



SUSTAINABILITY
REPORT 2016



Overview of the Company

G4-7

Riigi Kinnisvara AS (RKAS) is an enterprise active in property development and administration which was established in 2001 and whose shares are owned by the Republic of Estonia. RKAS operates as a centre of excellence and its main customers include public authorities to which the company provides administrative, development and advisory services. The RKAS group also includes the subsidiary OÜ Hooldus Pluss, which provides facility management services.

The main function of RKAS is to develop and manage the property taken over from the state more transparently and efficiently, and to transfer property not necessary for governance.



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PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS IN 2016:

Number of immovable properties

912

Closed net area of buildings in portfolio

1,202,013 m²

Return on asset portfolio

6.7%

Vacancy rates across portfolio

31%

Number of employees at end of year

237

Number of immovable properties sold during year

110

Number of immovable properties taken over during year

321

Sales revenue

90.1 million euros

Operating profit

16.3 million euros

ADDRESS OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Significant times and significant sites

G4-1

Dear reader,

The 2016 report of Riigi Kinnisvara AS introduces several significant changes in our work and the year will certainly go down in our history with the completion of a significant site.

RKAS was established in 2001 in order to take over the property activities of government authorities and agencies so they would be able to use their time and energy for governance and public administration. Transferring to market-based price levels in the organisation of the state's property matters was an important change. The purpose of this was to implement the evaluation of replacement expenses and the actual expenses of the property environment in thinking and management models in order to make the planning of sustainable expenses possible in the otherwise cash-based accounting system of the state.

In 2016 we came to the understanding that the portfolio of Riigi Kinnisvara is and will always be far from the actual

market comparison because of the large share of special-purpose properties. In cooperation with the support services of the state, we have found a better way to implement accounting solutions that guarantee sustainability in management accounting, and the transfer to cost-based lease relationships that take account of life cycle expenses started in late 2016. Another change made in late 2016 concerns the recognition of the RKAS portfolio, whereby sites previously recognised via capital lease were transferred to owned property. This change had a significant impact on the numeric side of the annual report of RKAS.

2016 was a year of strategic choices for RKAS. The entire strategy was updated, and achieving great efficiency through a clearer and narrower focus became its emphasis. A square metre given on rent is now defined as the main service and the other products and services must guarantee that this square metre is optimal and supports the activities of the lessee as a property environment. The focus is still on value-based procurements, model design and energy efficiency. The composition of the management board also changed. As a logical follow-up to the competition for

a new chairman of the management board in late 2015, the supervisory board also organised a competition for the other members of the management board and elected the members for the next three-year period in April 2016.

The annual statement reflects the sustainability and strength of RKAS. The constant increase in equity capital caused by the specific features of activities also continued in 2016, in terms of both take-over of public sector property and profit in the amount of 13.4 million euros, which exceeded all expectations. Sales revenue increased to a record-high 90 million euros; the expanding of combined procurements of energy vectors also played a role in this, for they enabled the public sector to satisfy energy needs in a more sustainable way. Selling property not needed by the government sector also contributed to this, even if the sale of the important Patarei Sea Fortress had to be postponed due to planning disputes.

The launch of the Estonian National Museum, which is certainly the most significant site of the era, was the most anticipated even of the year. Although the ENM opened

its doors to the public on 30 September 2016, its building had already received international recognition at the Venice Architecture Biennale. Other memorable events in 2016 were the construction of the extension of the Puppet Theatre, the opening of the renovated building of the National Audit Office, the opening of several schools and the construction of the Piusa border guard station, which is an important internal security site. The new building of the National Archives in Tartu was also completed. Although the opening ceremony was postponed until 2017, the archival documents were moved there in 2016.

The expectations of government authorities regarding RKAS are likely to change in 2017. The first wave of the state reform is expected to bring changes due to the takeover of the functions of the disappearing county governments as well as the continuing pressure on government authorities to consolidate and leave Tallinn. 0.75 million square metres of the premises required by the state are already administrated by RKAS on a daily basis and there is no doubt that this presents a challenge to RKAS is guaranteeing the needs arising from reforms.

The company's volumes and new challenges constantly require the streamlining and automation of services, products and processes to ensure that the growth of efficiency is not sacrificed to the needs of clients. In order to keep up with the expectations of customers, we will re-



organise our communication with customers in 2017 by making the movement of information more efficient. We have also started working on a service packaging project to make choosing easier for customers.

The celebrations of the 100th anniversary of the Republic of Estonia will culminate in 2018, which means that it is time for final preparations. The organisation of property

management and renovation in RKAS must guarantee that there will be no shabby buildings or untidy courtyards on the 100th anniversary of the state.

Our goals are ambitious, but there is no other way for RKAS.

Urmas Somelar
Chairman of the Management Board

STRATEGY

Strategy of the state's real estate activity

The strategy of the state's real estate activity (Ministry of Finance, 2007¹) sets out four main objectives.

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

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

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

Main objective IV: to ensure the comprehensive and coordinated management of the development, admin-

istration and maintenance activity of real estate required to perform public functions, the creation of the essential organisational foundations, legal regulations and information systems and a motivation mechanism.

The sole shareholder set the following goals for RKAS in 2016:

1. to be a centre of excellence for the provision of a property environment and services to state agencies;
2. to centralise and optimise the property used by the state and its expenses;
3. to develop the company and the state's real estate competence by being a strategic partner to the Ministry of Finance;
4. to cooperate with the private sector in order to guarantee the best solutions for state agencies in market competition.

The general strategy of the state's real estate activities

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

The activities of RKAS depend largely on how quickly the state delivers its real estate. RKAS estimates that the optimal volume of building delivery is 200,000 m² per year and that if this pace is maintained, state buildings could be delivered to RKAS by the end of 2020. However, the volumes of real estate delivered have been smaller than expected over the years:

- 97,704 m² of required premises and 51,750 m² of non-required premises were delivered to RKAS in 2013;
- 61,544 m² of required premises and 33,038 m² of non-required premises in 2014;
- 34,000 m² of required premises and 23,800 m² of non-required premises in 2015;
- 44,200 m² of required premises and 36,400 m² of non-required premises in 2016.

¹ Available in full at: goo.gl/V7P7em

Strategy of RKAS

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

- to maintain and save more on maintenance due to the scale effect with continuing centralisation and efficient organisation of work;
- to maintain and develop competencies for the optimisation of the real estate used by the state by both area of administration and geographic location;
- to complete describing leased premises as the core service of RKAS; to create packages of services and products that consider the duties and functions of state agencies alongside a transparent and understandable pricing model;
- to guarantee readiness for developing the property environment according to dynamic requirements, incl. by considering the present-day aspects of energy efficiency², environmental sustainability and user-friendliness.

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

Vision and mission

G4-56

Vision

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

Mission

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

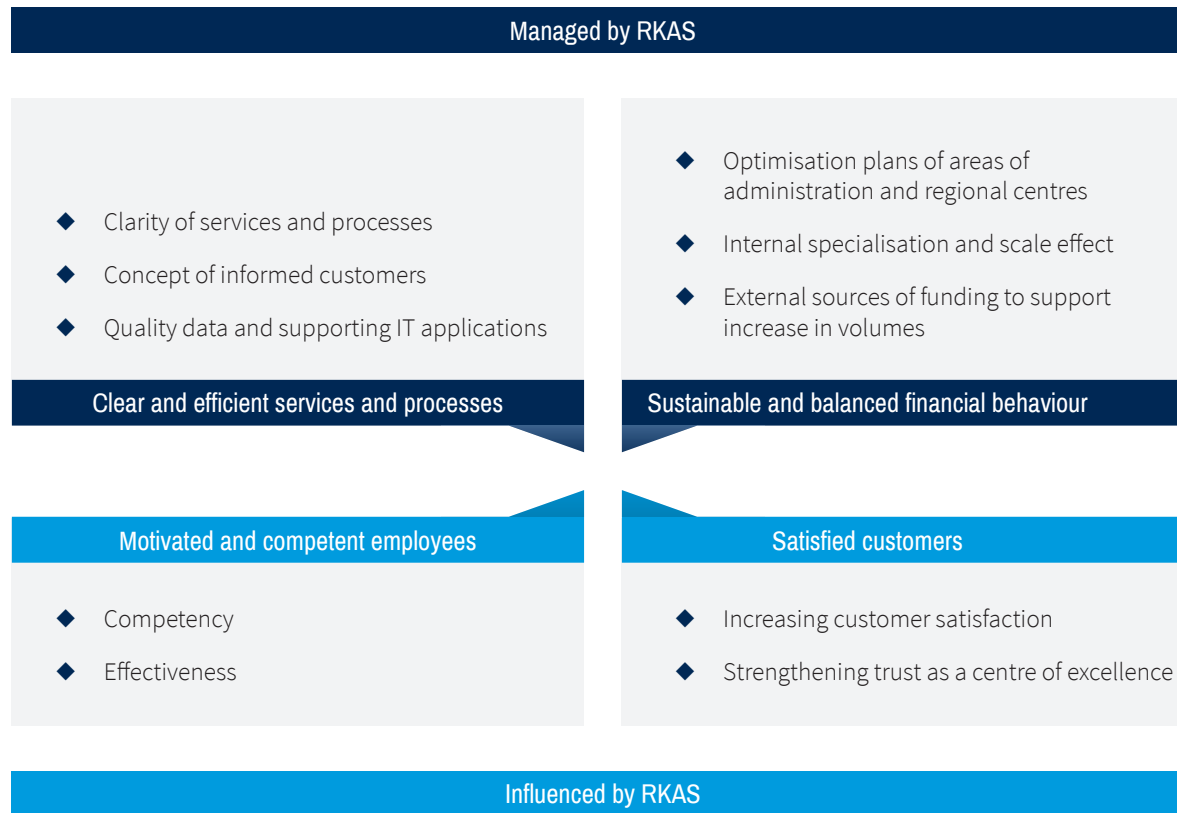
Service and process-based organisation

Further growth and changes in business volumes have created a need to increase internal efficiency in a manner that does not reduce internal cohesion or distance the company from the customer. This means the following for RKAS:

- describing and implementing levels of standardised service and product packages which would allow the company to consider the specific features arising from the customer's area of activity, location and other factors, and to offer them flexible and rational solutions;
- to continue providing customers who differ from others with representation functions or security requirements with the opportunity to obtain additional or different services according to their actual needs and possibilities;
- internal specialisation, primarily to guarantee the same quality irrespective of the recipient of the service or the location (leading specialists in different fields, their cooperation with property managers and project managers);
- more accurate identification of competencies, which will make it possible to define the meaning of a centre of excellence more precisely than before and guarantee a qualitative discussion upon sharing risks in procurement and customer relationships;
- the need to develop knowledge of the customer's needs and specific features, and a feedback model that would make it possible to identify objective development opportunities and develop and perfect services as planned.

Main strategic topics

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



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

1. the delivery of real estate to RKAS continues at the pace of 200,000 m² per year;
2. the transfer to market rent (the market level or, in the case of special-purpose properties, the level that considers productivity and renovations) will take place two years after the transfer of the real estate.

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

Systematic communication

The goal of the external communication of RKAS is to support the development of the opinions of target groups and the general public via proactive communication and the systematic and relevant introduction of its activities. The good public reputation of the company supports the implementation of the operating and strategic goals of RKAS.

Image goals of target groups:

- Customers and decision-makers
 - ◆ RKAS is familiar with the latest trends in real estate and the working environment.
 - ◆ RKAS provides the best solutions for the real estate needs of customers.
- General public (ordinary citizens)
 - ◆ RKAS is a professional property management and development company.
 - ◆ RKAS designs public space and is a good landlord.
- Partners (contractors)
 - ◆ RKAS is a smart and demanding customer.
- Students
 - ◆ RKAS supports research and development.

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. A responsible person and deadline is appointed for each action. The priority and success of actions is assessed once a quarter with interim reports. An assessment of whether the strategy is relevant and up-to-date is carried out at least once a year before the drafting of the com-

pany's budget starts. The indicators used to assess the achievement of goals and the relevant technical measuring points are established by the supervisory board of RKAS alongside the budget for the next budgetary year, incl. the numeric values indicating whether the annual goal is deemed to have been achieved or exceeded.

Values

G4-56

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

Competency

- We know our area. We are always prepared to share our knowledge and thoughts. We want to develop and work hard to achieve this.
- We are thorough, committed and determined. We focus on the goal and the solution.
- We can talk about our activities and solutions in simple and comprehensible terms.
- Our activities are transparent.
- We value long-lasting cooperation.

Reliability

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

Empathy

- We recognise the concerns of our partners.
- We are open and respectful to ourselves and to others in our activities.
- We help and support one another, know how to listen and give feedback.
- We are patient and consistent.

Quality indicators

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RKAS has been issued with the ISO 9001:2008 quality management certificate and ISO 14001:2004 environmental management certificate. RKAS is a member of organisations such as the Responsible Business Forum, PuRE-net (the Public Real Estate Network) and the Workplace Network.

The Association of Estonian Facilities Administrators and Maintainers has issued RKAS with a four-star certificate.

ECONOMIC ACTIVITIES

Service portfolio

G4-4; G4-9

Our service portfolio is divided into four groups:

- **administrative portfolio** – properties that belong to RKAS and are covered by lease contracts and in regular use;
- **development portfolio** – built-in or non-built-in immovable properties that are vacant or will be vacant in the short term, but will potentially increase in value through development activity. The development portfolio also includes assets where the development process is ongoing;
- **sales portfolio** – non-required assets whose administration is no longer expedient from the perspective of the state's needs and from which RKAS has decided to withdraw, 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.

The operational role of RKAS in state real estate management has extended compared to its initial objectives of activity, and schools, internal security buildings and other

buildings and facilities intended for special purposes have been included in addition to the administration of mainly office buildings. The Ministry of Defence and the State Forest Management Centre are both separate centres of excellence that manage their properties themselves.

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

The focus in 2016 was on streamlining the classification of the properties belonging to the real estate portfolio of RKAS as well as on the correction and specification of the data of premises in the database. For example, active (leasable) and passive (unleasable) vacancies are now differentiated in the case of vacant premises.

More than 10,000 m² of properties were taken over in 2016 from the Ministry of Rural Affairs, the Ministry of Defence, the Ministry of Finance and the Ministry of Education and Research, and to a lesser extent from other ministries as well. According to the investment plan of organising the school network, RKAS coordinates the development and construction management service and

provides administration service to objects in the area of government of the Ministry of Education and Research.

The largest customers in the administrative portfolio at the end of 2016 were the Ministry of the Interior with 23%, the Ministry of Justice with 17% and the Ministry of Social Affairs with 11%.

A property is measured and its data corrected, if necessary, when it is taken over. Any properties not required by the state are transferred to RKAS at the market value determined by an independent expert, and the properties required by the state on the basis of their book value. Since RKAS is a state-owned company, the future valuation of non-required properties is carried out pursuant to the general rules of state accountancy, and the market value of real estate will not be appraised in the future.

The surface area of buildings in the portfolio is calculated on the basis of the closed net area (CNA), which is the sum of spaces between the finished inner surfaces of peripheral structures of closed rooms, plus the space under non-supporting walls.

As at 31 December 2016, the real estate portfolio owned by RKAS included 912 immovable properties with a total surface area of 9,248,665 m², including 1,280 buildings with a closed net area of 1,202,013 m².



PÕLVA STATE UPPER SECONDARY SCHOOL



Property portfolio	Administrative portfolio		Development portfolio		Sales portfolio		Total property portfolio		Contractual portfolio	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Surface area of registered immovable properties (m ²)	3,956,183	4,365,937	1,101,335	740,821	4,995,060	4,141,907	10,052,178	9,248,665	994,615	1,096,540
Number of registered immovable properties (pcs)	357	599	52	62	274	251	683	912	89	95
Number of buildings (pcs)	627	907	71	92	330	281	1028	1,208	166	173
Closed net area of buildings (m ²)	758,603	872,274	143,773	202,584	123,741	127,155	1,026,117	1,202,013	141,087	160,914
Area of buildings given on rent (m ²)	640,933	701,899	39,441	18,440	10,146	7792	690,520	728,131	-	-
Building space to be leased (m ²)	712,098	764,467	137,437	174,073	119,566	117,409	410,707	1,055,949	-	-
Vacancy (%)	10%	8%	71%	89%	92%	93%	29%	31%	-	-

Most important changes in real estate portfolio of RKAS in 2016:

- The number of immovable properties increased from 683 to 912, i.e. by 33.5%. Compared to the end of 2015, the number of immovable properties grew the most in the administrative portfolio, to which 242 immovable properties were added. The development portfolio grew by 10 immovable properties, while the sales portfolio decreased by 23 immovable properties.
- The vacancy rate of the real estate portfolio remained relatively stable in comparison between the beginning and end of 2016: 29% and 31%, respectively.
- Return on the portfolio was 6.7%, which corresponds to the average return expectation.

