, Norman Aas 6,000 euros and Tarmo Leppoja 2,710.53 euros.

## Audit committee

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

The audit committee of the company has three members. Committee members are 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 at least once in three months; 8 meetings were held in 2019. The committee performs its duties in cooperation with the supervisory board, management board, internal auditors, and external experts if necessary.

Audit committee member who is not the member of the supervisory board will receive remuneration which equals 75% of the monthly remuneration determined for 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% of the monthly remuneration determined for 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 the supervisory board will receive additional remuneration – 133 euros for the chairman of the committee and 88 euros for the member of the committee.

In 2019, the committee included Taavi Saat (chairman, not the member of the supervisory board), Marianne Paas (not the member of the supervisory board since 18.06.2019) and Kaie Karniol.

In 2019, the audit committee members were paid remuneration as follows: Taavi Saat 6,000 euros, Marianne Paas and Kaie Karniol – see remuneration of the members of the supervisory board.

## Cooperation of the management board and supervisory board

The management board and supervisory board ensure full cooperation to provide the best protection of the interests of the company. At least once a quarter, a joint ordinary meeting of the management board and supervisory board takes place, where the management board notifies the supervisory board of significant facts in the business activities of the company, discusses the achievement of short-term and long-term goals and risks that may affect that.

## Publication of information

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





## Financial reporting and auditing

Financial reports of the company are prepared in accordance with the Estonian financial reporting standard. The company selects 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 2019 prepared by the management board is audited by audit company AS PricewaterhouseCoopers.

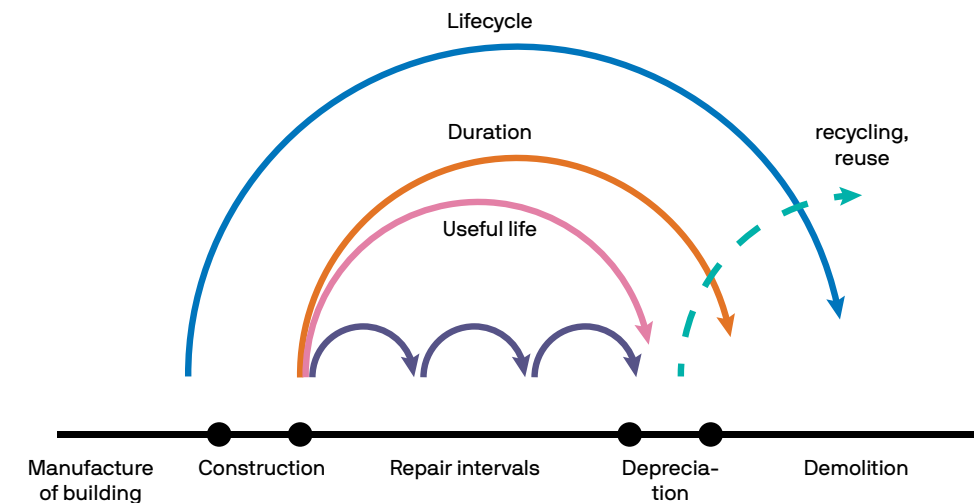
The management board of RKAS publishes annual report and also quarterly interim reports. The income statement, balance sheet and cash flow statement for I and III quarters of the financial year are published by the end of the month subsequent to the quarter at the latest, and income statement, balance 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 forward signed annual report to the general meeting for approval.

## Quality management

Riigi Kinnisvara 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 gives guidelines to meet the expectations of the owner and goals of the company through satisfaction of customer, cooperation partners and employees.

## Lifecycle of a building and its parts



### 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 and 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 acquiring 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..

**Environmental policy** directs us to sustainable use of resources, which is part of our responsible conduct. When planning and implementing the activities for environmental sustainability and energy efficiency, we take into consideration economic reasonability

#### **Environmental sustainability 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 (incl. indoor 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 and optimise energy expenditure.

##### **3. Water**

We reduce the environmental impact resulting from water consumption and relevant expenditure through more efficient use of resources.

##### **4. Waste handling**

We optimise the costs related to waste handling. We perform waste handling based on good practice and follow the principle that waste is a resource. 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 organise procurements in view of their environmental sustainability and cost-efficiency (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 and environmental sustainability, 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 our staff and stakeholders to choose sustainable lifestyle.

Key activities in 2019 in terms of quality management are described below.

##### **1. ISO-certification**

Metrosert AS performed supervisory audit of quality and environmental management standards ISO 9001:2015 and ISO 14001:2015 issued by the company. Non-compliance was not found, the compliance of management systems implemented in RKAS with relevant standards was confirmed.

Compliance with ISO 9001:2015 standard ensures systemic functioning of the company and specifies requirements for quality management system.

Compliance with ISO 14001:2015 certificate gives the stakeholders of the company assurance that the company is committed to ensuring sustainability, continuous compliance of its activities with environmental legislation and continuity and efficiency of the functioning of its 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:

- the contracts for providing administrative service and maintenance and upkeep have high quality and are reliable;
- management company has job descriptions, quality control system for maintenance work and upkeep, long-term development plans for the company and its objects;
- management activities in serviced objects are organised in accordance to the object management plan, which includes filling in maintenance logbook;
- maintenance and upkeep service partners must be competent (certified or holding activity licence) maintenance and upkeep companies; alternatively, maintenance and upkeep service may be provided by subunits or employees of the administrative company at the same level of quality;
- all managed objects are covered by real estate managers holding valid professional certificate (level III or 5), additional requirement prescribes the presence of at least one real estate manager holding valid professional certificate (level IV or 6) (every object is inspected at least once a year);
- management company is capable of managing at least the objects used, located in its administrative unit (within at least one county);
- all owners of managed objects are provided with administrative and consultancy services at least to the extent prescribed by law.

### 3. Reorganisation of management system

In order to achieve the objectives of the company and more efficient management of customer expectations, RKAS reorganised its management system, merging former separate portfolio management and analysis units and creating two new departments: customer and supplier relations departments. We also reorganised former environmental and technical support department, the employees of which continued to

work in management services or real estate development department, depending on their function. That brought along significant changes in former work processes of the company, changing and harmonising of which was the main direction in quality management during the second half of 2019.

Pursuant to the internal audit plan for management system, compliance audits were performed in 2019 with regard to real estate development and organisation of construction works, general management and customer relations management. Company compiled detailed action plans to eliminate all non-conformities observed by auditors and to get further recommendations.