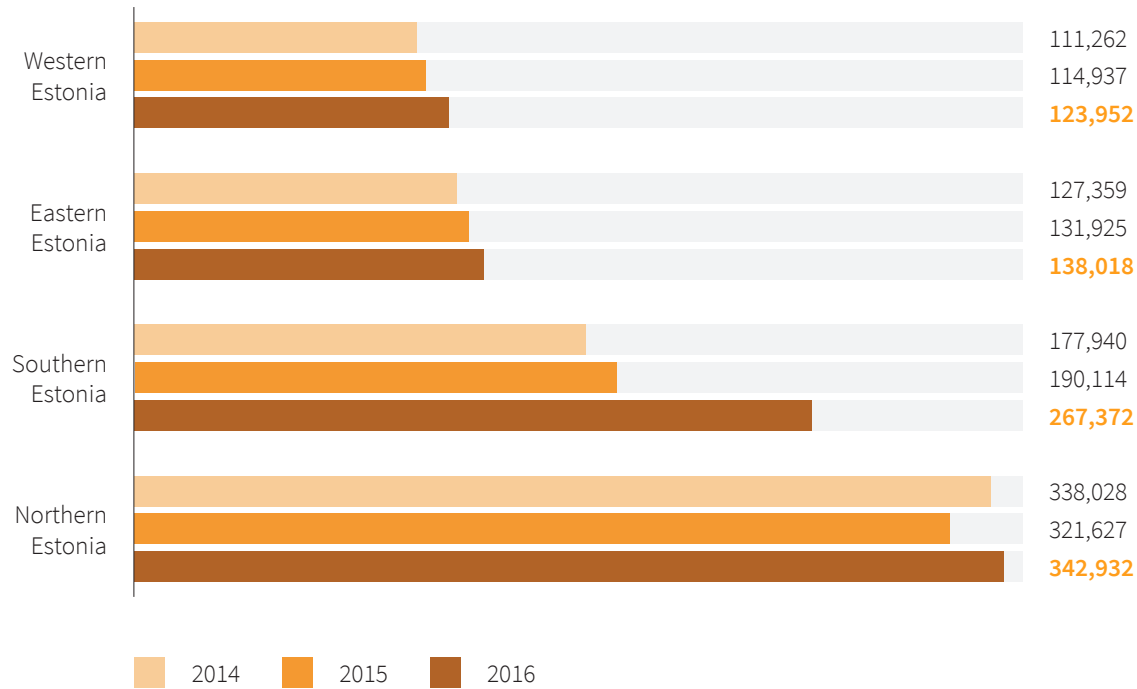
Of the main indicators of the **administrative portfolio**, the closed net area increased by 15% in comparison to 2015, while the number of registered immovable properties grew by as much as 68%. The vacancy rate of the portfolio decreased to 8%.

In the centralisation of properties, exceeding the so-called critical mass made it possible to launch the optimisation of properties as the next stage, in the course of which managers have supported the relocation of institutions and the concentration of public functions to a smaller number of addresses within the units of institutions.

32 registered immovable properties with 49 buildings were removed from the portfolio in 2016, the most important of which were the former building of Tallinn Music School, Harku Women's Prison, the building of the Ministry of Social Affairs on Gonsiori Street and the building of the Estonian National Museum.

274 registered immovable properties with 324 buildings were added to the portfolio, the most important of which were the Estonian Agricultural Museum, the former Tallinn School of Transport and the buildings of the National Archives, Road Administration, Country Government and Veterinary Centres nationwide.

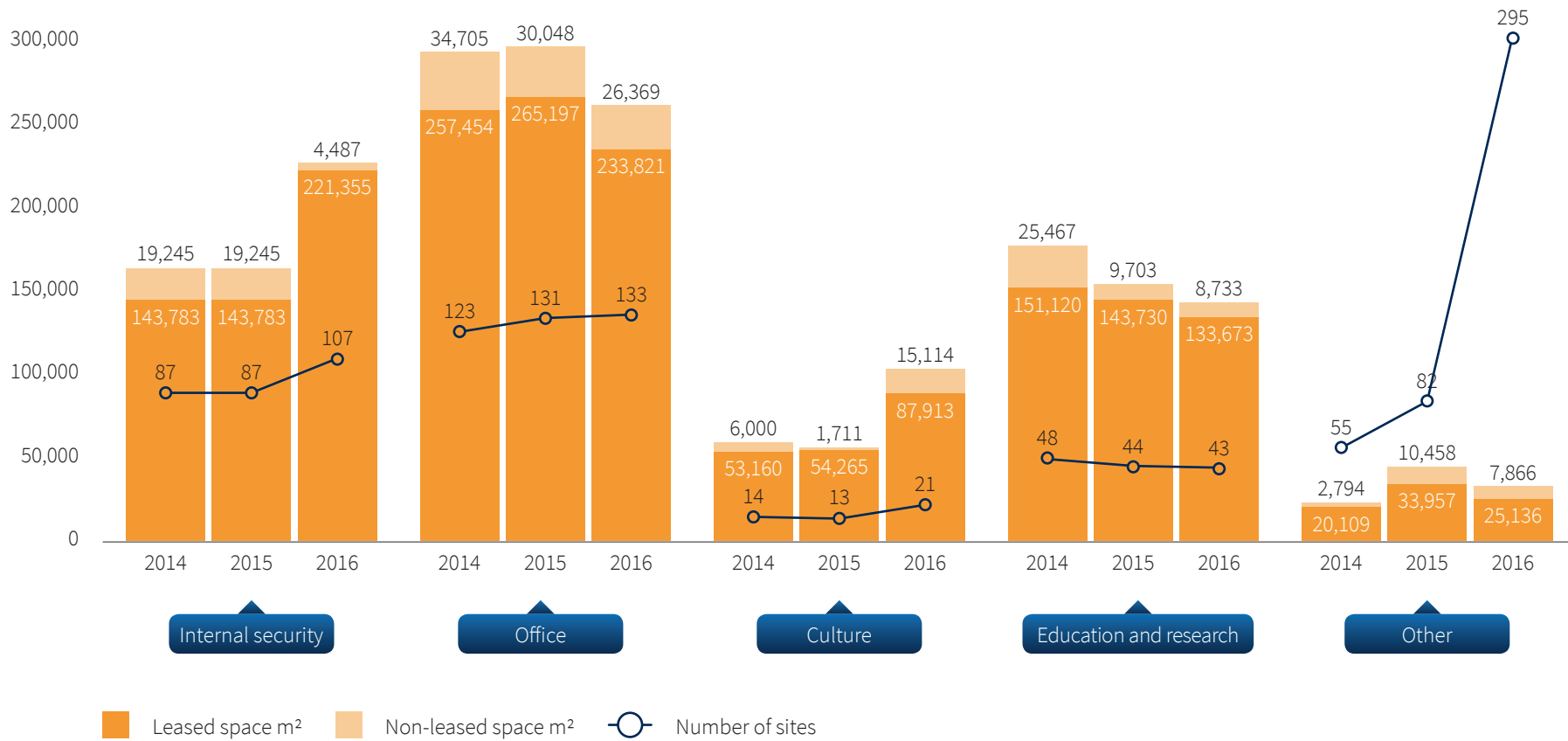
THE CLOSED NET AREA IN THE REGIONAL DIVISION OF THE ADMINISTRATIVE PORTFOLIO IS AS FOLLOWS (m²):



The closed net area of buildings in the administrative portfolio increased by ca 15% in the last year, i.e. by 113,671 m², whilst the vacancy rate decreased from 10% to 8%.

The number of registered immovable properties in the administrative portfolio of RKAS and their closed net area statistics are shown in the following figure:

ADMINISTRATIVE PORTFOLIO 2014-2016



At the end of 2016 the **development portfolio** featured 62 immovable properties, including 37 development projects at different stages, and assets under valorisation with a total closed net area of 202,600 m².

The most important developments completed during the year were the Estonian National Museum, the building of the National Archives, the Piusa border guard station, the NUKU extension and the building of the Consumer Protection Board at Pronksi 12 in Tallinn.

97 registered immovable properties were added to the **sales portfolio** on the account of takeovers and from the administrative portfolio in 2016, the most important of which are Järva County Vocational Centre's Põltsamaa training facility, the former National Archives in Tartu, Narva Children's Home and the building of the Ministry of Social Affairs in Tallinn. 110 registered immovable properties were sold in 2016 for a total transaction price of 6.9 million euros.

Jõhvi Upper Secondary School, the former Hiiu County Vocational School, Voltveti Manor with the manor part and foundry, the former holiday camp in the village of Kloogaranna, Põlva State Upper Secondary School and Valga State Upper Secondary School were added to the **contractual portfolio** in 2016.

Property development and organisation of procurements

Property development

In property development, RKAS focuses on office premises and special-purpose buildings (incl. depot buildings and schoolhouses).

Investments and service projects are differentiated in development projects. Investment projects are used to create properties that will be used to earn rent income in the future or that RKAS needs for its own use. The expenses incurred in service projects are compensated for by customers.

The threshold approved for the expenses of investment projects in 2016 (incl. all expenses of the group related to investment projects – investments and periodic costs, excluding overheads and interest expenses) was 63.2 million euros.

The actual volume of investment projects in 2016 totalled 55.7 million euros.

The following investments represented the largest single projects in 2016 (million euros):

- new Tallinn Prison 19.7
- new building of the Estonian National Museum 10.0
- administrative renovations 6.4
- building of the Health Board 6.3
- NUKU courtyard building 3.9
- building of the National Audit Office 1.7
- new courthouse at Lubja 4 1.1
- new building of the National Archives 1.4
- reconstruction of Pronksi 12 1.4
- new building of the Piusa border guard station 0.7

The expenses of the investment projects of other single sites came to less than 0.7 million euros.

The biggest partners in 2016 were the Ministry of Culture (13.9 million euros), the Ministry of Education and Research (1.7 million euros), the Ministry of the Interior (3.8 million euros), the Ministry of Justice (18.3 million euros) and the Ministry of Social Affairs (6.3 million euros).

Six new-builds and reconstructions in total were completed in 2016 and the amount invested for their establishment throughout the investment period of the building totalled 89.5 million euros (overheads excluded):

Name of project	Total expenses of investment project (million euros)	New-build/reconstruction	Address
New building of the National Archives NOORA	10.8	New-build	Tartu
New building of the Estonian National Museum	64.4	New-build	Tartu
New building of the Piusa border guard station	4.6	New-build	Võmmorski village, Meremäe municipality
NUKU extension	4.7	New-build	Tallinn
Building of the National Audit Office at Kiriku 2/4	3.4	Reconstruction	Tallinn
Reconstruction of the office building at Pronksi 12	1.6	Reconstruction	Tallinn
TOTAL	89.5		

THE BIGGEST SERVICE PROJECTS COMPLETED IN 2016 WERE:

Name of project	Total expenses of investment project (million euros)
Reconstruction of Valga State Upper Secondary School	3.1
Establishment of Põlva State Upper Secondary School	3.9
Reconstruction of Hiiu County State Upper Secondary School	2.1
Development and design of the new building of the Estonian Academy of Art	7.9
Design of the modern prison complex of Latvia	1.1

More than 15 service projects were ongoing in 2016. The content of the service ranged from the organisation of procurements and design competitions to comprehensive project management services.

THE BIGGEST SERVICE PROJECTS WHERE CONSTRUCTION WORKS STARTED IN 2016 WERE:

Name of project	Investment (million euros)
Reconstruction of the building complex of the Estonian Embassy in Moscow	12.4

Peeter Mauer

ENM project manager

The employees of RKAS selected Peeter as their most trustworthy colleague in 2016.

Colleagues about Peeter: "Peeter likes to keep to the background, but during the years at RKAS he has proven that the values of RKAS are insufficient to characterise him. We all have a lot to learn from him!"

Procurements

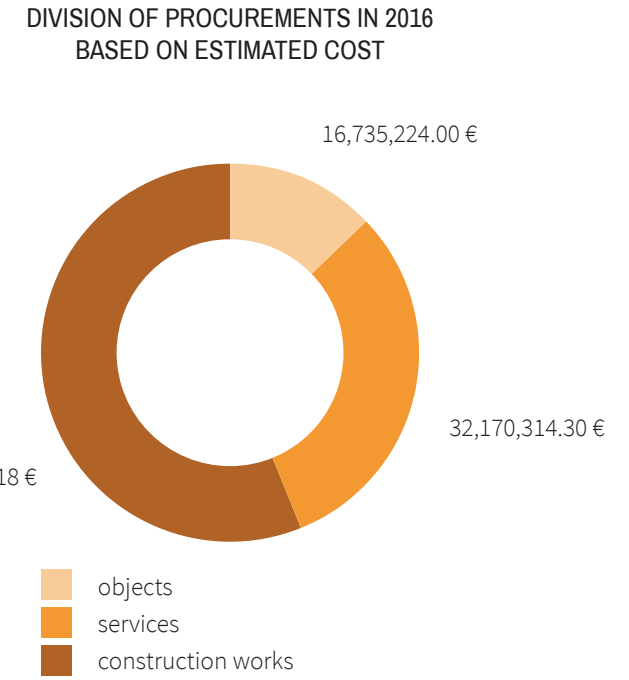
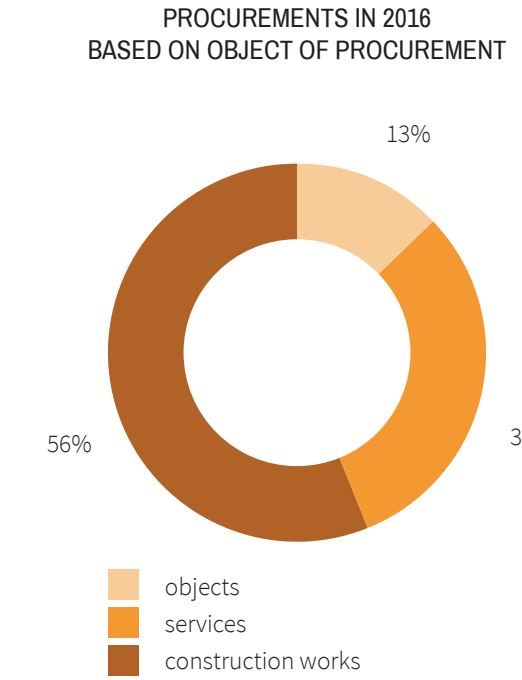
G4-EC-RKAS-1; G4-EC-RKAS-2; G4-EC-RKAS-3

RKAS organised 992 public procurements in 2016 with a total volume of approximately 123 million euros.

Of the types of procurement procedures, those under the threshold of a simplified procurement were organised the most (68.3%) and their cost comprised 5.2% 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 72.5 million euros. Divided by procurement objects, the largest number of procurements were building procurements, which made up 56% of all procurements and 59% of the total cost of procurements.

Investment projects were completed by their deadlines and within the scope of approved budgets in 2016. The threshold of the budgets of investment budgets was 63.2 million euros and the actual volume totalled 55.7 million euros.



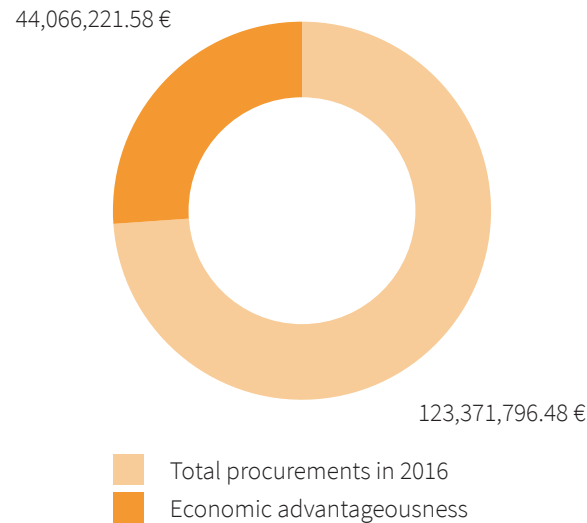
Nine procurements in total were disputed in 2016 (less than 1% of all procurements organised during the year) and the public procurement dispute committee operating within the Ministry of Finance satisfied three requests for review. Seven requests for review regarding six procurements were submitted in 2015, five of which were denied.

Procurements based on the criterion of economic advantageousness

So-called value-based procurements continued in 2016, as they ensure buildings and services of higher quality that take greater account of the needs of the contracting entity. 14 major value-based procurements were organised in 2016. Those that deserve the most attention are the construction and owner’s supervision of the new courthouse at Lubja 4 and the procurements for the design of the Supreme Court buildings and food service concession at Suur-Ameerika 1. The application of the criterion of economic advantageousness also continued in ordering urban hygiene and technical maintenance services.

Procurements that implement the criterion of economic advantageousness are made valuable by the fact that the customer is involved and the tenderer has to think the service provision process through in the initial stages of planning the service. In 2016 RKAS organised procurements based on the criterion of economic advantageousness to a value of 44 million euros. They comprised 1.41% of the volume of organised procurements and 35.8% of the total cost of procurements.

IMPLEMENTATION OF THE PRINCIPLE OF ECONOMIC ADVANTAGEOUSNESS IN 2016 (comparison of costs)



Principle

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

operational costs, cost-effectiveness, after-sales maintenance and technical support and cost thereof, the term of executing the procurement contract, and the specific proven skills or experience of responsible persons on which the work quality directly depends. The contracting authority attributes an objectively justified relative proportion to each assessment criterion.

In addition to the price (proportion from 45-90%), RKAS also assesses tenders on the basis of the work plans or programmes of the tenderers. Tenderers must outline their work plan to the panel orally within 30 minutes so that the panel can make sure that the tenderer has thought the project through and assessed its risks thoroughly.

The procurement for the food service concession at Suur-Ameerika 1 in 2016 deserves special mention, as the issue of the choice between a public contract for services and a service concession (the difference lying in the fee payable for the services) had to be decided first of all. Public contracts for services come with fees paid by the contracting authority directly to the service providers, while in the case of a service concession the fee for the provision of services lies only in the right to realise the service (or in such a right with the fee). The food service provider selected for the building at Suur-Ameerika 1 received the exclusive right to realise the food service in the building, but the issue of renting premises in the building to

the food service provider arose. Renting out premises by the contracting authority is outside the scope of application of public procurements and is done pursuant to the competition provisions of the Law of Obligations Act. This created the issue of what to proceed from in the case of procedures suitable for finding a food service provider – should the service concession be chosen or would a rental competition have sufficed? In a situation where the Public Procurement Act applies on the one hand (when a food service is ordered) but not on the other hand (renting out), we are dealing with a so-called mixed contract: if activities that are regulated with the Public Procurement Act and activities that the Act does not govern both form inseparable parts of the contract, the contracting authority has to proceed from the main objective of the contract when choosing the rules of procedure. For example, if giving premises on rent is the object of the contract and the entrepreneur is also granted the right or assigned the obligation to provide services on the same premises, the contracting authority must comply with the procedural rules stipulated in § 17 if the turnover generated by the services exceeds the income earned from rent.

The conclusion reached after assessment of the circumstances was that organising an open procurement for a service concession to find a food service provider for the buildings at Suur-Ameerika 1 would be the only lawful option.

Organisation of art competitions

Pursuant to the Commissioning of Artworks Act, 1% of the cost of a public building is allocated to commission artworks and through that to enrich the public space with art. The scope of possible orders is broad, covering traditional oil or acrylic paintings, drawings and sculpture as well as photographic art, installation, videos and objects of light and sound³.

Although the competition is carried out in compliance with the principles of the Public Procurement Act, commissioning an artwork is not a public procurement. In addition, the cost (price) of the tender is not a criterion for completion of an artwork, because it is predefined and known by all participants at the time of announcement of the competition. The jury shall assess the aesthetic and functional properties as well as properties that have an impact on the environment of artworks based on designs submitted to the competition under the criteria defined in the competition guide. As the winner, the artistically best artwork in terms of location, the use of the building, the area of activity of the institution and the potential audience of the artwork is selected⁴.

In preparing the competition guide and carrying out the competition, RKAS has acted on the principle that the process must be transparent and understandable to everybody.

In the artwork commissioning competition, the jury (which consists of at least five members) assesses anonymous designs. In order to ensure the high artistic level of the commissioned artworks, the law provides that at least two-thirds of the jury members be appointed by the management board of an artistic association active in the field of fine arts. Depending on the initial task and need, the jury also involves the architect and interior decorator of the building and an expert on heritage conservation or another field.

RKAS organised six art competitions to a total cost of 160,772 euros during the period under review.

Works completed in 2016:

- ENM, winner “Käbid ja kännud” (textile for the back of the stage in the conference and cinema hall);
- Rapla State House, winner “Meie Rapla” (installation);
- Valga Upper Secondary School, winner “Hoolaud” (outdoor sculpture);
- Hiiu County Upper Secondary School, winner “Tuuleluule” (kinetic outdoor sculpture);
- buildings of the National Audit Office at Kiriku 2/4, winner “Kokkulepe” (painting);
- office building at Pronksi 12, Tallinn, winner “Laine” (outdoor relief).

³ http://www.kul.ee/sites/kulminn/files/150717_kts_rakendamise_juhend.pdf, p 14

⁴ http://www.kul.ee/sites/kulminn/files/150717_kts_rakendamise_juhend.pdf, p 9

Partners

G4-12

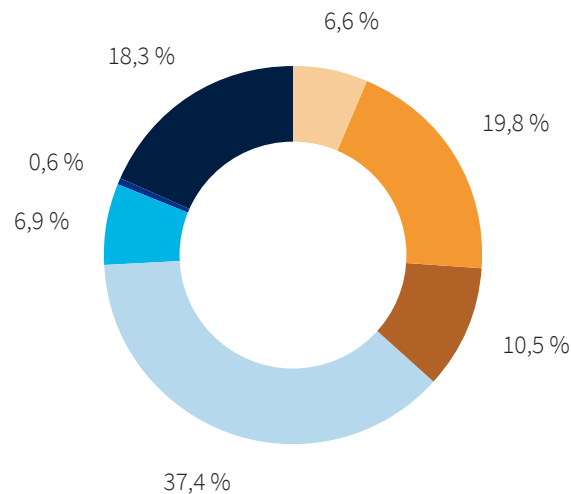
RKAS provides a comprehensive facility management service, which covers management, technical maintenance, upkeep, renovations, owner's obligations, consumption services and support services. All of the above services are outsourced, except for management and owner's obligations.

RKAS is obliged to use public procurements for the selection of its suppliers. The tenderer who offers the best price wins, unless the procurement is value-based. The exceptions here are special-purpose sites due to their security measures or functions (e.g. prisons or government buildings), where maintenance services are provided by Hooldus Pluss, a subsidiary of RKAS.

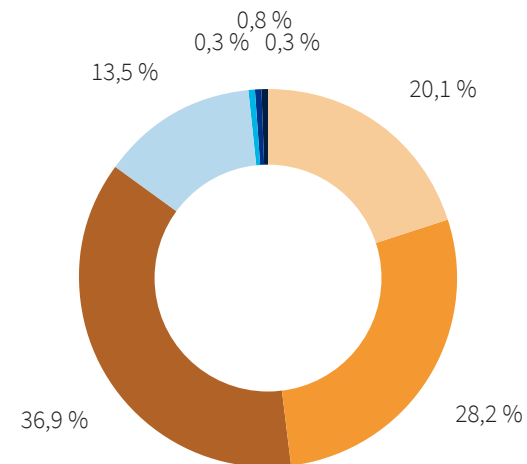
The biggest suppliers are in the fields of development services and facility management.

Biggest suppliers of maintenance services as at 2016:

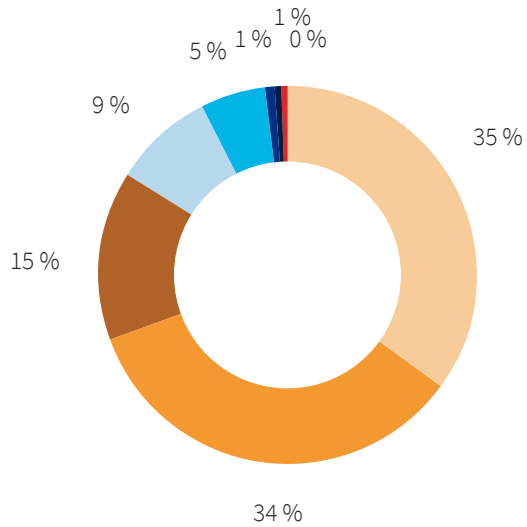
TECHNICAL MAINTENANCE SERVICE



URBAN HYGIENE SERVICE

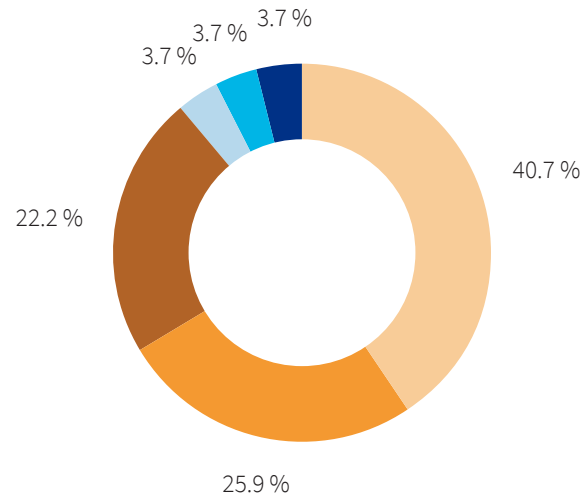


**SECURITY SERVICE
(technical surveillance)**



- USS Security Eesti AS
- G4S Eesti AS
- P. Dussmann Eesti OÜ
- Artocard OÜ and Rapid Security OÜ
- Securitas Eesti AS
- Skarabeus Julgestusteenindus OÜ
- OÜ GRIFS
- Viking Security AS

**SECURITY SERVICE
(manned surveillance)**



- P. Dussmann Eesti OÜ
- USS Security Eesti AS
- Artocard OÜ
- G4S Eesti AS
- Skarabeus Julgestusteenindus OÜ
- Viking Security AS

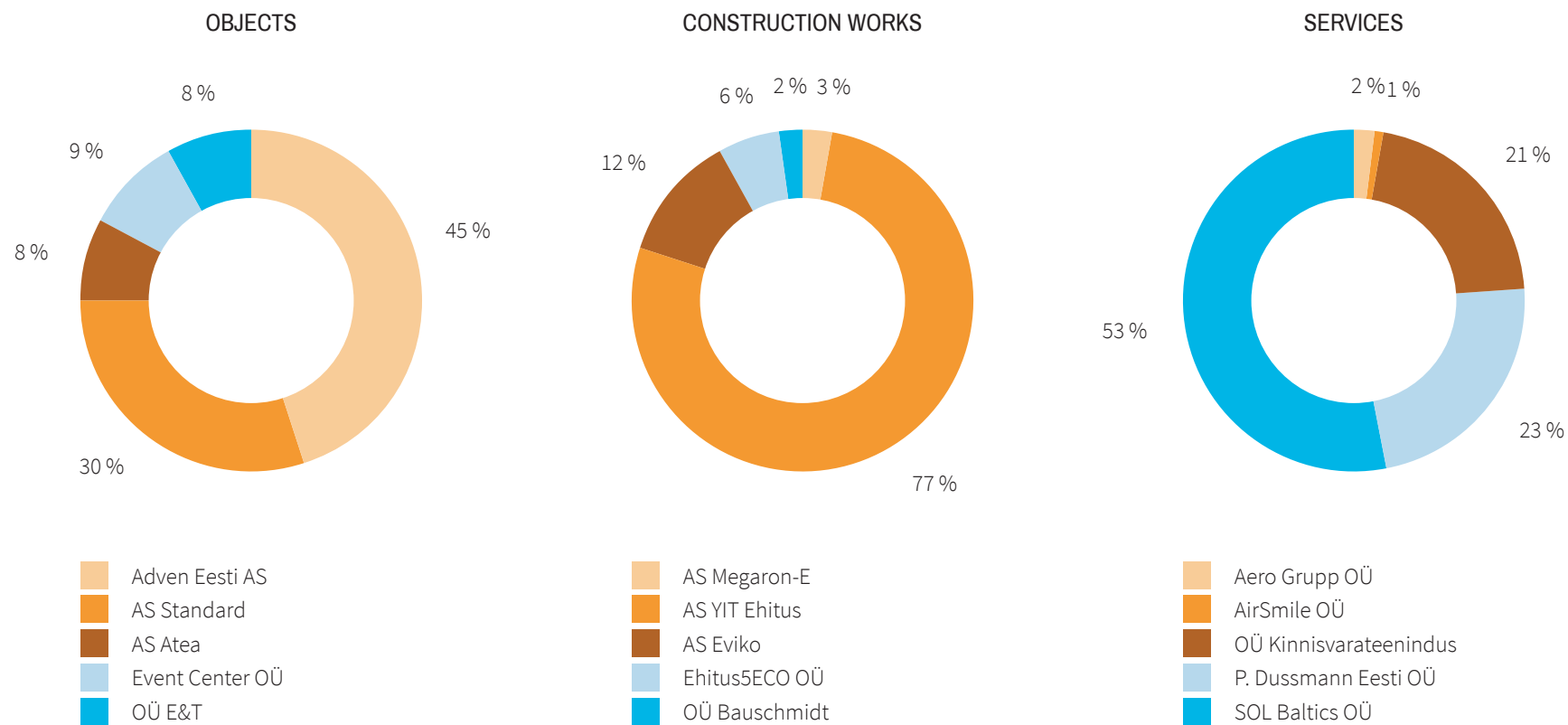
These are predominantly companies that are represented throughout Estonia. Their local representations provide services to the sites to whom RKAS provides the facility management service.



NEW BUILDING
OF THE ESTONIAN
NATIONAL MUSEUM



In the case of the property development service, suppliers can be divided into three groups according to the type of procurement: objects, construction works and services. The biggest suppliers according to procurement types in 2016 were:



Economic performance

Direct economic impact

G4-9; G4-EC1

The return on sales in 2016 (consolidated data) increased by 5.2 million euros y.o.y., amounting to 90.1 million euros, including rental income in the amount of 50.3 million euros. The volume of mediated services increased by 2 million euros over the year compared to 2015 and totalled 30.9 million euros. The return on sales of stock in 2016 amounted to 6.8 million euros.

The operating profit of the group in 2016 amounted to 16.3 million euros. The net profit of the group in the financial year amounted to 13.4 million euros. This result was partly influenced by the amendment to subsection 48 (10) of the “Guidelines for financial accounting and reporting in the public sector” that entered into force on 1 January 2017 and stipulate that capital lease contracts entered into between units belonging to the same consolidation group be reclassified as operating leases in order to simplify accounting. The accounting policy concerning leases was amended retroactively as at 31 December 2016.

THE MAIN FINANCIAL RATIOS THAT CHARACTERISE THE MAIN ACTIVITY OF THE COMPANY ARE AS FOLLOWS:

Consolidated data (€ million)	Actual	Actual	Target	Target
Performance indicator	2015	2016	2016	2017
1. Revenue	8.5	9.0	9.3	10.6
2. Operating expenses	0.7	0.6	0.9	1.1
3. Wages and benefits of staff	7.7	8.2	9.6	9.1
4. Payments to capital providers	3.3	3.0	3.1	2.1
5. Retained economic profit	14.9	12.7	N/A	N/A
6. Payments to the state	0.3	0.0	0.0	0.0
7. Investments in the community	0.1	0.1	0.1	0.2

Indirect economic impact

G4-EC8

Cooperation with research and development institutions

Cooperation with research and development institutions plays an important role in raising the competence of RKAS and demonstrating innovative trends in the property sector as a whole. Up to 1.5% of the average consolidated net

profit of the previous three financial years was invested in supporting research and development projects in 2016. Financial support is granted for research that supports the operating and financial goals of RKAS. In addition to cooperation in research and development, one of the priorities of RKAS is to train competent successors, which is why the allocation of grants to students associated with the area of activity of RKAS, especially in Applied higher education, Engineering and Doctoral studies, is also supported.

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

1. energy efficiency of buildings;
2. environmental sustainability of processes;
3. inner climate of premises and its connection to learning success and labour productivity;
4. smart building technology;
5. innovative technologies;
6. modern working environment solutions.

The following research projects were supported in 2016 to a total value of 85,502.50 euros:

- 1) University of Tartu “Impact of the workplace on the use of space by people”.

The objective of the research is to explain the impact of the location of a workplace on people’s everyday behaviour, use of transport and urban space. Recommendations for the locations of workplaces in Estonia will be developed on the basis of scientific analysis;

- 2) Tallinn University of Technology “Energy efficiency guidelines and methodology for chief designers and architects”.

The objective of the research is to prepare central design principles and methodology for office buildings, school-houses and other public buildings, and the standard techni-

cal solutions for guaranteeing energy efficiency in the drafting and preliminary design stage of the design process;

- 3) Estonian University of Life Sciences “Impact of artificial lighting of rooms on labour productivity”.

The results of the research will explain what kind of lights to install in workrooms and how this should be done to maximise labour productivity;

- 4) Estonian Academy of Art “Involving customers in planning energy-efficient buildings”.

The objective set by the 3D Laboratory of the Estonian Academy of Art is to create a technical prototype which would allow customers and the future users of buildings to understand the impact of spatial decisions on the energy efficiency of buildings.