## 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:

1. Failure to achieve strategic objectives;
2. Occurrence of certain errors, damage, accidents or abuse;
3. Material and reputational damage involved in partial or full realisation of risks;
4. Impeachment of sustainability of the company.

Risk management of RKAS is based on a single framework, which is described in the risk management process of the company. Company's risk manager is the process holder. All data related to the risk management process are registered in an electronic risk register.

In order to achieve the objectives, set by RKAS for 2019, the risks with the greatest need for management measures included the following:

- administrative risk – insufficient information regarding the object or inaccurate information in data system, non-standard handling of object-related documentation;
- reputational risk – image of business entity in state ownership, clear procedures and messages to partners, transparent decisions;
- process risks – fragmented information, outdated normative documents;
- quality risk – clarity and quality of the terms of reference to achieve objectives;

- market risk – quality of services acquired from the market;
- project risks – development projects stay within the budget and in agreed term and quality;
- quality risk – data quality in general.

Risk assessment and follow-up assessment are performed by relevant specialists of RKAS (in cooperation with risk manager), whose achievement of goals is affected by that risk (risk holders), the assessments are then reviewed by the management in the course of periodic reporting. Risk manager updates risk register and controls the performance of alleviation of conditional and critical risks. Summary of the assessment of updated risks in the risk register is submitted to the management bodies of RKAS for approval once a year.

Significant activities in risk management in 2019 included the following:

### 1. Functioning ISO quality and environmental management process

Three ISO quality management audits were performed in 2019 and supervision audits of ISO 9001:2015 quality management and ISO 14001:2015 environmental management certification issued to the company. All the above audits confirmed the compliance of RKAS management systems with established rules, which assures both company's management bodies and stakeholders that RKAS is committed to ensuring sustainable business operations and adheres to the regulations concerning environment.

### 2. Regular internal audits

Contractual internal auditor PricewaterhouseCoopers Advisors AS performed the compliance audits regarding RKAS development activities, assessment of upkeep supervision and the management of development projects co-financed by EU. The company has prepared detailed

action plans for eliminating the bottlenecks regarding the observations made by the auditors.

### 3. Updating of RKAS processes

RKAS continued to update all its processes, based on its new structure and principles of process description.

### 4. Information security

In 2019, we completed several IT solutions, which facilitate coherent and secure handling of information when exchanging information with colleagues and customers.

### 5. Coherent action plans

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

### 6. Measures for prevention of corruption

In 2019, RKAS renewed its internal procedures for measures of avoidance of the conflict of interests and prevention of corruption.

- Ethical code of employees;
- Hotline;
- Procedure for declaring business interests and prevention of conflict of interest.

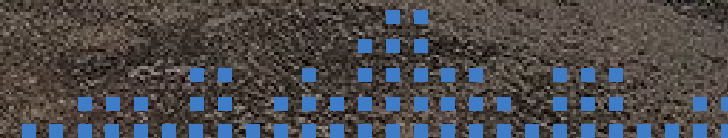
The procedure for declaring business interests and prevention of conflict of interest specifies general principles set out in the code of ethics and determines particular tasks of every employee in the event of a conflict of interest, incl. the terms for accepting gifts and refusing from services. It also determines the circle of persons who are required to submit, at least once a year, a declaration of personal interest. In 2019, such declarations were audited in case of 176 employees of RKAS. In addition to the information contained in the declaration of interest, RKAS is subject to permanent auditing, which involves assessment of potential risk of fraud, incl. conflict of interest. In 2019, there were no potential conflict of interest or suspicion of corruption detected among RKAS employees.

## Prevention of corruption

RKAS adheres to 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 – this is also defined in the principles of corruption prevention approved by the supervisory board of RKAS.

The measures for ensuring compliance with the principles of corruption prevention in RKAS are listed below:

# Annual accounts



## Consolidated balance sheet

(in thousands of euros)

	31.12.2019	31.12.2018	Note
Assets			
Current assets			
Cash	63 980	22 609	
Receivables and prepayments	13 339	7 829	
Inventories	10 278	24 611	3
<b>Total current assets</b>	<b>87 597</b>	<b>55 049</b>	
Fixed assets			
Receivables and prepayments	2 199	8 754	2
Investment properties	12 949	6 004	5
Tangible assets	538 885	537 216	6
Intangible assets	2 110	2 063	7
<b>Total fixed assets</b>	<b>556 143</b>	<b>554 037</b>	
<b>Total assets</b>	<b>643 740</b>	<b>609 086</b>	
Liabilities and owner's equity			
Liabilities			
Current liabilities			
Loan liabilities	6 369	6 347	10
Debts and prepayments	22 542	21 609	11
<b>Total current liabilities</b>	<b>28 911</b>	<b>27 956</b>	

	31.12.2019	31.12.2018	Note
Long-term liabilities			
Loan liabilities	122 158	128 535	10
Debts and prepayments	48 010	44 460	11
<b>Total long-term liabilities</b>	<b>170 168</b>	<b>172 995</b>	
<b>Total liabilities</b>	<b>199 079</b>	<b>200 951</b>	
Owner's equity			
Owner's equity of shareholders or partners of parent undertaking			
Share capital in nominal value	237 208	226 629	13
Non-registered share capital	239	9 299	
Share premium	2	1	
Legal reserve	6 094	5 251	
Retained profit (loss)	165 933	150 091	
Profit (loss) for financial year	35 185	16 864	
<b>Total owner's equity of shareholders or partners of parent undertaking</b>	<b>444 661</b>	<b>408 135</b>	
<b>Total owner's equity</b>	<b>444 661</b>	<b>408 135</b>	
<b>Total liabilities and owner's equity</b>	<b>643 740</b>	<b>609 086</b>	

## Consolidated income statement

(in thousands of euros)

	2019	2018	Note
Sales revenue	136 234	106 479	14
Cost of products (goods, services)	-97 113	-82 523	16
<b>Gross profit (loss)</b>	<b>39 121</b>	<b>23 956</b>	
Marketing costs	-1 204	-1 540	17
General administrative expenses	-4 063	-4 127	18
Other operating revenue	2 797	42	15
Other operating charges	-389	-363	
<b>Operating profit (loss)</b>	<b>36 262</b>	<b>17 968</b>	
Other financial income and expenses	-1 077	-1 104	20
<b>Profit (loss) before income tax</b>	<b>35 185</b>	<b>16 864</b>	
<b>Profit (loss) for financial year</b>	<b>35 185</b>	<b>16 864</b>	
Including:			
Share of profit (loss) of shareholders/ partners of parent undertaking	35 185	16 864	



## Consolidated cash flow statement

(in thousands of euros)