Grants allocated

Master’s students, 2,000 euros each:

- 1) Laur Vatsfeld, Tallinn University of Technology “Technical solutions to achieve the air-tightness of building walls”;
- 2) Karel Põdra, Tallinn University of Technology “Optimisation of the cost of electricity for end consumers and price risks in open market conditions”;
- 3) Taavi Ilu, Tallinn University of Technology “Suitability of the fly ash of the Enefit280 plant of AS Eesti Energia

for partial replacement of Portland cement in concrete”;

- 4) Merli Aron, Tallinn University of Technology “Robust planning to guarantee quality in building design”;
- 5) Märten Peterson, Estonian Academy of Art “Searching for vernacularity with contemporary technologies”.

Doctoral students, 3,000 euros each:

- 1) Raimo Simson, Tallinn University of Technology “Ventilation solutions and prevention of overheating in renovated and energy-efficient buildings”;
- 2) Lehar Leetsaar, Tallinn University of Technology “Optimal relation of the cost of geological studies to the cost of a building in the example of Estonian buildings”.

Management of the Building Information Model – BIM⁵

BIM technology has been the usual practice in procurements for building designs since 2015 in order to ensure smarter use of taxpayers’ money and to allow the construction sector to become digitalised and more efficient (e.g. in the form of more functional buildings with lower life cycle costs).

⁵ BIM can mean (1) Building Information Model; (2) Building Information Modelling; or (3) Building Information Management.

BIM is the Building Information Model – either a smart model of a building to be constructed or the modelling of building information which leads to the creation of the building information model. The model is used to manage, organise and control business and construction processes at every stage in a building's life cycle.

RKAS has primarily used smart information models in its designs as follows:

1. to model an initial model of the existing building;
2. to inspect the functionality of a building effectively and comprehensively;
3. to assess energy efficiency and analyse indoor climate;
4. to inspect the different partial models of the project and integrate these in the aggregate model (constructability review, prevention and review of contradictions, guaranteeing the compatibility of the parts of the project and review of the maintainability of utility systems);
5. to illustrate and visualise the architectural and interior design solution of the designed building (the Virtual Reality Lab of the TTK University of Applied Sciences);
6. to review and accept project documents faster and in a more effective way;
7. to automate and specify volume calculation.

Thanks to the aforementioned applications, we have achieved better control of objects, a rise in project quali-

ty and better-considered building functionalities.

Important projects in 2016 in which BIM design was employed:

- main building of the IT Agency;
- memorial to victims of communism;
- Nõmme and Lilleküla rescue units;
- Rapla and Viimsi State Upper Secondary Schools;
- new courthouse in Tallinn.

Several buildings have been completed and guidelines for designers and project managers have been created and translated in the eight years that RKAS has been using the BIM methodology and technology, and we have also supported several science and research projects concerning BIM. RKAS has also contributed to the BIM strategy steering group and the Digital Construction Cluster, and is a member of the European Union BIM Working Group.

BIM information related to RKAS and the newest updates are accessible online at <http://www.rkas.ee/bim>.

BIM in building administration and maintenance

RKAS has launched pilot projects to introduce BIM models to the longest and main parts of a building's life cycle, i.e. its administration and maintenance. RKAS has successfully tested the technical integration of the BIM

in building management systems in the past, but in the future it will focus on the substantive and commercial integration of the information models (management models) necessary for management into building management processes and operations. In addition to the completion of the building of the Estonian National Museum, a management model of the ENM was also completed in 2016 which shows the building just as it was built in terms of its geometric and non-geometric information. This is a digital version of the building in the status of a pilot model which includes machine-readable data that RKAS already uses in its management activities.

BIM development trends

RKAS continues to broaden and use the possibilities of BIM technology to offer better functionality and service. In order to implement models in the management and maintenance of buildings, we need to go through the building process stage. To achieve this, the builder has to be provided with a high-quality BIM that enables the simulation of the building process depending on both time and money and the development of the model as a working model that allows for construction work. If delivery of an operation model by the builder is guaranteed, all of the conditions have been met to create a BIM administration model.

Integrated Project Delivery or IPD

Construction designs often suffer because of contradictions in relationships, low productivity, inefficiency, re-working and frequent disputes. The cost of construction often increases and deadlines are postponed. The quality of construction can also be a problem. Solutions to these problems have been sought for years.

IPD was created in order to address construction challenges comprehensively. According to IPD the talents, skills and knowledge of all participants are used to reduce waste and optimise efficiency in every stage of a building's life cycle: design, production, construction, management and maintenance. According to the IPD concept, all parties are equal in decision-making, advise the whole team with their best competence, communicate constantly, give one another advice and share their views for the achievement of the goals. This leads to the emergence of a team where people understand one another and work well together.

Although there are examples in the world where IPD has been successfully used for years, there is no experience of this approach in Estonia. RKAS started preparing for the implementation of IPD in 2016.

Wider community

Cooperation with the Estonian Chamber of Disabled People

RKAS is a partner to the Estonian Chamber of Disabled People (EPIKoda) in connection with accessibility RKAS has analysed, in cooperation with the non-profit organisation Accessibility Forum (MTÜ Ligipääsetavuse foorum) and the Estonian Chamber of Disabled People, access solutions for disabled people to the new building of the Estonian Art Academy, and members of EPIKoda have also visited the new building of ERM to examine the building's accessibility.

Accessibility Council

RKAS is a member of the Accessibility Council established on the initiative of the Minister of Social Protection. The objective of the 27-member council is to find solutions for the implementation of accessibility and universal design principles in society. The Council consists of representatives of ministries, state agencies, disabled organisations, universities and non-profit organisations.

RKAS gave feedback on the regulation "Requirements of buildings deriving from the special needs of disabled people" when the draft regulation was being prepared.

Local community

The main point of contact with the local community is

in the planning stage, when communication is organised pursuant to the Planning Act. In other cases, we seek advice from the local government as the unit closest to the community. Through these channels, we can inform the community of our plans and receive information of local importance, as well as identify issues.

Complex ownership and critical objects

Objects in state ownership often involve complex ownership relationships. RKAS has often been delivered assets whose ownership has not been organised, as a result of which the residential building has not been renovated or the neighbouring immovable properties have been deprived of water or heating.

These region- and object-based situations are complicated and RKAS has resolved or mitigated the problem at its own expense or with its know-how. Similar to local governments, we insure the resolution of problems between the owners of immovable properties: for example, when an asset is transferred, we ensure that the neighbouring house is not left without water or heat or access to the immovable property.

RKAS has assumed an obligation to clean assets to be sold of known environmental pollution before the site is delivered.

Tiina Õispuu

referent

The employees of RKAS selected Tiina as their most considerate colleague in 2016.

Colleagues about Tiina: "Tiina is the face of RKAS. She has an eye for detail and always finds time to help her colleagues."

CUSTOMERS AND USERS

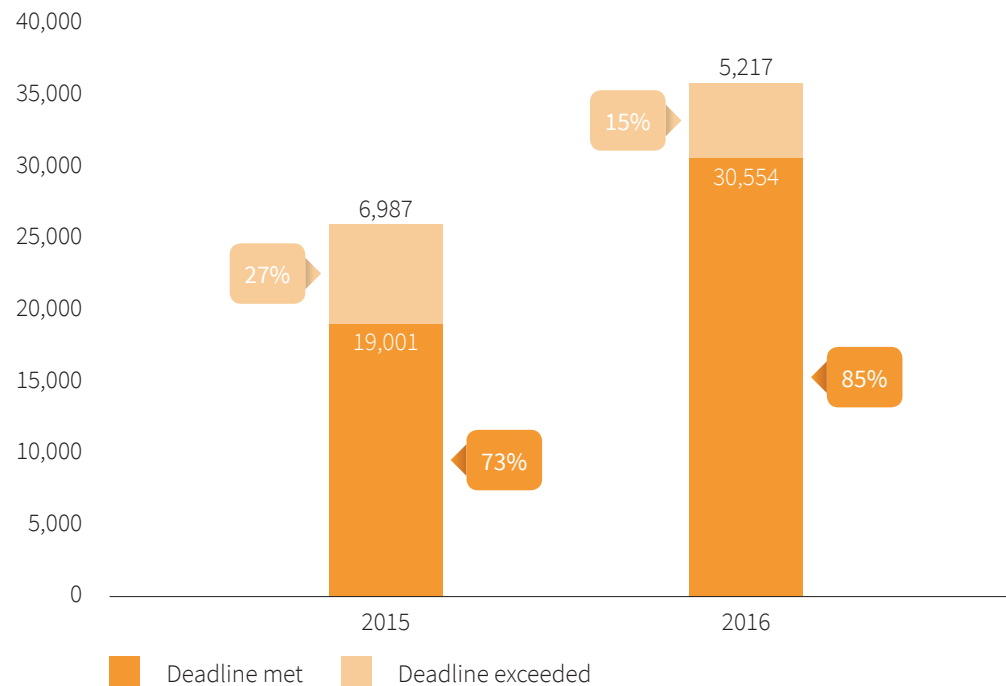
G4-PR-RKAS-1

RKAS manages 984 customer relationships, 906 of which are lease contracts and 78 of which are facility management contracts. In the first case, RKAS is the owner of the property and rents out premises on the basis of lease contracts. In the second case, the customer prefers RKAS as the facility management partner and trusts us to maintain their property.

The objective of RKAS is to be the preferred partner in the provision of facility management services (incl. management, technical maintenance, upkeep, renovations, owner's obligations, consumption services, support services and development) for all customers.

On average, RKAS helps its customers 98 times a day. 35,771 customer contacts were received in 2016 via the maintenance software used by RKAS – 38% more than in 2015. Customer contracts are the various observations and requests received from site users that are related to specific sites and deadlines. Irrespective of the increase in the absolute number of customer contacts, 12% more contacts were resolved by their deadlines in 2016 than in 2015, i.e. 34,696 customer contacts.

CUSTOMER CONTACTS RESOLVED BY OR AFTER DEADLINES IN 2015 AND 2016



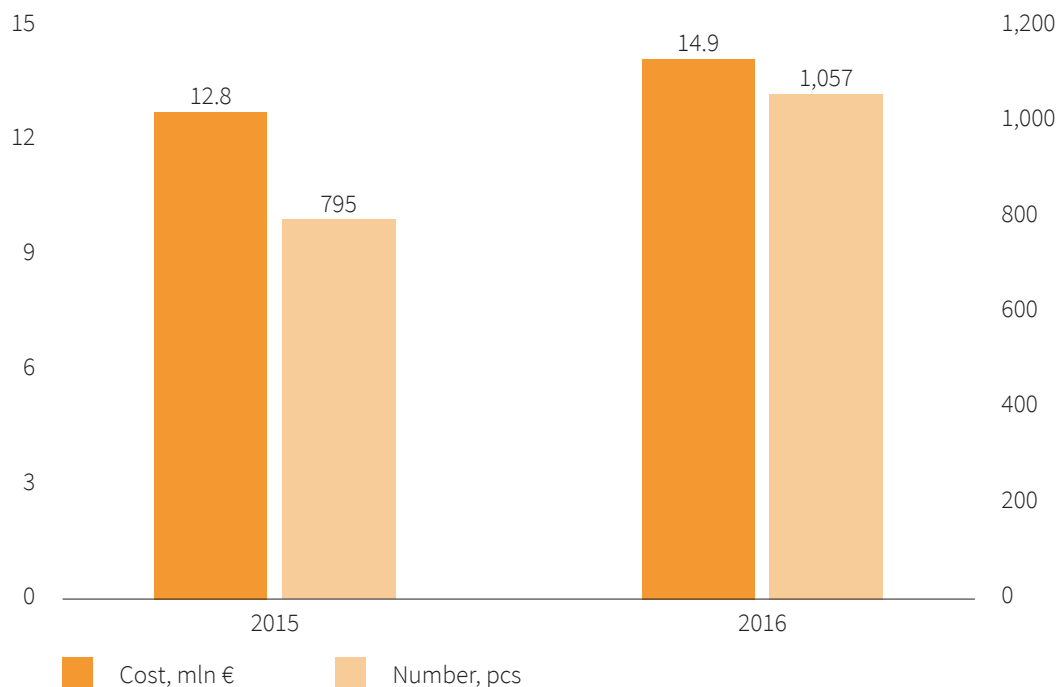
RKAS also performed renovation works for its customers on 1,057 occasions in 2016, the cost of which totalled 14.19 million euros. The same indicators in 2015 were 12.8 million euros and 795 occasions. The number of addresses at which renovation works were performed also increased – 272 addresses in 2016 compared to 241 the year before. The renovation works at the Ministry of the Interior comprised the biggest proportion of these works in 2016, as they amounted to 3.94 million euros or 27.8% of the total cost of such works.

Customer relations managers and property managers deal with customer relationships in RKAS. Customer relations have been split in two: customer relations managers take care of the so-called key customer view (areas of government in the public sector, state agencies, etc.) while property managers take care of site-based customer relations (e.g. users of specific sites). Communication with customers takes place according to customer plans approved by management, which set out the main goals agreed with each specific customer.

In 2016, as the state’s centre of excellence in the field of property RKAS organised the following seminars for customers:

- 1. Terms of Reference Workshop, 28 October 2016**
Participants learned how to prepare good terms of refer-

VOLUMES OF RENOVATION WORKS IN 2015 AND 2016



ence and describe requirements. The clearer the requirements, the easier it is to understand what needs to be done to achieve the goal. Setting a clear task allows the state to use its money more optimally.

2. Activity-based Office, 12 May 2016, 2 June 2016, 25 October 2016

An activity-based office is a comprehensive approach to the use of the working environment. The goal of the seminars was to outline the idea of an activity-based office and get people to join in to find ways of establishing a working environment that supports effectiveness and has sections where different duties are performed.

The seminars were organised in order to increase customer awareness of material aspects and obtain feedback from customers.

Working environment

Indoor climate

G4-PR1

We manage indoor climate on the basis of rooms in new buildings, and building automatics give us an overview of the actual temperature of indoor air and its changes over time.

The indoor climate monitoring programme “Programme for the acknowledgement of the importance and monitoring of indoor climate in schoolhouses” was launched in 19 schools in 2016, where the carbon dioxide concentration, air temperature and relative humidity as well as the quantity of mould in air will be measured over a longer period of time. The purpose of the programme is to map the indoor climate conditions of the learning environment in a real situation and to raise the awareness of teachers and students regarding the impact of indoor climate on health and performance.

Upon the conclusion of the indoor climate monitoring programme in 2017 there will be an indoor climate monitoring system with 10 indoor climate monitoring loggers in each area of administration of RKAS, which will measure air temperature, humidity and carbon dioxide in rooms. The quality of indoor climate can be assessed with these three parameters. The monitoring system is necessary for taking measurements in buildings in the event of complaints about the indoor climate.

Customer satisfaction

G4-PR5

RKAS has carried out customer satisfaction surveys in cooperation with Kantar Emor since 2011. The international customer satisfaction measuring system TRI*M is

used in the surveys to measure the strength of customer relationships, considering the dimensions of rational satisfaction, behavioural loyalty, emotional connection and the surrounding competitive environment.

246 customers responded to the customer satisfaction survey in 2016. The index of the strength of customer relationships of RKAS dropped from 57 to 44 in 2016, due to a lower rational satisfaction score as well as a decreased perception of the added value of the service. Customers are generally satisfied with various core services, but their opinion of these had deteriorated somewhat over the year. The satisfaction of decision-makers has remained rather stable.

However, the following is rated more highly by customers:

- accessibility of customer support;
- competence of property managers and customer administrators, and the manner of communication of RKAS;
- the property delivery service.

RKAS started improving its customer-related activities in 2016 by describing the content of its services, narrowing its focus and thereby making the service more understandable to the customer. RKAS develops so-called service packages that allow the customer to choose services adapted specifically for them.

EMPLOYEES

G4-10; G4-LA1

The total number of employees decreased in comparison with the previous period and changes also occurred in the age and position structure of employees. The number of employees decreased mainly on the account of skilled workers and specialists. The main reasons for the changes are the takeover of assets and the increase in the property portfolio.

The total number of employees in RKAS at the end of 2016 was 237. Similar to previous years, 13 persons worked under a contract for services and two persons under an authorisation agreement. There are 28 new employees who did not join the company in relation to the takeover of assets. The total number of newcomers was 53. The share of newcomers in 2016 was 22.4%, which had increased somewhat in comparison with the 21.5% in 2015. The voluntary turnover of employees increased from 4.77% to 8.99%.

The number of full-time employees in 2016 was 218. 19 persons worked part-time.

The number of female and male employees decreased proportionally in the total number of employees. Two employees took paternity leave during the year and two employees returned from parental leave. The number of employees in field training decreased in comparison with the previous year; one person did their professional traineeship at RKAS during the period.