	2019	2018	Note
Cash flows from operating activities			
Operating profit (loss)	36 262	17 968	
Adjustments			
Depreciation and impairment of fixed assets	26 200	20 770	5, 6, 7
Other adjustments	-2 298	653	
<b>Total adjustments</b>	<b>23 902</b>	<b>21 423</b>	
Change in operating claims and prepayments	3 609	13 933	
Change in inventories	11 380	3 285	
Change in operating liabilities and prepayments	3 949	11 038	
Received from target financing	38	0	
<b>Total cash flow from operating activities</b>	<b>79 140</b>	<b>67 647</b>	
Cash flows from investing activities			
Paid upon acquisition of tangible and intangible assets	-30 343	16 864	
Received from the sales of tangible and intangible assets	0	662	
Interest received	19	2	
<b>Total cash flow from investing activities</b>	<b>-30 324</b>	<b>-67 617</b>	
Cash flows from financial activities			
Loans received	0	40 000	10

	2019	2018	Note
Repayments of loans received	-6 330	-51 955	10
Interest paid	-1 115	-1 094	20
<b>Total cash flows from financial activities</b>	<b>-7 445</b>	<b>-13 049</b>	
<b>Total cash flows</b>	<b>41 371</b>	<b>-13 019</b>	
Cash and cash equivalents at the beginning of the period	22 609	35 628	
<b>Change in cash and cash equivalents</b>	<b>41 371</b>	<b>-13 019</b>	
Cash and cash equivalents at the end of the period	63 980	22 609	

## Consolidated statement of changes in owner's equity

(in thousands of euros)

	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)		
31.12.2017	218 334	1 056	1	4 452	151 217	375 060	
Profit (loss) for financial year	0	0	0	0	16 886	16 886	
Share capital issued	10 644	8 243	0	0	0	18 887	
Change in other payments to owners	-2 349	0	0	0	0	-2 349	
Changes in reserve	0	0	0	799	-799	0	
Other changes in owner's equity	0	0	0	0	-327	-327	
31.12.2018	226 629	9 299	1	5 251	166 955	408 135	
Profit (loss) for financial year	0	0	0	0	35 185	35 185	
Share capital issued	10 579	-9 060	1	0	0	1 520	
Changes in reserve	0	0	0	843	843	0	
Other changes in owner's equity	0	0	0	0	-179	-179	
31.12.2019	237 208	239	2	6 094	201 118	444 661	

Additional information concerning the entries of owner's equity is specified in Note no. 13 to the annual accounts.

## Notes to annual accounts

### Note 1. Accounting principles

#### General information

The consolidated annual accounts 2019 of Riigi Kinnisvara AS (abbreviated 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

On 30.11.2018 took place merger of Riigi Kinnisvara AS and OÜ Hooldus Pluss. OÜ Hooldus Pluss was deleted from Commercial Register as at 31.12.2018.

Consolidated accounts in 2018 contained line-by-line consolidated financial indicators of the subsidiary under control of parent undertaking. In 2019, the subsidiary had not effect, as it was merged to the parent undertaking. All in-group receivables and payables, transactions between the companies of the group and unrealised profit and loss from such transactions are fully eliminated.

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 the preparation of consolidated annual accounts, except for investments in subsidiaries and associated undertakings, which are presented at acquisition cost in unconsolidated report (minus write-downs where necessary).

#### Financial assets

The group has the following financial assets: cash, trade receivables and other receivables.

Cash, 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 calculation 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 receivables are recorded if there is objective evidence that not all amounts receivable will be received according to their initial contractual terms. The circumstances that indicate potential impairment of receivables include bankruptcy or substantial financial difficulties of the debtor and failure to comply with payment dates. Impairment of 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. The receivables that are overdue more than 6 months are considered unlikely (i.e. they are recorded as write-down). Receivables can be considered unlikely earlier, if there are other events indicating that the value covered by receivable is lower than book value of the receivable.

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 receivables 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. After receiving the receivables previously written down as unlikely, 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 of the impairment of financial asset or group of financial assets recorded by

using adjusted acquisition cost or acquisition cost method. If such signs are present, the financial assets recorded at adjusted acquisition value are 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 are written down to the amount that could reasonable 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 presented on the balance sheet includes bank balance and short-term deposits.

Cash flow equivalents shown in the cash flow statement are investments with high liquidity, no risk and short term, which can be quickly realised and cashed in.

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

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

All other currencies besides functional currency euro (euro is the functional currency of parent undertaking and subsidiary) are considered foreign currency. Presentation of transactions in foreign currency is based on official exchange rates of the European Central Bank on the transaction date. Monetary assets and liabilities in foreign currency (receivables and loans

paid in money) are converted to functional currency on the basis of the official exchange rates of the European Central Bank as at the balance sheet date. Profit and loss on translation of foreign currencies are recorded in the income statement of the reporting period.

## Inventories

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

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

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

## Investment properties

Investment properties include a real estate objects (land, building) maintained by the group 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 a non-public sector entity 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.

Depreciation is calculated 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 minor 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.

If the purpose of using the property changes so that the object formerly at the disposal of private sector transfers to the disposal of public sector, the asset is reclassified as fixed asset. If a decision has been made about selling the object, the asset is reclassified as inventory. As of the date of change, the object shall be subject to accounting principles applicable to the group of assets where it was 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 and recorded as 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 the 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:

1. it is likely that it will provide the group with future financial gain, and
2. their acquisition cost can be measured on a reliable basis.

Replaced parts are written off the balance sheet. All other expenses are recorded as 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 of taking the asset into use for the purpose intended by the management, and it is no longer depreciated when carrying amount exceeds book value, the asset is removed from use, or upon reclassification into inventories.

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 in future;
- 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 registered immovables owned by the group, tangible assets include fixed assets used based on the contract for right of superficies. Group renovated the buildings on the registered immovables used based on the contract for right of superficies and records them as fixed assets until the expiry of the contract. Accounting principle is identical to the accounting principle used by the group for tangible assets.

### **Registered payments for the 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 right of superficies.

Intangible assets are at first registered at acquisition cost, consisting of

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

#### **Impairment of assets in case of fixed assets required for provision of public service**

According to the public sector financial accounting and reporting guidelines, the value of assets is not tested and 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, i.e. 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 using the asset and from the sales thereof, using expected profitability of investments with similar risk level as the discount rate. Assets that have been written down once are 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 assets is increased to the amount that would have been achieved in view of normal depreciation during the period. Reversal

of write-downs 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 with regard to the liability is always the same. 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 principle repayments of financial lease and financial income. Financial income is divided over the lease period so that lessor's rate of return is always the same with regard to net investment made in financial lease. Direct expenses incidental to the entry into lease contracts (commission fees and notary fees) that are incurred by the lessor are taken into account when calculating effective interest rate of lease and receivable financial lease, and are recorded as reduction in revenue during the lease period.