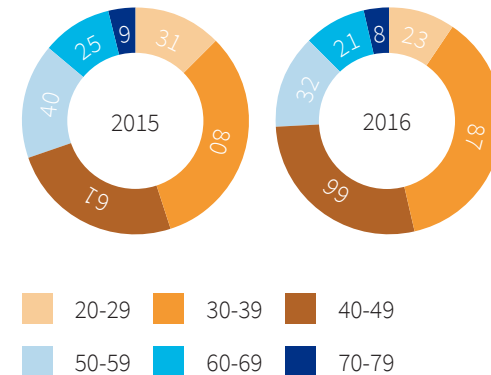
Based on regional division, most people work in the Northern Estonia region, as per the year before.

59% of RKAS employees are male and 41% are female. In comparison with the previous year, the share of women decreased by a couple of per cent in the gender division of employees. The company has one employee with special needs.

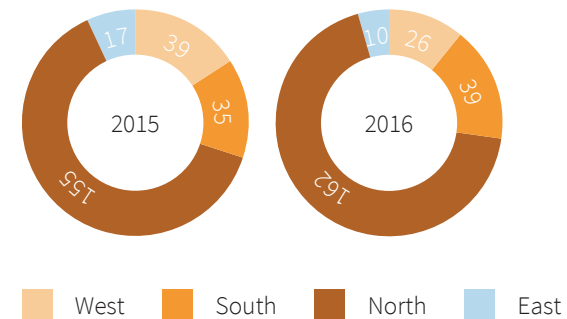
The average age of employees increased to 48.6 during the year, while it was 40.1 years in the previous year.

No cases of discrimination were registered.

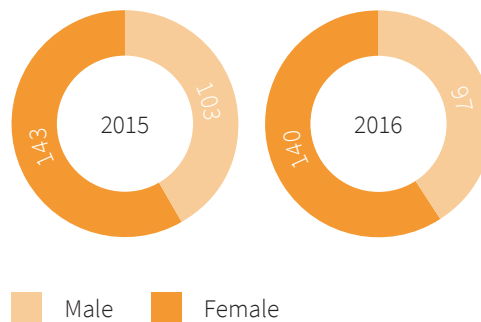
EMPLOYEES BY AGE



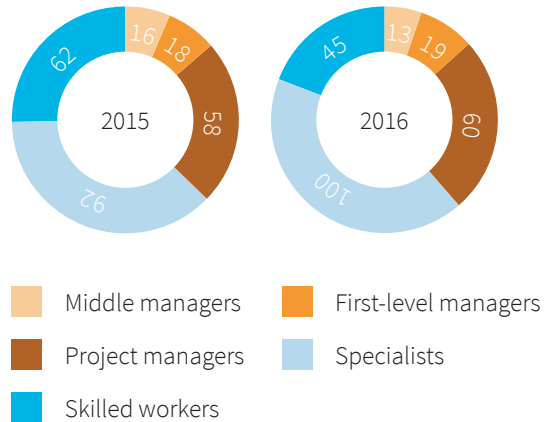
EMPLOYEES BY REGION



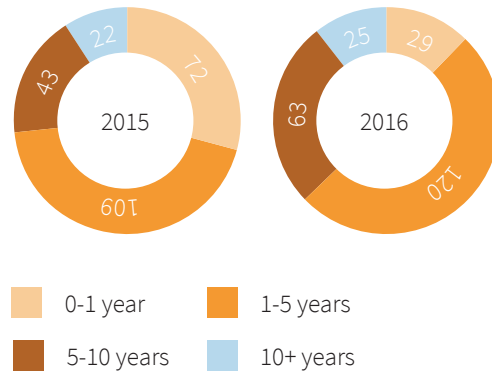
EMPLOYEES BY GENDER



EMPLOYEES BY POSITION



EMPLOYEES BY LENGTH OF SERVICE



Occupational health and safety

G4-LA6

Risk analysis of workplaces was carried out and occupational safety guides were updated in 2016 in order to reduce occupational accidents and illnesses. There were no occupational accidents or illnesses during the year. The employer has provided employees with appropriate occupational and personal protective equipment as well as carried out the necessary instruction.

In addition to the regular medical examinations, employees are entitled to compensation of sports and health promotion costs. The employer also allows employees to take health days on full pay three times a year.

Training and employee development

G4-LA9; G4-LA11

Training courses are organised and selected on the basis of development and performance appraisals held twice a year as well as the requests and needs of employees. Appraisals are held with all employees, excl. the skilled workers on sites to be taken over. New employees who have assumed office have to undergo mandatory induction training. The organisational culture supports life-long learning by employees, facilitates and supports professional training and taking professional examinations,

in-service training of employees, independent learning and acquisition of higher education.

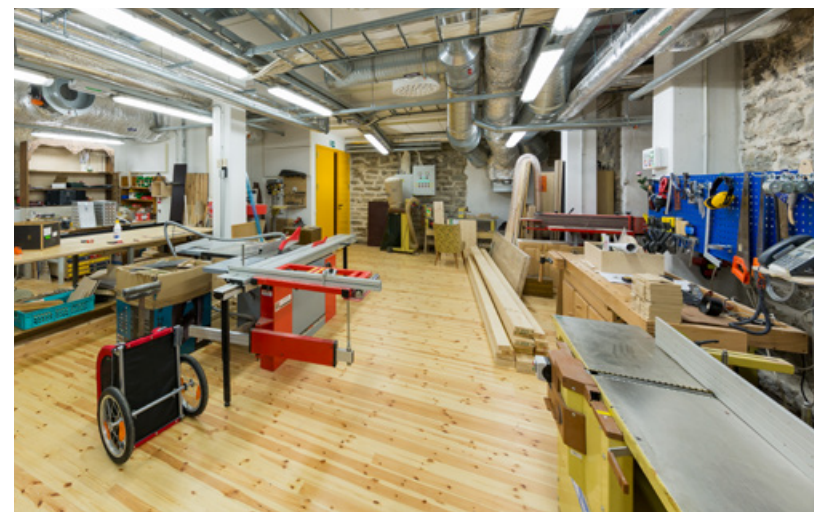
The development programme for managers continued in 2016 and mandatory training was carried out for all levels of management. Employee feedback on the managers who completed the training was positive.

The number of employee training hours in 2016 totalled 15,382. Due to the increased number of training hours, the training activity budget increased compared to the year before. Training costs amounted to 163,000 euros in 2016; the respective amount the year before was 108,000 euros.

The internal training programme of RKAS was created in order to support an increase in employee competence and to offer them the opportunity to keep up to date with the most important development trends in construction and related sectors. 16 internal training events lasting more than 60 academic hours in total were held in 2016. The emphasis of internal training was on learning to increase the efficiency of construction processes – with the help of the lean methodology, integrated project delivery and building information modelling (BIM). The focus was also on building and room acoustics, and the applicability of electromagnetic radiation and augmented reality in the construction sector. As a new development, since 2016 we have been offering our employees the possibility to attend internal training via online broadcasts and to watch these broadcasts again later.



NUKU EXTENSION



ENVIRONMENT

Environmental policy

Our environmental policy is aimed at the sustainable use of resources, which forms part of our responsible behaviour. We consider economic justification when planning environmental and energy savings.

The company implements the following principles of environmental management:

1. Environmental and energy management

a. Healthy, clean and safe property environment

We create measures to guarantee a healthy and socially responsible real estate environment (incl. indoor climate, cleanliness of rooms, safety on the premises of properties and use of finishing materials).

b. Energy efficiency

We reduce the environmental impact caused by the use of energy in buildings via more efficient resource management and comply with legal requirements.

c. Optimisation of energy costs

We invest in order to optimise the cost of energy required for guaranteeing our main activities.

d. Water

We reduce the environmental impact caused by the use of water and its costs by using resources more efficiently (e.g. water overrun and use of water from wells).

e. Waste management

We optimise our waste management expenses. We carry out waste management according to good practices. We proceed from the principle that waste is a resource, and raise the awareness of our customers regarding waste management.

f. Pollution and emissions to air and soil

We monitor emissions to air in order to find ways of reducing them, thereby also reducing environmental pollution and finding ways to optimise costs.

We reduce the risk of fuel pollution by regularly maintaining heating systems and proceed from legal requirements in handling fuels.

We replace substances that reduce the ozone layer with environmentally friendly and legally permitted ones by the deadline arising from legislation.

2. Procurements

We approach the organisation of procurements in an environmentally friendly, sustainable and cost-effective manner (e.g. joint procurements, environmentally sustainable public procurements and value-based procurements).

3. Construction and renovation

As we build, reconstruct and renovate buildings, we proceed from the principles of energy efficiency, environmental friendliness and sustainability (incl. cost-effectiveness), thereby ensuring a healthy and clean real estate environment.

4. Stakeholder engagement

We encourage and support our employees and stakeholders in making sustainable choices.

Implementation of the environmental management system

Due to its area of activity, RKAS is both the creator and maintainer of a real estate environment, which is why it has an impact on the surrounding environment. RKAS implements the ISO 14001:2004 environmental management system in its activities and has assumed the following obligations on the basis of this standard:

- to define the environmental policy of the company;
- to identify environmental aspects resulting from its activities so as to determine any significant impact on the environment;
- to identify and follow applicable legal acts and other requirements recognised by the company that are related to the defined environmental aspects;
- to set environmental targets and a plan for their execution;
- to plan, control, monitor and audit the created environmental management system.

Energy efficiency

Energy efficiency and sustainability as the results of activities are present in all of the core processes and services of RKAS. The centre of excellence enables advanced technical requirement guides (whose scope may extend to the private sector) to be created. Based on our experience, we have developed the “Technical requirements of non-residential buildings” guidelines, which aim to define the principles for the designing and constructing of different types of buildings (school, office, cultural and internal security buildings) and the technical requirements set for the materials, systems and equipment used as clearly and unambiguously as possible. We regularly update the requirements in relation to the dynamic development of technology and materials as well as on the basis of our own experience. Our goal is to provide our customers with the best possible working environment, which is why several requirements in the guidelines are stricter than the minimum requirements set out in valid legislation.

Overview of energy and water consumption

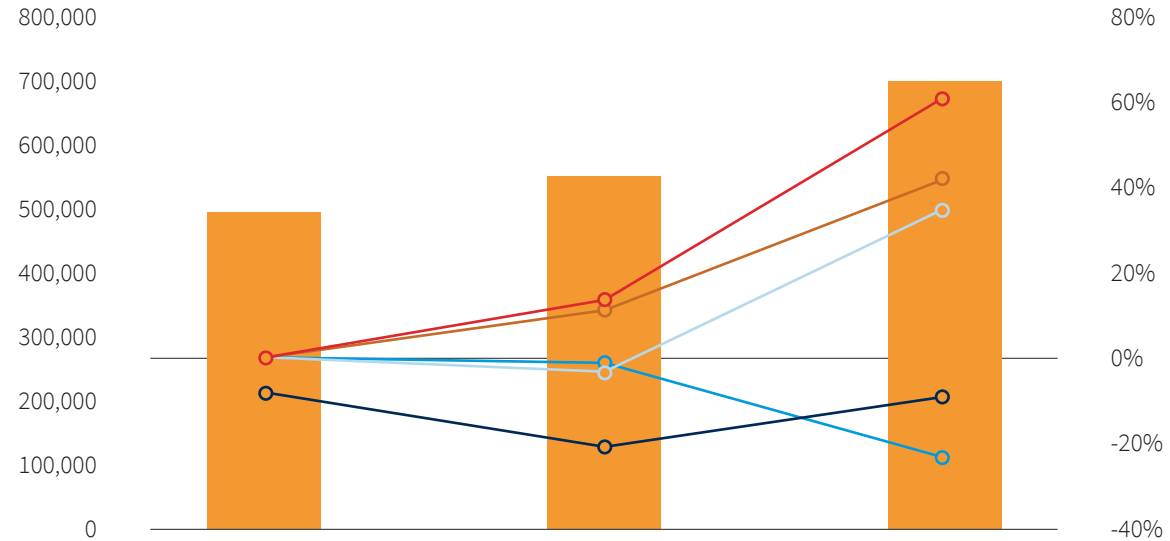
G4-EN3; G4-EN4

RKAS registers energy and water consumption in its management information system on monthly basis and prepares yearly reports based on monitoring data. The Department of Environment and Technical Support analyses data in cooperation with customers and develops measures for stabilising and reducing consumption.

The relative changes in the volume of supplied energy in the scope of the reviewed portfolios are compared in a graph. The need for energy depends largely on the outdoor climate, which is why the relative change in the degree days of heating and cooling in different seasons is added to the graph (the fewer heating degree days there are, the warmer the outdoor climate is that year; while the fewer cooling degree days there are, the cooler the summer is in the respective year).

RELATIVE CHANGE IN ENERGY CONSUMPTION

Note: A few properties whose consumption data contain errors have been left out of the energy and water consumption analysis. Defective consumption data can mainly be found in respect of properties that were taken over in the previous year, whose consumption history has not been preserved or where consumption data were not accurately and regularly measured.



	2014	2015	2016
Area given on rent, m²	494,856.94	550,895.17	699,042.85
Heat energy, %	0	13.45	60.70
Electricity, %	0	11.03	41.61
Water consumption, %	0	-3.39	34.63
Degree days (0 = normal year), %	-8.3	-21.0	-9.3
Degree days of cooling (0 = 2014), %	0.0	-1.3	-23.4

The increase in the energy consumption of the portfolio has been at the same level as the growth of the portfolio. The consumption of heat energy in 2015 was lower than the growth of the portfolio, because 2015 was warmer than 2016 and 2014.

However, the consumption of heat energy increased in 2016, which can partly be justified with the constant streamlining of data. Another reason is the increasing awareness of customers regarding the importance of indoor climate, which is why more climate control systems are being renovated and air exchange increased (the greater the air exchange, the greater the need for heat energy). Above all, this applies to renovated schoolhouses, where energy consumption increased after renovation in comparison with the situation previously, when low energy consumption was achieved on the account of poor indoor climate.

The high energy consumption of renovated buildings is also caused by the low awareness of end-users and technical maintenance providers of building automatics. Building automatics make it possible to regulate buildings more and more on the basis of need and thereby achieve considerable energy savings during the life of a building.

This is why we are constantly working to develop the areas of indoor climate, building automatics and energy efficiency.

Heat energy

District heating is primarily used to supply heat to buildings in Estonia, which is why ca 71% of the heat supplied by RKAS is also bought from district heating networks. 14% of heat energy is produced from natural gas and 12% from light fuel oil. Just 3% of total consumption is covered by other fuels.

HEAT ENERGY CONSUMPTION DATA OF RKAS SITES

Fuel type	2014 (MWh)	2015 (MWh)	2016 (MWh)
District heating	57,584	57,250	71,713
Gas	12,388	12,617	14,153
Heating gas oil	12,385	8,865	12,142
Shale oil	1,583	2,180	2,453
Pellet	1,190	1,241	1,464
TOTAL	83,940	80,913	100,462

The total consumption of heat energy in 2016 was 100,462 MWh, which exceeded the consumption of the previous two years and increased mainly on the account of district heating.

Quantities of supplied energy and water by immovable property of different applications

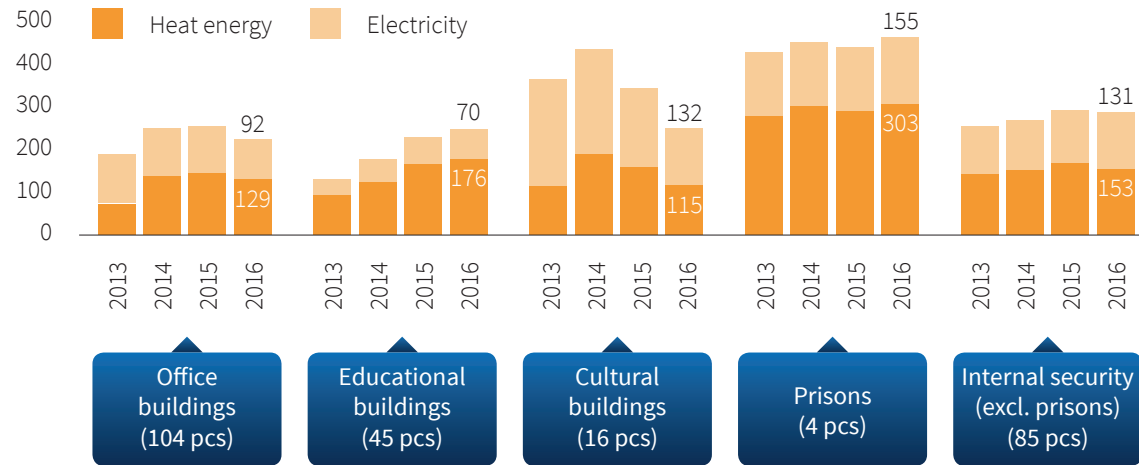
G4-EN5; G4-EN-RKAS-1; G4-EN-RKAS-2

The RKAS portfolio contains immovable properties and buildings with different use profiles and applications, from residential dwellings to buildings of internal security. The use of a building or a registered immovable has a significant impact on its energy consumption, which is why an office building that is used for five days a week and 10 hours a day on average cannot be compared to internal security buildings that are used 24 hours a day, every day.

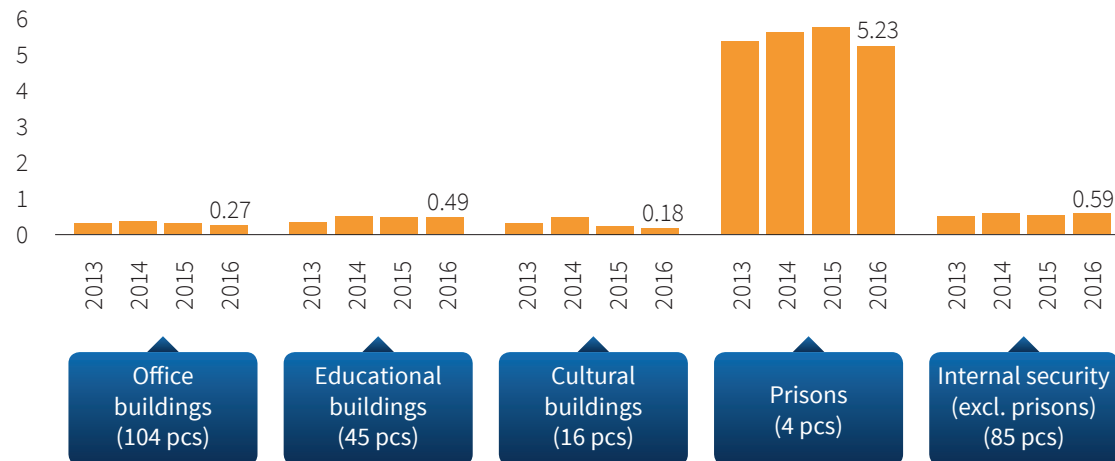
The four groups of registered immovable properties with the largest energy consumption and CNA with different applications are offices, internal security education and science and cultural buildings. The internal security buildings also include prisons with a large closed net area and energy consumption. It makes sense to look at these separately.



SPECIAL USE OF SUPPLIED ENERGY KWh/m² DEPENDING ON APPLICATION OF REGISTERED IMMOVABLE



SPECIAL USED OF SUPPLIED WATER m³/m² DEPENDING OF APPLICATION OF BUILDING



Comparison of electricity consumption, value and prices

In 2015, RKAS organised a joint procurement to purchase electricity for 1,922 measuring points from 1 January 2016 to 31 December 2016 at an estimated annual quantity of 138 GWh (which makes up approx. 2% of total electricity consumption in Estonia). The indexed average electricity price in the Estonian region of Nord Pool Spot in Estonia in 2016 was 33.06 euros/MWh, 6% higher than the average price in 2015 (31.08 euros/MWh).

Irrespective of the average price on the Nord Pool Spot power market being the most expensive in 2016, the average purchase price of the RKAS portfolio was the lowest. The decrease in purchase prices was supported by the fact that in 2015, one-third of the total supply was purchased for a fixed price, but 100% of the supply in procurement was purchased at the market price in 2016. The weighted average price of total supply of 2015 was 37.53 euros/MWh, ca 6.3% higher than the price in 2016 (35.17 euros/MWh).

Kairi Osolainen

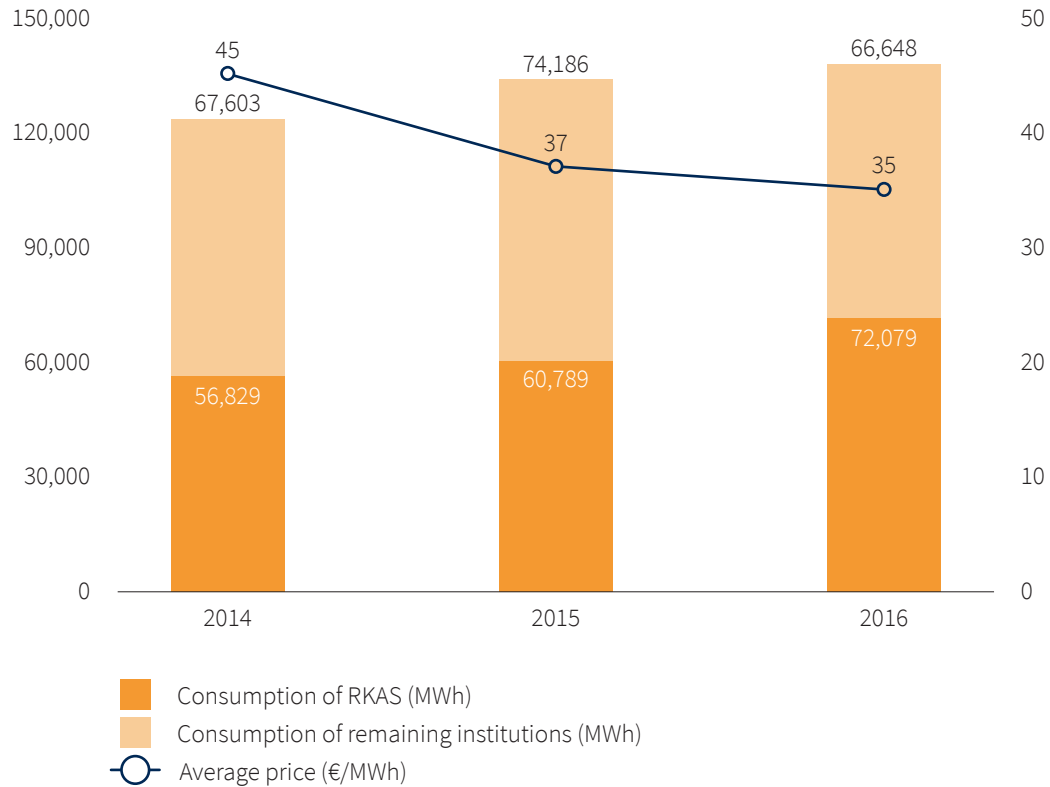
lawyer

The employees of RKAS selected Kairi as their most competent colleague in 2016.

Colleagues about Kairi: "Kairi puts her heart into her work and is very thorough. She sees the big picture and knows how to explain things in a simple and understandable language."



COSTS AND CONSUMPTION VOLUMES OF JOINT ELECTRICITY PROCUREMENT ORGANISED BY RKAS



As a result of a price drop and increase in consumption, the cost of the purchase portfolio decreased by 6.3% in 2016 compared to 2015.

Permits for special use of water

Seven permits for the special use of water had been issued to RKAS by the end of 2016:

1. Luhamaa border crossing point, Lütä village, Misso municipality, Võru County;
2. Piusa border guard station, Võmmorski village, Meremäe municipality, Võru County;
3. Vasknarva border guard station, Vasknarva village, Alajõe municipality, Ida-Viru County;
4. Viljandi Upper Secondary School, Hariduse 2, Viljandi, Viljandi County;
5. Narva maintenance base, Tiigi 9a, Narva, Ida-Viru County;
6. Mustajõe border guard station, Loori, Auvere village, Ida-Viru County;
7. Koidula border guard station, Koidula village, Värska municipality, Põlva County.

Office: the energy consumption of office buildings is decreasing, but the portfolio includes many buildings with deficient indoor climate, where low consumption is caused by the indoor climate and buildings with modern climate control systems, where overheating and ventilation occurs.

Educational buildings: the use of heat energy has increased rather significantly in recent years. The increase is the consequence of significant changes in the portfolio and the addition of new buildings, where post-construction fine-tuning has not yet been done. Thus, there is great potential for achieving considerable energy savings in educational buildings with a low investment. The energy consumption of the building outside the time of its use must therefore be considerably reduced.

Internal security buildings: the energy consumption of buildings has remained stable, but the use of electricity has increased somewhat. The reasons for the growth depend on the sites, e.g. consumption intensity at border guard stations has increased and the new shared buildings of the Police and Border Guard Boards are equipped with modern climate control systems.

Prisons: energy consumption has increased. Prisons depend very much on the number of inmates.

Cultural buildings: energy consumption has decreased. The consumption of heat energy has decreased the most as a result of the installation of a heat pump system in the Art Museum of Estonia, which consumed a lot of energy. The consumption of electricity has also decreased considerably, mostly as a result of the addition of the Estonian National Museum to the portfolio (the area of the building is big, but it was underused in the first half of 2016).

In comparison with the Estonian National Development Plan of the Energy Sector, the respective buildings in the portfolio of RKAS are in better condition than those described in the development plan, but it is still necessary to consistently work on energy savings and analyse and streamline data. The planning of energy savings and possible activities requires adequate and accurate energy consumption data.

Energy-saving solutions

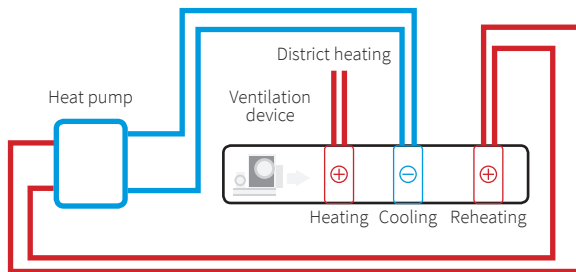
G4-EN6; G4-EN7

Best examples – energy savings activities of KUMU heat pump

The energy savings activities of the Art Museum of Estonia were mapped in 2014 and the measure that enables the best economic efficiency to be achieved was selected: the installation of a heat pump system for recovering the heat emitted in the drying process.

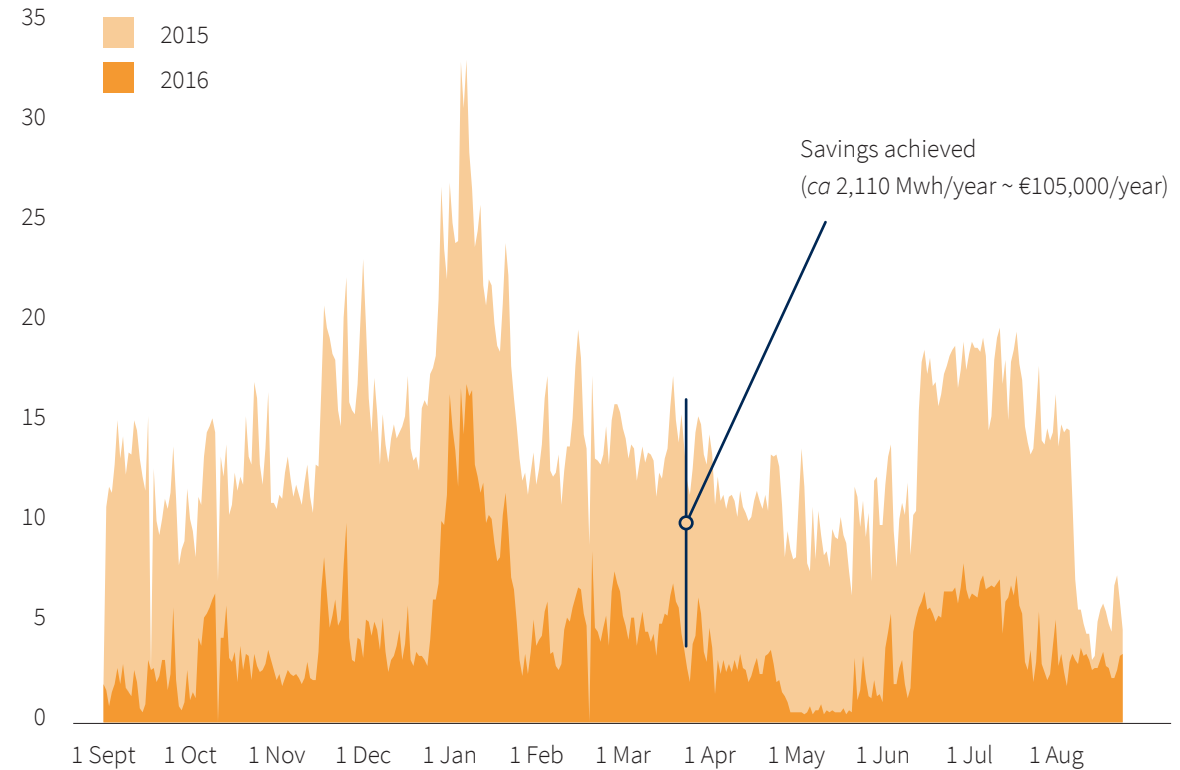
Indoor climate is thoroughly controlled at KUMU in order to maintain the desired indoor temperature and the relative humidity of air inside the rooms. Depending on the ambient air parameters, the building must be humidified (mainly in winter when the absolute humidity of ambient air is low) or dried (mainly in summer, when the humidity of ambient air is high). Cooling is used to dry ambient air and when the suitable humidity is achieved, the ambient air must be heated to guarantee suitable air in the room. This means that KUMU constantly needs cooling and heating, and the most practical solution to this is a heat pump. The need for heating was the same as the average need for heat energy during the heating period due to the fact that the air is dried.

Conceptual scheme of the solution of drying with a heat pump, where cooling is used to dry the air and the air temperature is raised again later:



The technical solution was designed in the first half of 2015 and two heat pumps with thermal input of 200 kW were adopted for use on 18 August 2015 to guarantee the optimal indoor climate. The results of the first 12 months indicate that significant amounts of money have been saved. 58% of the necessary heat energy is obtained from the heat emitted during the drying and cooling process. In addition to the directly reduced cost of heat energy, electricity consumption has also decreased, because the new heat pumps produce cooling energy more effectively than the old cooling compressor devices.

THERMAL ENERGY PRODUCTION OF KUMU BOILER HOUSE (Mwh/day before and after the installation of the heat pump)



All in all, the energy costs of KUMU decreased by ca €105,000 and the system has worked at a capacity of 7.43 (i.e. 1 unit of electricity has produced 7.43 units of heating or cooling energy). This solution can also be used in other museums or buildings that have a similar need for cooling and heat energy.

Best examples – Total Concept

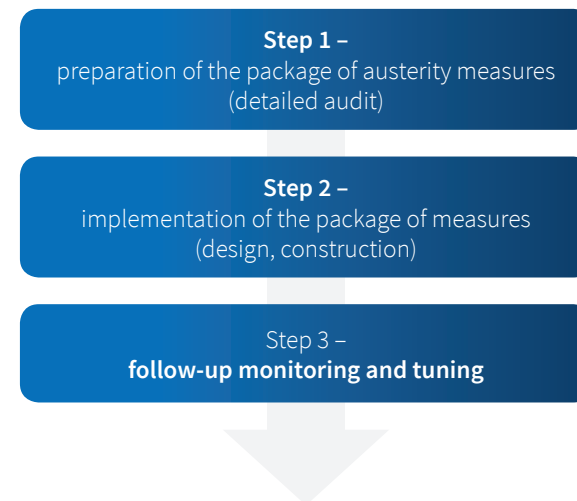
The third stage of the international project for testing the Total Concept energy auditing methodology for non-residential buildings that started in 2014 (<http://totalconcept.info>), i.e. the follow-up monitoring and completion of the project, took place in 2016. The Total Concept methodology was developed in order to find a set of possible measures by way of energy auditing that would be economically profitable for property owners. The activities start with an audit of the building and end with the monitoring of energy consumption after renovation, with a lot of emphasis being placed on the achievement of the calculated result.

The methodology is divided into activities in three stages:

Stage 1 – preparation of a set of measures (the building is audited, various energy-saving measures are selected and the packages of different measures are calculated considering the confluence of the measures);

Stage 2 – the set of selected measures which is economically reasonable and guarantees a positive internal revenue rate for the property owner is realised;

Stage 3 – the result achieved with the measures is analysed and works are fine-tuned to achieve the calculated savings.



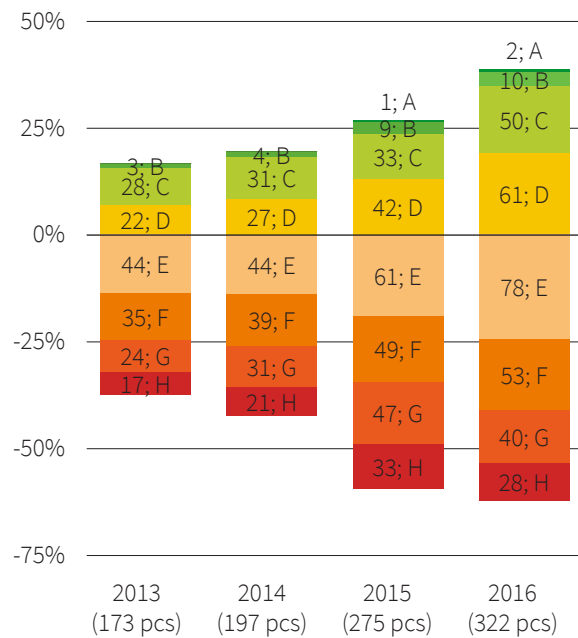
As a result of the project, we tested the methodology on three RKAS buildings: Pärnu Koidula Upper Secondary School (Metsa 21, Pärnu); Gonsiori 29, Tallinn; and Kiriku 2/4, Tallinn. The results can be reviewed in the 2016 Annual Energy Management Report of RKAS (www.rkas.ee/parim-praktika/riigi-kinnisvara-energiajuhtimise-aastaruanne).