Assets leased under operating lease are 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 are 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 costs of short-term financial obligations generally equal 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 is 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 12 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 the balance sheet date but refinanced as long-term after the balance sheet date and before approval of annual report, are recorded as short-term. Additionally, revocable loan liabilities on the balance sheet date due to violation of provisions established in loan contract are 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 manage-



ment 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 the annual accounts.

## Revenues

Revenue from sales of assets and goods is recorded at fair value of the payment received or to be received, considering all discounts and benefits. The revenues from sales of assets are recorded as of the moment when significant ownership-related risks have been transferred from the seller to the purchaser, sales revenue and transaction related expenses can be evaluated on 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.

## Tulud

Tulu varade ja kaupade müügist kajastatakse saadud või saadaoleva tasu õiglasel väärtuses, võttes arvesse kõiki tehtud allahindlusi ja soodustusi. Tulu varade müügist kajastatakse siis, kui kõik olulised omandiga seotud riskid on läinud üle müüjalt ostjale, müügitulu ja tehinguga seotud kulu on usaldusväärselt määratav ning tehingust saadava tasu laekumine on tõenäoline.

Tulu teenuse müügist kajastatakse teenuse osutamise järel või juhul, kui teenus osutatakse pikema ajaperioodi jooksul, siis vaheaktide alusel.

Intressitulu kajastatakse siis, kui tulu laekumine on tõenäoline ja tulu suurust on võimalik usaldusväärselt hinnata. Intressitulu kajastatakse, kasutades vara sisemist intressimäära, välja arvatud juhtudel, kui intressi laekumine on ebakindel. Sellistel juhtudel arvestatakse intressitulu kassapõhiselt.

Kapitalirendilepingute intressitulu kajastatakse müügituludes.

## Taxation

Pursuant to the Income Tax Act currently valid in Estonia, the profit of the company is not the object of taxation. 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 a favourable tax rate can be used for dividend payments reaching up to average dividend payments of three preceding financial years, taxed with taxation rate 20/80. The year 2019 is the first year for calculating the average dividend payment of three preceding financial years.

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

## Note 2. Receivables and prepayments

(in thousands of euros)

	31.12.2019	Distribution by remaining period			Note
		Within 12 months	Within 1 - 5 years	More than 5 years	
Trade receivables	9 293	9 293	0	0	
Accounts receivable	9 293	9 293	0	0	
Prepaid and deferred taxes	400	400	0	0	4
Other receivables	3 425	3 425	0	0	
Interest receivable	14	14	0	0	
Accrued income	3 411	3 411	0	0	
Prepayments	126	126	0	0	
Expenditure to be charged	126	126	0	0	
Short-term financial lease	95	95	0	0	8
Long-term financial lease	2 199	0	443	1 756	8
<b>Total receivables and prepayments</b>	<b>15 538</b>	<b>13 339</b>	<b>443</b>	<b>1 756</b>	

	31.12.2018	Distribution by remaining period			Note
		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	8
Long-term financial lease	8 754	0	1 384	7 370	8
<b>Total receivables and prepayments</b>	<b>16 583</b>	<b>7 829</b>	<b>1 384</b>	<b>7 370</b>	

## Note 3. Inventories

(in thousands of euros)

	31.12.2019	31.12.2018
Goods for resale	10 278	24 611
Total inventories	10 278	24 611

In 2019, there were write-downs for 292,000 euros (614,000 in 2018) due to the decrease in net realisation cost of registered immovable held for resale recorded as inventories.

Balance of inventories has decreased mainly due to increase in sales volume in 2019, see also Note no. 16.

## Note 4. Prepaid taxes and taxes payable

(in thousands of euros)

	31.12.2019		31.12.2018	
	Prepayment	Taxes payable	Prepayment	Taxes payable
Corporate income tax	0	3	0	3
Value added tax	356	0	0	741
Personal income tax	0	181	0	192
Social tax	0	319	0	330
Mandatory funded pension	0	16	0	16
Unemployment insurance premium	0	22	0	22
Land tax	0	0	0	-1
Prepaid account balance	44		120	
<b>Total prepaid taxes and taxes payable</b>	<b>400</b>	<b>541</b>	<b>120</b>	<b>1303</b>

See Note no. 2 and Note no. 11.

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. Investment properties

(in thousands of euros)

Acquisition cost method			
	Land	Buildings	Total
31.12.2017			
Acquisition cost	2 847	6 750	9 597
Accumulated depreciation	-415	-1 323	-1 738
Carrying amount	2 432	5 427	7 859
Depreciation cost	0	-236	-236
Reclassification	2	-1 621	-1 619
31.12.2018			
Acquisition cost	2 849	4 988	7 837
Accumulated depreciation	-415	-1 418	-1 833
Carrying amount	2 434	3 570	6 004
Depreciation cost	0	-216	-216
Reclassification	4 924	2 266	7 190
Other changes	0	-29	-29
31.12.2019			
Acquisition cost	7 773	7 832	15 605
Accumulated depreciation	-415	-2 241	-2 656
Carrying amount	7 358	5 591	12 949

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 31.12.2018, there were no investment properties pledged as security of loan obligations on 31.12.2019.

## Note 6. Tangible assets

(in thousands of euros)

	Land	Buildings	Machinery and equipment	Other tangible assets	Unfinished projects	Prepayments	Unfinished projects and prepayments	Total
31.12.2017								
Acquisition cost	37 938	437 760	559	12 896	94 237	875	95 112	584 265
Accumulated depreciation	0	-88 670	-527	-4 513	0	0	0	-93 710
<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	63 272
Purchase of new buildings, new construction, improvements		0			63 113	153	63 266	63 266
Other purchases and improvements			6	0	0	0	0	6
Depreciation cost	0	-18 830	-21	-1 181	-136	0	-136	-20 168
Sales (at carrying value)	0	0	0	-662	0	0	0	0
Reclassification	-3 459	140 144	0	7 544	-151 034	0	-151 034	-6 805
Reclassification from unfinished projects	58	143 378	0	7 544	-150 980	0	-150 980	0
Reclassification as investment properties	430	0	0	0	-11	0	-11	419
Reclassification as inventories	-4 640	-2 541	0	0	-43	0	-43	-7 224
Other reclassification	693	-693	0	0	0	0	0	0
Other changes	470	10 489	-11	120	-44	0	-44	11 024

Tabel jätkub järgmisel leheküljel

	Land	Buildings	Machinery and equipment	Other tangible assets	Unfinished projects	Prepayments	Unfinished projects and prepayments	Total
31.12.2018								
Acquisition cost	34 949	586 214	44	19 110	6 136	1 028	7 164	647 481
Accumulated depreciation	0	-105 321	-38	-4 906	0	0	0	-110 265
<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>
Purchases and improvements	5	0	0	289	29 902	70	29 972	30 266
Purchase of land and other previously used buildings	5	0			0	0		
Other purchases and improvements			0	289	29 902	70	29 972	30 261
Depreciation cost	0	-23 422	-2	-1 827	0	0		-25 251
Write-downs due to impairment of value	0	-140	0	-18	0	0		-158
Reclassification	-1 754	11 453	0	2 214	-15 377	-170	-15 547	-3 634
Reclassification from unfinished projects	44	12 897	0	2 214	-15 055	-100	-15 155	0
Reclassification as investment properties	-2 045	-1 895	0	0	-84	-70	-154	-4 094
Reclassification as inventories	246	452	0	0	-238	0	-238	460
Other reclassifications	1	-1	0	0	0	0	0	0
Other changes	-141	587	0	0	0	0		446
31.12.2019								
Acquisition cost	33 059	592 337	38	21 510	20 661	928	21 589	668 533
Accumulated depreciation	0	-122 966	-34	-6 648	0	0		-129 648
<b>Carrying amount</b>	<b>33 059</b>	<b>469 371</b>	<b>4</b>	<b>14 862</b>	<b>20 661</b>	<b>928</b>	<b>21 589</b>	<b>538 885</b>



## Sold tangible assets at sales price

	31.12.2019	31.12.2018
Other tangible assets	0	662
<b>Total</b>	<b>0</b>	<b>662</b>

In 2019, tangible assets for 670,000 euros were added as non-monetary contribution to share capital (14,382 in 2018) and share capital was decreased by 45,000 euros upon delivery of tangible assets (3,251 in 2018). Roads with the value of 179,000 euros built in the framework of the construction of new Tallinn Prison were delivered to Rae rural municipality for free. Additions and reductions of share capital are recorded under "Other changes".

The largest of unfinished projects with current acquisition cost:

- Construction of common building in Pärnu 5.4 million euros;
- Construction of Tallinn School of Fine Arts 2.4 million euros;
- Reconstruction of Nõmme rescue depot in Tallinn 1.3 million euros;
- Repair works of Tartu Prison 1 million euros.

In 2019, construction works with the value of 2.55 million euros (zero in 2018) were recorded as unfinished projects, relevant revenue was recorded as revenue from target financing of assets with regard to CO2 aid measure for central government buildings (see also Note no. 15).

## Note 7. Intangible assets

(in thousands of euros)

	Computer software	Unfinished projects and prepayments	Total
31.12.2017			
Acquisition cost	2 056	482	2 538
Accumulated depreciation	-1 097	0	-1 097
Carrying amount	959	482	1 441
Purchases and improvements	7	955	962
Depreciation cost	-324	0	-324
Reclassification	1 367	-1 367	0
Other changes	-16	0	-16
31.12.2018			
Acquisition cost	3 134	70	3 204
Accumulated depreciation	-1 141	0	-1 141
Carrying amount	1 993	70	2 063
Purchases and improvements	0	593	593
Depreciation cost	-546	0	-546
Reclassification	663	-663	0
31.12.2019			
Acquisition cost	3 797	0	3 797
Accumulated depreciation	-1 687	0	-1 687
Carrying amount	2 110	0	2 110

## Note 8. Financial lease

(in thousands of euros)

### Reporting entity as lessor

	31.12.2019	Distribution by remaining period			Interest rate	Maturity	Note
		Within 12 months	Within 1–5 years	More than 5 years			
LG schools (option to purchase)	2 083	61	241	1 781	0,427%	11.2038	
Other with option to purchase	211	34	139	38	0,427%	01.2026	
<b>Total financial lease liabilities</b>	<b>2 294</b>	<b>95</b>	<b>380</b>	<b>1 819</b>			<b>2</b>

	31.12.2018	Distribution by remaining period			Interest rate	Maturity	Note
		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%	08.2018 - 11.2038	
Other with option to purchase	245	34	137	74	0,553%	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>

All contracts have been concluded in Estonian kroons.

Decrease in financial lease, compared to the end of 2018, is due to the fact that several objects of financial lease were purchased by local governments in 2019.

## Reporting entity as lessee

	31.12.2019	Distribution by remaining period			Note
		Within 12 months	Within 1–5 years	More than 5 years	
Total financial lease liabilities	437	25	115	297	10

	31.12.2018	Distribution by remaining period			Note
		Within 12 months	Within 1–5 years	More than 5 years	
Total financial lease liabilities	462	24	110	328	10

## Note 9. Operating lease

(in thousands of euros)

### Reporting entity as lessor

	2019	2018
Operating lease revenue	82 788	64 650
Carrying amount of assets leased or rented		
Investment properties	6 896	5 970
Other assets	515 015	518 567
<b>Total</b>	<b>521 911</b>	<b>524 537</b>

Leased land, buildings and other inventory are recorded under "Other assets".

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 6,052 thousand euros (33 thousand euros in 2018) do not earn revenue, because they are not leased and are waiting for new business solutions.

As for investment properties see Note no. 5.

### Reporting entity as lessee

	2019	2018
Operating lease expense	8 021	7 981

In 2019, majority of leased assets consisted in buildings constructed by and leased from private sector, which were then subleased to the customers of the group.

In 2019, the lease revenue from the said buildings amounted to 8,143 thousand euros and lease cost amounted to 7,246 thousand euros (revenue was 8,130 thousand and cost 7,257 thousand euros in 2018).