Additional information on energy-saving solutions is accessible on the website of RKAS at www.rkas.ee/parim-praktika.

Distribution of energy-performance labels

The distribution of energy-performance labels of buildings in the RKAS portfolio is presented in the following diagram.

DISTRIBUTION OF ENERGY-PERFORMANCE LABELS IN THE MANAGEMENT PORTFOLIO ACCORDING TO MINIMUM REQUIREMENTS OF ENERGY EFFICIENCY



Compared to the year before, the number of objects increased in connection with transfer of assets and ordering energy-performance labels for existing buildings.

Pursuant to the law, the minimum requirement for a new building is energy-performance class C, but as of 2017 RKAS will improve its requirements and plans to start constructing buildings whose energy-performance label class is at least B. This change is required, because as of 1 January 2019 all new central government buildings must be A-class buildings pursuant to EU directive 2010/31/EU.

Emissions

G4-EN20; G4-EN-RKAS-3

Although substances that deplete the ozone layer are not used in new buildings, objects have been transferred to the RKAS portfolio whose cooling, air-conditioning or fire-fighting equipment, labs or pest control use such substances.

The total recorded quantity of the ozone-damaging substance R22 was 118.05 kg in 2016 (96.6 kg in 2015) and there were 12 pieces of equipment that contained it (10 in 2015). RKAS is planning to replace or readjust all of these devices in the period from 2017-2020; the transition applies to the substances R-422D and R-407.

The new version of the general part of the technical specification of utility maintenance is being finalised and the part that covers the handling of substances that deplete the ozone layer and of fluorine gases has been significantly supplemented, which enables us to keep the issue under better control.

Ambient air pollution permits

13 ambient air pollution permits had been issued to RKAS by the end of 2016:

1. Porkuni School, Ilumäe tee 6, Porkuni village, Tamsalu municipality, Lääne-Viru County;
2. Koidula railway border station, Väraska municipality, Põlva County;
3. Harku and Murru prisons, Pikk 19, Harku municipality, Harju County;
4. Office building, Lasnamäe 2, Tallinn, Harju County;
5. West-Harju Police Department, Rahumäe tee 6, Tallinn, Harju County;
6. Tallinn Prison, Magasini 35, Tallinn, Harju County;
7. Central Criminal Police building, Tööstuse 52a, Tallinn, Harju County;
8. Tartu Road Courthouse of Harju County Court, Tartu mnt 85, Tallinn, Harju County;
9. Northern Police Prefecture, Tatari 39, Tallinn, Harju County;
10. Ikla border customs station, Ikla village, Häädemeeste municipality, Pärnu County;
11. Hiiu County Government building, Leigri väljak 5, Kärdla, Hiiu County;
12. Kitchen building of Kadriorg Palace, A. Weizenbergi 28, Tallinn, Harju County;
13. Tallinn border guard station of the Border Guard Bureau of the Northern Prefecture of the Police and Border Guard Board, Süsta 15, Tallinn, Harju County.



NEW BUILDING
OF THE PIUSA BORDER
GUARD STATION

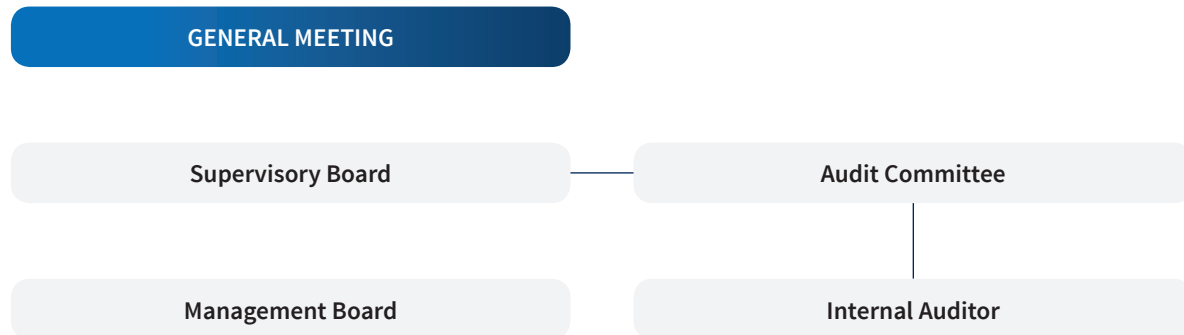


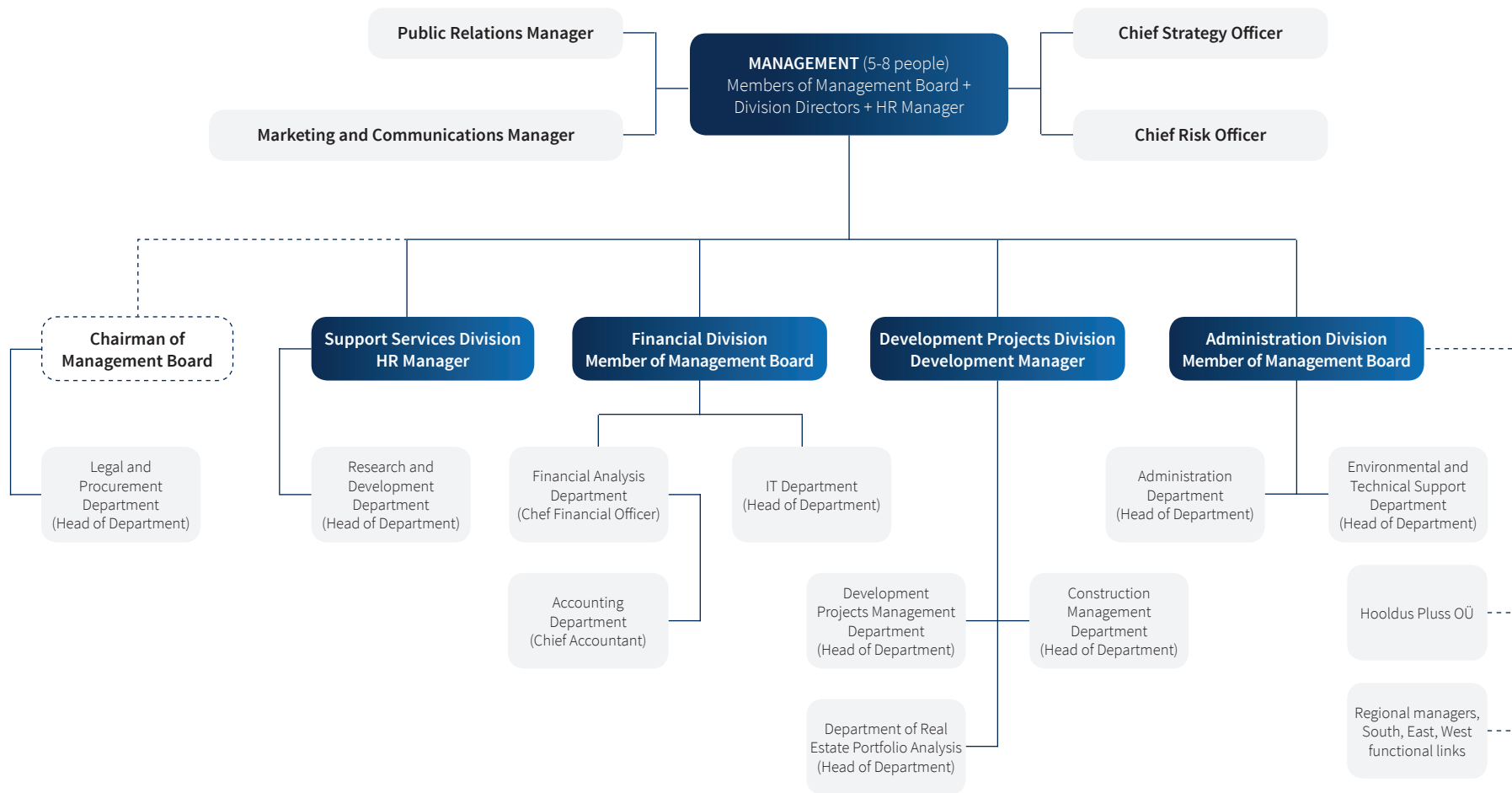
MANAGEMENT OF THE ORGANISATION

G4-7; G4-9; G4-17; G4-34

The Republic of Estonia is the 100% shareholder of RKAS and as at 31 December 2016 the company's share capital amounted 207,426,100 euros. The shares are managed by the Ministry of Finance.

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





General meeting

The highest management body of the public limited company is the general meeting, and the representative of the Ministry of Finance at the general meeting is the Minister of Public Administration. The annual meeting is held once a year within four months of the end of the financial year of RKAS.

Supervisory board

The supervisory board plans the activities of RKAS, organises its management and supervises the activities of the management board. The supervisory board notifies the general meeting of the results of a review. The supervisory board gives orders to the management board for the organisation of the management of the company. The supervisory board decides on the development strategy and investment policy of the company, the conclusion of transactions with immovables and the adoption of the investment and annual budget prepared by the management board.

Tarmo Porgand (Chairman of the Supervisory Board), Kalev Lillo, Jüri Eerik, Teet Reedi, Yoko Alender, Tõnis Rüütel and Olle Koop belonged to the supervisory board of RKAS during different periods in 2016.

Meetings of the supervisory board are held according to the work plan approved at the beginning of the reporting period, but no less frequently than once every three months.

Management board and management

The management board is the managing body of RKAS which represents and manages the company. The management board of RKAS had three members in 2016. They were Urmas Somelar (Chairman of the Management Board), Piia Kallas until 30.01.2016 and again as of 01.04.2016, Elari Udam until 10.10.2016 and Tanel Tiits as of 19.10.2016.

The management is the managing body of RKAS which represents and manages the company in everyday activities. According to the management regulations, the management is appointed by the management board on the proposal of the chairman of the management board. As a rule, the directors of all divisions and the HR manager belong to the management. The management of RKAS had five members in 2016. They were Urmas Somelar, Tanel Tiits (as of 19.10.2016), Elari Udam (until 10.10.2016), Piia Kallas, HR Manager Marjut Engelbrecht and Development Director Timo Aarmaa.

Resolutions within the competency of the management board were adopted at management meetings and no separate management board meetings were held. Management meetings are held twice a week and electronic voting is organised where necessary.

Audit committee

The supervisory board of the company has formed an audit committee whose tasks, according to the articles of

association, are advising the supervisory board about accounting, auditing, risk management, internal control and auditing, exercise of supervision, budget drafting, approval of the annual report and the lawfulness of activities.

Resolutions and meetings

Audit committee:

2016 – 8 meetings (incl. 0 electronic votes).
2015 – 6 meetings (incl. 0 electronic votes).

Supervisory board:

2016 – 18 meetings (incl. 0 electronic votes).
2015 – 10 meetings (incl. 0 electronic votes).

General meeting:

2016 – 24 resolutions.
2015 – 23 resolutions.

Management board and management / member of management board:

2016 – 83 meetings, 384 resolutions / 266 resolutions.
2015 – 76 meetings, 294 resolutions / 238 resolutions.

In addition, a project council, an asset management committee and an administrative activity committee have been formed to make management decisions in these fields whose activities are established in the rules and regulations of the management committees.

RISK MANAGEMENT

G4-14; G4-S03; G4-S04

The assessment of the risks of projects continued in 2016 using the KLOTS risk management system (the project risk management system of RKAS, which aims to make risk management in the company efficient) to identify and assess the risks that may be associated with projects and plan corresponding risk management activities.

KLOTS is used for all projects and entails assessments of financial risks, management risks and risks related to activities. The risks of these three levels are then placed in a risk universe that includes safety and occupational safety risks, market risks, quality risks and other risks of the internal and external environment of the organisation. The impact (criticality) and probability (frequency) of a risk are assessed and a risk is assigned a responsible person and necessary management activities.

Risk maps

Preparation and regular updating of risk maps for the buildings in the RKAS management portfolio continued in 2016, having started the year before. These maps, which establish rules of conduct for different emergency situations, have become an integral part of the internal procedure rules of all buildings and facilitate raising the awareness of customers regarding risks involved in objects.

The risks of dangerous situations on sites are additionally mapped in the case of property to be taken over, including social risks (such as expectations of the community) and larger environment-related factors (such as important circumstances related to the pumping well, substation, utility waste water, gas utility lines, etc. passing through the community's territory).

During risk assessment carried out in 2016, all risks involved in the area of activity of the company were updated (the so-called risk universe of RKAS, which currently

includes 108 mapped risks). The impact and probability of a risk and the applied management measure are assessed, which results in the development of a risk ranking that must be taken into account by profit centres when managing risks for the achievement of the goals set out in their action plans.

RKAS assessed the following as the main risks in 2016:

1. External environment, uncertainty of expectations and needs of customers

The quality of the terms of reference and complexity of projects, changing of customer needs and functions in time, and the continuous specification of tasks and work require additional resources. However, the Public Procurement Act does not allow for flexibility in contractual relationships: opportunities to terminate a contract and organise a new procurement are complicated due to the process being very time-consuming. This creates a risk of an increase in costs and decrease in customer satisfaction.

2. Low-quality or insufficient data

The necessary data are not submitted by the deadline. Incorrect source data are amplified due to the cross-usage of information systems and create a possibility of significant mistakes in financial accounting. Finding the errors and correcting the data later require a lot of resources.

3. Administrative capacity of the organisation

The increase in the administrative burden caused by the volume of the administrative portfolio, complexity of projects and rigidity of the decision-making process as well as the periodically uneven distribution of the workload threaten the quality of work and timely achievement of objectives.

4. Development activities

Problems in development activities (e.g. a delay in the detailed plan procedure) make it possible to keep to the schedule of a project. Errors and inaccuracies in construction activities cause overruns in deadlines and delays in the delivery of objects and receipt of rent payments.

5. Planning and implementation of procurements

Competency risk (shortcomings in the technical specifications of a procurement) and price risk – a difference between the long-term forecast of prices and the actual expenses may result in oversupply or undersupply.

6. Data protection

The accessibility of confidential data, insufficient security of IT systems and lack of recovery and business continuity plans may result in information security risks.

7. Reputational risk

As a state-owned company, RKAS is constantly under special public attention. Acting as a centre of excellence depends on good reputation, which is why the reputational risk is high.

8. Corruption risk

RKAS as an organiser of public procurements must guarantee that its procedures and adopted resolutions are lawful, clear and transparent. Otherwise, there is the threat that the employees of RKAS may do something corrupt or be pressured into doing so by interested parties.

Action plans have been prepared for all of the main risks and they are regularly updated.

The plan for 2017 is to have each profit centre prepare their specific action plans for the achievement of their goals on the basis of the approved new strategy, and link these action plans with risks and the risk management measures to be applied. The situation will be monitored quarterly according to plans.

Prevention of corruption

RKAS observes the principle of zero tolerance in regard to any form of corruption.

Our activities are based on the principles of honesty and transparency, and compliance with ethical considerations by all employees is important to us. To ensure this, we established hotlines, which is one solution allowing people to pass on information anonymously about an event that does not comply with good business practice or generally accepted moral standards.

The hotline, e-mail or website hint forms are available to employees, partners and third parties. The information submitted via these channels is only received by an independent external auditor who guarantees confidentiality and ensures the total anonymity of the person notifying, analyses the information and forwards a summary of the hint to RKAS without reference to the source of the information.

The value of the whistle-blowing channel to the organisation lies primarily in the timely discovery of misuse of office and provides added reassurance to both employees complying with the ethical code and to law-abiding partners.



NEW BUILDING
OF THE NATIONAL
ARCHIVES NOORA



Stable cooperation with an independent auditor in checking the information received via the whistle-blowing channels continued in 2016. Three of the hints given in 2016 required additional inspection and were related to the inappropriate performance of contractual obligations by partners of RKAS.

In addition to the assessment of the general risks of the company, we also carried out mapping of so-called corruption risks in 2016, as a result of which the supervisory board established new principles for the prevention of corruption and a procedure for the prevention of conflicts of interest at RKAS.

Until 2016 (inclusive), all employees of RKAS were obliged to submit a declaration of personal interests once a year, which covered details of the holdings of employees and their related persons in companies, membership of the management bodies of companies or other legal persons, membership of professional associations, informa-

tion on the valid registration of economic activities and any other data that could potentially cause a conflict of interest. All employees submitted their declarations of personal interests in time during the reporting period.