## Note 10. Loan liabilities

(in thousands of euros)

	31.12.2019	Distribution by remaining period			Note
		Within 12 months	Within 1–5 years	More than 5 years	
Long-term loans					
Total long-term loans	79 590	6 344	25 377	47 869	
Long-term bonds					
<b>Total long-term bonds</b>	<b>48 500</b>	<b>0</b>	<b>48 500</b>	<b>0</b>	
<b>Total financial lease liabilities</b>	<b>437</b>	<b>25</b>	<b>115</b>	<b>297</b>	<b>8</b>
<b>Total loan liabilities</b>	<b>128 527</b>	<b>6 369</b>	<b>25 492</b>	<b>96 666</b>	

	31.12.2018	Distribution by remaining period			Note
		Within 12 months	Within 1–5 years	More than 5 years	
Long-term loans					
Total long-term loans	85 920	6 323	25 314	54 283	
Long-term bonds					
<b>Total long-term bonds</b>	<b>48 500</b>	<b>0</b>	<b>0</b>	<b>48 500</b>	
<b>Total financial lease liabilities</b>	<b>462</b>	<b>24</b>	<b>110</b>	<b>328</b>	<b>8</b>
<b>Total loan liabilities</b>	<b>134 882</b>	<b>6 347</b>	<b>25 424</b>	<b>103 111</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 loan interest rate for 6 months is 0.01-0.68%.

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 35,538 thousand euros.

## Note 11. Debts and prepayments

(in thousands of euros)

	31.12.2019	Distribution by remaining period			Note
		Within 12 months	Within 1–5 years	More than 5 years	
Trade creditors	13 172	13 172			
Employee-related liabilities	598	598			
Taxes payable	541	541			4
Other payables	2 633	2 633			
Interest payable	25	25			
Other accruals	2 608	2 608			
Prepayments received	53 608	5 598	6 832	41 178	
Deferred income	51 896	3 886	6 832	41 178	
Other prepayments received	1 712	1 712			
<b>Total debts and prepayments</b>	<b>70 552</b>	<b>22 542</b>	<b>6 832</b>	<b>41 178</b>	

Debts and prepayments received include security in the sum of 2,597 thousand euros (2,162 thousand euros in 2018) received by RKAS, prepayments made by purchasers in the sum of 2,114 thousand euros (4,562 thousand euros in 2018) and deferred repair liabilities arising from contracts in the sum of 1,773 thousand euros (2,571 thousand euros in 2018). The said obligations are non-interest bearing.

Long-term deferred income includes lease prepaid by the Ministry of Education and Research for the Emajõe Training Centre of Maarjamaa Educational

	31.12.2018	Distribution by remaining period			Note
		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	52 710	8 250	5 516	38 944	
Deferred income	52 710	8 250	5 516	38 944	
Other prepayments received	51 593	7 133	0	0	
<b>Total debts and prepayments</b>	<b>66 069</b>	<b>21 609</b>	<b>5 516</b>	<b>38 944</b>	

College in the sum of 4,681 thousand euros (4,869 thousand euros in 2018) and prepaid lease for the Estonian National Museum in the sum of 38,332 thousand euros (34,477 thousand euros in 2018).

Long-term deferred income includes the fee received from the sales of the right of superficies of Suur-Ameerika 1, which will be recorded as revenue over 50 years. Balance of the liability is 4,997 thousand euros (5,111 thousand euros in 2018).

## Note 12. Contingent liabilities and assets

(in thousands of euros)

### Contingent investment liabilities

As at 31.12.2019, RKAS had investment liabilities (liabilities, the performance of which is estimated as essentially necessary) in the total sum of ca 131.6 million euros (86 million euros in 2018). Ca 23.8 million of that sum consists in future repair liabilities arising from valid lease contracts. The largest investment liabilities related to development projects are (in million euros):

Tallinn Music and Ballet School	36,6
Common building of police and rescue board in Pärnu	18,8
Administrative and laboratory building of the Agricultural Research Centre at Teaduse 4/6 in Saku	6,6
Rapla state house	4,6
R2 project	4,5
Valga state house	4,4
Valga police building	3,1
Common building of police and rescue board in Sillamäe	3,0
Building of the Agricultural Board at Teaduse 2 in Saku	2,8
Office building at Riia 15 in Tartu	2,5
Lilleküla rescue depot	2,5

The greatest volume of investment liabilities is linked to the Ministry of Education and Research, in the form of intended investment of 36.6 million euros (starting in 2020) in the construction of the building of Tallinn Music and Ballet School under its governance. This is followed by the Ministry of Internal Affairs with 29.6 million euros, state houses with 16 million euros and the objects of the Ministry of Rural Affairs with 11.4 million euros. Additionally,

estimated contingent liabilities related to repairs arising from existing lease contracts are 23.8 million euros.

Certain investment liabilities (except for future repair liabilities) are expected to be realised at the following pace (in million euros):

2020 – 53.6

2021 – 41.8

2022 – 12.4

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

In the longer perspective, one third of investments will be financed from own funds and two thirds of investments from external funds. In 2020-2022, investments in the amount of 18 million euros will be financed under the measure “Promotion of energy efficiency and use of renewable energy in public sector buildings”.

We also note that 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 13. Share capital

(in thousands of euros)

	31.12.2019	31.12.2018
Share capital	237 208	226 629
Number of shares	2 372 083	2 266 290
Nominal value of shares	100	100

### Nominal value of shares

- 90,601 new shares, all issued and entered into the books as unregistered share capital, were registered in Commercial Register.
- 15,194 new shares, all issued in 2019, were entered into the books and registered in Commercial Register.

For issued and registered shares, non-monetary contributions were made consisting in registered immovables for 1,564 thousand euros, of which registered immovables for 894 thousand euros were recorded as inventories and registered immovables for 670 thousand euros as tangible assets. As a result of cancelling the decision made in previous year, two registered immovables with the value of 44 thousand euros were returned to the state.

The following changes occurred in 2018:

- 10,558 new shares, all issued and entered into the books in 2017, were registered in Commercial Register.
- 41,076 new shares, all issued in 2017, were entered into the books and registered in Commercial Register.
- 54,802 new shares, all issued in 2018, were 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, non-monetary contributions were made consisting in registered immovables for 19,650 thousand euros, of which registered immovables for 5,268 thousand euros were recorded as inventories and registered immovables for 14,382 thousand euros were recorded as tangible assets. As a result of cancelling the decision made in previous year, two registered immovables with the value of 762 thousand euros were returned to the state.

- 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 transferred to the state.

The registered immovables received as non-monetary contribution are entered under the nominal value of share capital 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) on 31 December 2019 was 199,359 thousand (166,112 thousand in 2018) euros. As owners have not been paid dividends in previous years, it involves income tax expense 20/80 on net amount of paid dividends. Thus, it is possible to pay to owners 159,487 thousand euros (132,890 thousand in 2018) from retained profit existing on the balance sheet date and the payment of dividends would involve income tax in the sum of 39,872 thousand euros (33,222 thousand euros in 2018).

## Note 14. Sales revenue

(in thousands of euros)

	2019	2018
Sales revenue broken down by geographical area		
Sales to EU countries		
Estonia	136 234	106 479
<b>Total sales to EU countries</b>	<b>136 234</b>	<b>106 479</b>
Total sales revenue	136 234	106 479
Sales revenue broken down by field of activity		
Income from rent and mediated services	118 027	98 085
Development services	1 027	1 317
Sales of inventories	17 163	6 973
Interest revenue from financial lease contracts	17	104
<b>Total sales revenue</b>	<b>136 234</b>	<b>106 479</b>

## Note 15. Other operating revenue

(in thousands of euros)

	2019	2018	Lisa
Income from target financing	2 550	0	6, 12
Other operating revenue	247	42	
Total other operating revenue	2 797	42	

Target financing consisted in CO<sup>2</sup> aid measure for central government buildings.

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

(in thousands of euros)

	2019	2018	Note
Real estate purchased for resale	11 381	3 331	
Expenses related to management activities:			
Management service	414	611	
Utility services	5 609	4 341	
Upkeep	11 959	10 638	
Construction and repair works	6 976	7 076	
Owner's duties	581	440	
Electricity	12 346	13 484	
Heating (thermal energy)	5 520	5 449	
Water and sewerage	1 757	1 832	
Support services	2 248	1 762	
Rental cost	7 246	7 257	
Depreciation of managed objects	25 599	20 338	5, 6, 7
Wages and social tax	4 519	4 369	19
Capitalised labour costs	-165	-61	
Other expenses	273	307	
Expenses of development services:			
Expenses of development projects	264	726	
Wages and social tax	537	556	
Other expenses	49	67	
Total cost of sold products (goods, services)	97 113	82 523	

## Note 17. Marketing expenses

(in thousands of euros)

	2019	2018	note
Bought-in services	164	437	
Wages and social tax	1 773	1 703	19
Capitalised labour costs	-821	-682	
Other expenses	88	82	
Total marketing expenses	1 204	1 540	

## Note 18. General administration expenses

(in thousands of euros)

	2019	2018	Note
Wages and social tax	2 089	2 293	19
Depreciation of office fixed assets	601	432	5,6,7
Rent and other office expenses	434	456	
IT costs	331	277	
Other staff costs	163	157	
Other costs	445	512	
Total general administrative expenses	4 063	4 127	

## Note 19. Staff costs

(in thousands of euros)

	2019	2018	Note
Wages and salaries	6 828	6 841	
Social tax	2 231	2 235	
Total staff costs	9 059	9 076	16-18
Full-time equivalent of average number of employees	219	250	
Average number of employees by types of employment:			
Person employed under the employment contract	211	242	
Person who provides service under the contract under the law of obligations, except for sole proprietor	6	9	
Member of the management or control body of a legal person	9	8	

## Note 20. Other financial revenue and expenses

(in thousands of euros)

	<b>2019</b>	<b>2018</b>
Financial revenue	33	2
Interest revenue	-1 110	-1 106
Total other financial income and expenses	-1 077	-1 104



## Note 21. Related parties

(in thousands of euros)

### Balance with related parties by groups

	31.12.2019		31.12.2018	
	Receivables	Liabilities	Receivables	Liabilities
Close family members of executive and top management and significant private shareholders and undertakings under their dominant or significant control	0	0	0	28

### Purchases and sales of goods and services

	2019		2018	
	Purchases of goods and services	Sales of goods and services	Purchases of goods and services	Sales of goods and services
Executive and top management and significant private shareholders and undertakings under their dominant or significant control	0	0	3	0
Close family members of executive and top management and significant private shareholders and undertakings under their dominant or significant control	0	0	253	0

Remuneration and other significant benefits calculated for executive and top management

	2019	2018
Calculated remuneration	290	365

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.

The report of Riigi Kinnisvara AS, as a state accounting entity, does not disclose transactions with other state accounting entities, local government units and persons in public law, unless so required in the legislation or rules governing the activities of relevant entity.

The members of the management board of Riigi Kinnisvara AS are entitled to severance payment if the member of the management board is removed on the initiative of the supervisory board before expiry of office of the member of the management board. As at 31.12.2019, potential severance payment amounted to 42 thousand euros (44 thousand euros on 31.12.2018).

Similar to 2018, no write-downs have been formed regarding the claims against related parties in 2019.

## Note 22. Events after the report date

At the time of preparing the report, the company has issued and registered in commercial register shares with value of 2,000 euros. Thus, the share capital of the group in nominal value has increased to 237,210 thousand euros.

Registered immovable received by non-monetary contribution was recorded as investment property.

### Impact of COVID-19 on Riigi Kinnisvara

In early 2020 was confirmed the existence of new coronavirus (SARS-CoV-2), which has spread across the world, including to Estonia. In order to prevent the spread of coronavirus in Estonia, the Government of the Republic announced a state of emergency on 12 March. Global spread of the virus and measure to control it have affected the economic environment to great extent. The company considers the outbreak caused by the virus (COVID-19) as a non-adjusting event after the balance sheet date.

On company level, we have established internal emergency steering group, consisting of the members of the board and the heads of crucial departments. Main purpose of the steering group is to ensure free flow of information and prompt problem-solving. The steering group laid out potential risks and measures to control them or minimise possible damage. The steering group prepared the principles and plan of communication in the state of emergency and informed all target groups (customers, cooperation partners, employees) of the operation of the company during the state of emergency. Remote working is applied where possible, meetings within the company and with customers are held via video or telephone conference if possible, and construction meetings also in open air.

At the moment of preparing the report, realised risk consists in the ability of private sector customers to pay amounts arising from the lease contract. This concerns primarily catering, trade and training undertakings who are forced to reduce or suspend business operations due to lack of clientele caused by restrictions of movement. In order to prevent cancellation of lease contracts by private sector customers and ensure functioning lease relationship in longer perspective, we have partially reduced the lease payments of private sector customers for the period of the state of emergency 16.03.-30.04. (inclusive): upon relevant request of the private sector client and where justified, we suspended lease payment for that period in terms of net lease, management service and repair works, i.e. invoices are issued only for lease and ancillary services. Meanwhile, the share of lease received from private sector customers is less than 5% of total income from lease, and thus, such risk and measures individually have no significant impact on company's cash flow.

Another risk realised in the state of emergency is the suspension of the sales of unnecessary real estate. This is primarily due to the fact that it is not possible to provide the customers with in-situ examination of the object on sale, but also due to remarkable decrease in certainty and financial capacity of purchasers. However, significant part of the sales of unnecessary real estate planned for 2020 have already been completed.