The procedure for declaring personal interests was changed in 2016, only requiring the employees of RKAS and its subsidiary Hooldus Pluss engaged in the organisation or preparation of public procurements to declare their personal interests. The obligation to submit the declaration arises from the employee's job description. The new procedure will be implemented as of 2017.

In addition to the information presented in the declaration of interests, RKAS is subject to permanent auditing, which involves the assessment of possible risks of fraud, including situations of conflicts of interests. No potential conflict of interests or activities related to suspected corruption were identified among the employees of RKAS in 2016.

Ethical code of employees

G4-56

The ethical code establishes important ethical principles for the employees of RKAS and highlights activities that are deemed acceptable or unacceptable. The code prohibits the use of any methods that distort competition in the performance of duties, incl. the terms and conditions of accepting gifts and refusing services. The ethical code is based on the values of RKAS, which include competence, reliability and consideration as well as the good practices of our cultural space, traditions and generally accepted moral standards.

The code applies to all persons that have entered into a contract of employment for a specified or unspecified term, as well as to the members of management bodies and trainees. In 2016, there were no violations of the ethical code.

GRI CONTENT INDEX

Structure of Sustainability Report

G4-18

This report is prepared based on the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and corresponds to the requirements of the Core level. According to this level, the report includes General Standard Disclosures and Specific Standard Disclosures.

Riigi Kinnisvara AS is preparing an annual sustainability report for the fourth year in a row, this report covering the period from 01.01.2016-31.12.2016. The previous sustainability report covered the period from 01.01.2015-31.12.2015. The business operations of RKAS and aspects that influence the opinions and decisions of stakeholders are taken into account in the report.

Assessment of importance

G4-19

Methodology

G4-23

In comparison with the previous reporting period, the assessment of significance was carried out on the basis of improved assessment methodology. In order to identify the topics to be covered by reporting, the assessment was carried out according to the GRI G4 Guidelines and principles, taking two dimensions into account: the impact on the business operations of RKAS and the impact on stakeholders. This dual assessment makes it possible to map the expectations of stakeholders regarding the report's content and the topics that are important to the organisation. In light of the outcomes of the assessment, the list of topics with indicators reported by RKAS has been thoroughly reviewed and updated.

The following five-point scale was used for the assessment of significance:

1. insignificant;
2. of little significance;
3. somewhat significant;
4. significant;
5. highly significant.

According to the assessment methodology, the value '1 – insignificant' is given to topics whose impact on the business operations of RKAS or the decisions and opinions of stakeholders is not significant. The value '5 – highly significant' is given to topics that have a significant impact on the business operations of RKAS or influence the decisions and opinions of stakeholders to a significant extent.

Stakeholders

G4-24, G4-25, G4-26

The organisations and individuals identified as stakeholders by RKAS are those reasonably affected by the activities of RKAS and whose activities may reasonably affect the ability of RKAS to implement strategies and achieve goals. Based on the above, the following have been defined as significant stakeholders:

- the owner (the Ministry of Finance) – sets objectives and exercises supervision over activities;
- customers – the minister, the secretary general (decision-maker);
- users – real estate users, i.e. the employees and officials working in the building;
- community – research institutions in the field, professional associations, local people;
- employees – the organisation’s employees;
- service providers – providers of real-estate development, construction, management and maintenance services.

The assessment results illustrate the opinions of all stakeholders to the extent corresponding to the weight attributed to the respective stakeholder by the organisation.

Results

G4-20, G4-21

Significance in terms of the business operations of RKAS and stakeholders was assessed on the basis of a list of 27 topics. The consolidated assessment results were determined according to the described methodology as a multiple of the two dimensions. The following nine topics, which received the highest scores, are covered in the report:

1. Investments, sales and procurements
2. Property maintenance and guaranteeing the property environment
3. Environmental sustainability
4. Economic performance
5. Employment and education, occupational health and safety, healthy quality of life
6. Legal compliance
7. National policy
8. Corruption and ethics
9. Indirect economic impact

The topics that were rated as significant have been brought into compliance with the GRI G4 requirements and are recognised in the GRI content index in the rows of the aspects given as part of the specifically disclosed data.

Organisation-specific indicators have been added to the sectoral topics, which are not contained in the GRI Guidelines, but which are the measurable performance indicators of the topics that are significant to RKAS. The indicators can be distinguished by the marker ‘RKAS’ in their code.

GRI CONTENT INDEX

Structure of Sustainability Report of RKAS according to GRI G4 Core level Reporting Guidelines.

General standard disclosures	GRI Content Index	Reporting
STRATEGY AND ANALYSIS		
G4-1	CEO's review	P 6
ORGANISATIONAL PROFILE		
G4-3	Report the name of the organisation	Estonian State Real Estate LTD
G4-4	Report the primary brands, products, and services	Chapter "Service Portfolio" p 12
G4-5	Report the location of the organisation's headquarters	Tallinn, Estonia
G4-6	Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	Estonia
G4-7	Report the nature of ownership and legal form	Pp 3, 50
G4-8	Report the markets served	Estonia
G4-9	Report the scale of the organisation	Pp 12, 27, 50
G4-10	Report total number of employees by employment type, kind, employment contract and region by gender	Chapter "Employees" p 35
G4-11	Report the percentage of total employees covered by collective bargaining agreements	0
G4-12	Describe the organisation's supply chain	P 23
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	There were no significant changes
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	P 53



G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	ISO 9001:2008; ISO 14001:2004; EU Directive 2010/31/EU
G4-16	Membership of associations	P 11
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	All entities included in the organisation's consolidated financial statements or equivalent documents	P 50
G4-18	Explain the process for defining the report content and the Aspect Boundaries	P 57
G4-19	List all the material Aspects identified in the process for defining report content	P 57
G4-20	For each material Aspect, report the Aspect Boundary within the organisation	P 58
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation	P 58
G4-22	Report the effect of any restatements of information provided in previous reports	There are no such reinstatements
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	P 57
STAKEHOLDER ENGAGEMENT		
G4-24	Provide a list of stakeholder groups engaged by the organisation	P 58
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	P 58
G4-26	Approach to stakeholder engagement including engagement frequency by type and group of stakeholder	P 58
G4-27	Report key topics and concerns that have been raised through stakeholder engagement	Stakeholders were not engaged in the preparation of the report, but their opinions and attitudes were taken into account on the basis of the feedback collected from various sources throughout the year (satisfaction surveys, seminars, events, media, etc.)

REPORT PROFILE

G4-28	Reporting period for information provided	1 January 2016 to 31 December 2016
G4-29	Date of most recent previous report	The most recent previous sustainability report was disclosed on 1 August 2016 for the period from 1 January 2015 to 31 December 2015
G4-30	Reporting cycle	Annual
G4-31	Provide the contact point for questions regarding the report or its contents	info@rkas.ee
G4-32	Report the 'in accordance' option the organisation has chosen, report the GRI Content Index for the chosen option	'In accordance' – Core, GRI Content Index p 59
G4-33	Report the organisation's policy and current practice with regard to seeking external assurance for the report	The sustainability report has not been audited

GOVERNANCE

G4-34	Report the governance structure of the organisation	Chapter "Governance of organisation" p 50
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ETHICS AND INTEGRITY

G4-56	Describe the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Pp 9, 11, 56
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SPECIFIC STANDARD DISCLOSURES

ASPECTS ASSESSED BY RKAS: ECONOMIC PERFORMANCE, PROPERTY DEVELOPMENT, ORGANISATION OF PROCUREMENT and INDIRECT ECONOMIC IMPACT

ECONOMIC

Material aspect: Economic performance

G4-DMA	Generic Disclosures on Management Approach	Chapter "Economic performance" p 27
G4-EC1	Direct economic value generated and distributed	P 27

Material Aspect: Indirect economic impact

G4-DMA	Generic Disclosures on Management Approach	Chapter "Indirect economic impact" p 27
G4-EC8	Significant indirect economic impacts, including the extent of impacts	P 27

Material Aspect: Procurement practices

G4-DMA	Generic Disclosures on Management Approach	Chapter “Property development and organisation of procurements” p 17
G4-EC-RKAS-1	Disputed procurements	P 20
G4-EC-RKAS-2	Meeting deadlines of investment projects	P 20
G4-EC-RKAS-3	Adherence to budgets of investment projects	P 20

ASPECTS ASSESSED BY RKAS: ENVIRONMENTAL SUSTAINABILITY, PROPERTY MAINTENANCE AND GUARANTEEING THE PROPERTY ENVIRONMENT**ENVIRONMENTAL SUSTAINABILITY****Material Aspect: Energy**

G4-DMA	Generic Disclosures on Management Approach	Chapter “Environmental policy” p 38
G4-EN3	Energy consumption within the organisation	P 39
G4-EN4	Energy consumption outside the organisation	P 39
G4-EN5	Energy intensity	P 41
G4-EN6	Reduction of energy consumption	P 45
G4-EN7	Reductions in energy requirements of products and services	P 45

Material Aspect: Water

G4-DMA	Generic Disclosures on Management Approach	Chapter “Overview of energy and water consumption” p 39
G4-EN-RKAS-1	Water consumption per premises and building type	P 41
G4-EN-RKAS-2	Permits for the special use of water	P 44

Material Aspect: Emissions

G4-DMA	Generic Disclosures on Management Approach	Chapter “Environmental policy” p 38
G4-EN20	Emissions of ozone-depleting substances (ODS)	P 48
G4-EN-RKAS-3	Ambient air pollution permits	P 48

SOCIAL**ASPECTS ASSESSED BY RKAS: EMPLOYMENT AND EDUCATION, HEALTH AND SAFETY, HEALTHY QUALITY OF LIFE****LABOUR PRACTICES AND DECENT WORK****Material Aspect: Employment**

G4-DMA	Generic Disclosures on Management Approach	Chapter “Employees” P 35
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	P 35

Material Aspect: Occupational health and safety

G4-DMA	Generic Disclosures on Management Approach	Chapter “Occupational health and safety” p 36
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	P 36

Material Aspect: Training and education

G4-DMA	Generic Disclosures on Management Approach	Chapter “Training and employee development” p 36
G4-LA9	Average hours of training per year per employee by gender, and by employee category	P 36
G4-LA11	Percentage of employees receiving regular performance and career development Reviews, by gender and by employee category	P 36

ASPECTS ASSESSED BY RKAS: CORRUPTION AND ETHICS, LEGAL COMPLIANCE

SOCIETY

Material Aspect: Anti-corruption

G4-DMA	Generic Disclosures on Management Approach	Chapter "Risk management" p 53
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	P 53
G4-SO4	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	P 53
G4-SO5	Confirmed incidents of corruption and action taken	No reported cases of corruption

Material Aspect: Anti-competitive behavior

G4-DMA	Generic Disclosures on Management Approach	Chapter "Risk management" p 53
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Non-compliance with laws and regulation was not ascertained in the period under review

ASPECTS ASSESSED BY RKAS: PROPERTY MAINTENANCE AND GUARANTEEING THE PROPERTY ENVIRONMENT

PRODUCT RESPONSIBILITY

Material Aspect: : Customer health and safety

G4-DMA	Generic Disclosures on Management Approach	Chapter "Customers and users" p 32
G4-PR1	Percentage of significant product and service categories for which health and Safety impacts are assessed for improvement	P 34
G4-PR-RKAS-1	Number of customer contacts and timeliness of resolution	P 32

Material Aspect: Product and service labelling

G4-DMA	Generic Disclosures on Management Approach	Chapter "Customers and users" p 32
G4-PR5	Results of surveys measuring customer satisfaction	P 34

ANNUAL ACCOUNTS

Consolidated Balance Sheet

(thousand euros)	31.12.2016	31.12.2015	Note No.
ASSETS			
Current assets			
Cash	14,803	39,784	2
Receivables and prepayments	6,488	7,027	3
Inventories	12,756	11,033	6
Total current assets	34,047	57,844	
Fixed assets			
Receivables and prepayments	36,242	38,569	3, 10
Investment properties	9,014	8,454	7
Tangible fixed assets	428,677	315,838	8
Intangible fixed assets	926	545	9
Total fixed assets	474,859	363,406	
TOTAL ASSETS	508,906	421,250	
LIABILITIES AND EQUITY CAPITAL			
Liabilities			
Current liabilities			
Loan commitments	5,522	5,744	12
Payables and prepayments	24,646	26,719	13
Total current liabilities	30,168	32,463	

Consolidated Balance Sheet / continues

(thousand euros)	31.12.2016	31.12.2015	Note No.
Non-current liabilities			
Loan commitments	97,895	103,479	12
Payables and prepayments	33,846	33,929	13
Targeted financing	35	17	15
Total non-current liabilities	131,776	137,425	
Total liabilities	161,944	169,888	
Equity capital			
Equity held by shareholders of parent company			
Share capital at nominal value	207,426	188,459	16
Unregistered share capital	0	2,179	
Share premium	1	0	
Legal reserve	3,782	2,998	
Retained earnings (loss)	122,368	41,948	1
Profit (loss) for financial year	13,385	15,778	
Total equity held by shareholders of parent company	346,962	251,362	
Total equity capital	346,962	251,362	
TOTAL LIABILITIES AND EQUITY CAPITAL	508,906	421,250	

Consolidated Income Statement

(thousand euros)	2016	2015	Note No.
Sales revenue	90,174	88,854	17
Cost of goods and services sold	-67,597	-68,658	18
Gross profit (loss)	22,577	20,196	
Marketing expenses	-1,624	-1,416	19
General administrative expenses	-3,859	-3,582	20
Other operating revenue	48	4,294	
Other operating expenses	-797	-428	
Operating profit (loss)	16,345	19,064	
Other financial income and expenses	-2,960	-3,006	22
Profit (loss) before income tax	13,385	16,058	
Income tax	0	-280	
Profit (loss) for financial year	13,385	15,778	
Including:			
Share of profit (loss) attributable to a shareholder of the parent company	13,385	15,778	

Consolidated Cash Flow Statement

(thousand euros)	2016	2015	Note No.
Cash flow from operating activities			
Operating profit (loss)	16,345	19,064	
Adjustments			
Depreciation and impairment of fixed assets	11,721	11,859	18, 20
Other adjustments	0	-3	
Total adjustments	11,721	11,856	
Change in receivables and prepayments relating to operating activities	2,814	1,119	
Change in inventories	4,260	3,815	
Change in payables and prepayments related to operating activities	4,204	17,807	
Total cash flow from operating activities	39,344	53,661	
Cash flow from investing activities			
Purchase of tangible and intangible fixed assets	-55,683	-62,951	
Proceeds from sales of tangible and intangible fixed assets	0	4	
Received from targeted financing	17	0	
Interest received	112	842	
Other receipts from investing activities	0	6,900	
Total cash flow from investing activities	-55,554	-55,205	

Consolidated Cash Flow Statement / continues

(thousand euros)	2016	2015	Note No.
Cash flow from financing activities			
Repayments of loans raised	-5,744	-5,680	12
Interest paid	-3,027	-3,284	22
Corporate income tax paid	0	-280	
Total cash flow from financing activities	-8,771	-9,244	
Total cash flow	-24,981	-10,788	
Cash and cash equivalents at beginning of period	39,784	50,572	2
Change in cash and cash equivalents	-24,981	-10,788	
Cash and cash equivalents at the end of the period	14,803	39,784	2

Consolidated Statement of Changes in Equity Capital

(thousand euros)	Equity held by shareholders of parent company					Total
	Share capital at nominal value	Unregistered share capital	Share premium	Legal reserve	Retained profit (loss)	
31/12/2014	181,659	0	0	2,516	50,729	234,904
Profit (loss) for financial year	0	0	0	0	15,778	15,778
Issued share capital	6,800	2,179	0	0	0	8,979
Changes in reserves	0	0	0	482	-482	0
Other changes in equity capital	0	0	0	0	-8,299	-8,299
31/12/2015	188,459	2,179	0	2,998	57,726	251,362
Profit (loss) for financial year	0	0	0	0	13,385	13,385
Issued share capital	18,967	-2,179	1	0	0	16,789
Changes in reserves	0	0	0	784	-784	0
Other changes in equity capital	0	0	0	0	65,426	65,426
31/12/2016	207,426	0	1	3,782	135,753	346,962

For further information about shareholder's equity entries, see Note 16 to the Annual Accounts.

The full report of Annual Accounts is available at:

goo.gl/urr4Wq

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Riigi Kinnisvara AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Riigi Kinnisvara AS and its subsidiary (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

We audited the Group's consolidated financial statements that comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and

- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Estonia and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a

whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



AS PricewaterhouseCoopers

Licence No. 6

Pärnu mnt 15, 10141 Tallinn, Estonia

31 March 2017

Tiit Raimla

Auditor's certificate no. 287

Janno Hermanson

Auditor's certificate no. 570

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

This independent auditor's report (translation of the Estonian original) should only be used with the annual report submitted into electronic Company Registration Portal in Centre of Registers and Information Systems.