During the time of preparing this report, the partners providing property maintenance services have confirmed their capacity to provide services, but as the crisis progresses and the measures of the state of emergency become stricter (e.g. extensive restrictions on mobility) there may arise failures in provision of services. This involves certain economic impact, but most of the services can be mediated and thus the reduction in cost and revenue will be of the same magnitude. As for real estate development projects, there may occur issues with supply of equipment or construction materials, but in general, the partners expect increased number of orders from public sector.

Impact on project deadlines may increase in case of stricter measures of the state of emergency (e.g. extensive restrictions on mobility).

Risk of illness of employees has not realised at the time of preparing the report. There are plans regarding temporary replacement of employees to cover lack of staff during illness and to continue provision of services.

At the time of preparing the report, it is difficult to estimate total time-related and economic impact of the state of emergency and resulting standstill. It is also impossible to estimate the measures applied in the government sector, but we have analysed various in-house scenarios.

Company's customers consist mainly in state agencies and other government sector units, but the company is 100% owned by the Republic of Estonia, meaning that according to the opinion of the management board, any future decisions made by the owner will consider the needs of the state and state agencies, as well as the need to ensure company's sustainability. Financial status of the company is currently strong, and liquidity provided.

In our opinion, the company is able to perform its obligations under changed circumstances, but we will monitor any further changes and ensure prompt response.

## Note 23. Unconsolidated balance sheet

(in thousands of euros)

	31.12.2019	31.12.2018
Assets		
Current assets		
Cash	63 980	22 609
Receivables and prepayments	13 339	7 829
ries	10 278	24 611
<b>Total current assets</b>	<b>87 597</b>	<b>55 049</b>
Fixed assets		
Receivables and prepayments Investment properties	2 199	8 754
Tangible assets	12 949	6 004
Intangible assets	538 885	537 216
Total fixed assets	2 110	2 063
<b>Total assets</b>	<b>556 143</b>	<b>554 037</b>
<b>Liabilities and owner's equity</b>	<b>643 740</b>	<b>609 086</b>
Current liabilities		
Loan liabilities		
Debts and prepayments		
Total current liabilities	6 369	6 347
Võlad ja ettemaksed	22 542	21 609
<b>Kokku lühiajalised kohustised</b>	<b>28 911</b>	<b>27 956</b>

	31.12.2019	31.12.2018
Long-term liabilities		
Loan liabilities	122 158	128 535
Debts and prepayments	48 010	44 458
Target financing	0	2
Total long-term liabilities	170 168	172 995
Total liabilities	199 079	200 951
Owner's equity		
Share capital in nominal value Unregistered share capital	237 208	226 629
Share premium	239	9 299
Legal reserve	2	1
Retained profit (loss)	6 094	5 251
Profit (loss) for financial year Total owner's equity	165 933	150 182
Total liabilities and owner's equity	35 185	16 773
<b>Kokku omakapital</b>	<b>444 661</b>	<b>408 135</b>
<b>Kokku kohustised ja omakapital</b>	<b>643 740</b>	<b>609 086</b>

## Note 24. Unconsolidated income statement

(in thousands of euros)

	2019	2018
Sales revenue	136 234	106 486
Cost of sold products (goods, services)	-97 113	-82 671
Gross profit (loss)	39 121	23 815
Marketing expenses	-1 204	-1 540
General administrative expenses	-4 063	-4 108
Other operating revenue	2 797	73
Other operating expenses	-389	-363
Total operating profit (loss)	36 262	17 877
Other financial income and expenses	-1 077	-1 104
Profit (loss) before income tax	35 185	16 773
Profit (loss) for financial year	35 185	16 773

## Note 25. Unconsolidated cash flow statement

(in thousands of euros)

	2019	2018
Cash flow from operating activities		
Operating profit (loss)	36 262	17 877
Adjustments		
Depreciation and impairment of fixed assets	26 200	20 770
Other adjustments	-2 298	653
<b>Total adjustments</b>	<b>23 902</b>	<b>21 423</b>
Change in operating claims and prepayments	3 609	14 223
Change in inventories	11 380	3 285
Change in operating liabilities and prepayments	3 949	10 730
Received from target financing	38	0
<b>Total cash flow from operating activities</b>	<b>79 140</b>	<b>67 538</b>
Cash flow from investing activities		
Paid upon acquisition of tangible and intangible assets	-30 343	-68 259
Received from sales of tangible and intangible assets	0	662
Interest received	19	2
Other cash flow received from investment activities	0	832
<b>Total cash flow from investing activities</b>	<b>-30 324</b>	<b>-66 763</b>

	2019	2018
Cash flow from financial activities		
Loans received	0	40 000
Repayments of loans received	-6 330	-51 955
Interest paid	-1 115	-1 093
<b>Total cash flow from financial activities</b>	<b>-7 445</b>	<b>-13 048</b>
<b>Total cash flow</b>	<b>41 371</b>	<b>-12 273</b>
Cash and cash equivalents at the beginning of the period	22 609	34 882
<b>Change in cash and cash equivalents</b>	<b>41 371</b>	<b>-12 273</b>
Cash and cash equivalents at the end of the period	63 980	22 609

## 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
31.12.2017	218 334	1 056	1	4 451	150 346	374 188
Profit (loss) for financial year				1	16 773	16 774
Issued share capital	10 644	8 243				18 887
Change in other payments to owner	-2 349					-2 349
Change in reserve				799	-799	0
Other changes in owner's equity					635	635
31.12.2018	226 629	9 299	1	5 251	166 955	408 135
Profit (loss) for financial year	0	0	0	0	35 185	35 185
Issued share capital	10 579	-9 060	1	0	0	1 520
Change in reserve	0	0	0	843	-843	0
Other changes in owner's equity	0	0	0	0	-179	-179
31.12.2019	237 208	239	2	6 094	201 118	444 661

## Independent sworn auditor' report

To the shareholder 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Estonian financial reporting standard.

### Scope of audit

The consolidated annual accounts of the Group contains:

- Consolidated balance sheet on 31 December 2019;
- 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 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.

Independence. 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. Other information comprises management report (but does not comprise consolidated annual accounts and our sworn 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 indicate this fact in the report. 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 ISA 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, intentional failure to act, 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 the Group's internal control;
- assess the appropriateness of used accounting principles and 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.



Janno Hermanson  
Sworn auditor, licence no. 570

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3. April 2020

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