

ANNUAL REPORT 2011

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Classification of Economic Activities code:	8610
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Principal area of activity:	Health
Beginning of financial year:	01.01.2011
End of financial year:	31.12.2011
Management Board:	Tõnis Allik (Chairman) Sven Kruup Sergei Nazarenko
Auditing company:	AS Deloitte Audit Eesti

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1 MANAGEMENT REPORT

In 2011, the Medical Centre reinforced its role as a regional hospital and realised several important aims arising from the development plan.

The North Estonia Medical Centre (hereinafter: the Medical Centre, Estonian abbreviation PERH) is a regional hospital whose principal activity is to provide specialised medical care in the majority of medical specialities, to be a pre-degree and in-service training base for healthcare professionals and to conduct medical research.

The Medical Centre operates on two levels: the function of a regional hospital – the centre is obliged to provide healthcare of the highest level of complexity to persons covered by health insurance from all the counties of Estonia and the function of a central hospital – arising from the health problem of a specific patient healthcare of somewhat lower level of complexity to patients mainly from Tallinn and Harju County and Western, Northern and Central Estonia. The Medical Centre also guarantees the medical security of the people living in Harju County as the provider of ambulance services. Emergency care is provided to all persons who need that.

The wide selection of services and quality treatment of patients guarantees high numbers of patients for the Medical Centre and the intensive load on resources that results therefrom guarantees economic efficiency, incl. with respect to 24 h specialised medical care. Extensive clinical experience is the basis of treatment quality. In 2011 there were only two providers of health services in certain specialities such as multimodal oncology and haematology, cardiothoracic surgery, more complicated invasive cardiology and cardiological intensive care procedures, neurosurgery, oral, facial and chin surgery – North Estonia Medical Centre and University of Tartu Hospital. When looking back at the diagnostic and treatment work of the year that just ended, it is positive to mention that the activities of the Centre have become more and more interdisciplinary and new treatment teams uniting top skills of narrower fields have been established.

In 2011 the North Estonia Medical Centre celebrated its tenth anniversary and the Mustamäe medical district started its fortieth decade of activities. At the same time with the aforesaid milestones, an important landmark last year was the concentration of the whole acute somatic treatment of the Medical Centre in one hospital district. This may be called the triumph of Block X in Estonian healthcare. It needs to be stressed that this is not only the triumph of design and technological solutions, but also successful reorganisation and development of diagnostic and treatment work in the Medical Centre.

The Medical Centre has visitors from near and far who wish to follow the example of the Centre and on the basis of that it can be said that at the moment the know-how in the field of modern medical technological solutions, work and organisational management is an important wealth of export potential.

Healthcare indicators of the year 2011 that just ended indicate clearly that through the intensification of work more patients than before received help from the Medical Centre and their satisfaction indicators remained as high as before.

Main developments

The treatment of oncological patients was transferred from Hiiu to Mustamäe 3 years earlier than planned and this allowed to transfer the Keila Hospital and optimise the building infrastructure.

The development plan of the North Estonia Medical Centre for 2010 to 2012 defines the main development trends of the Centre as follows:

- 1) to continue the rationalisation and modernisation of the infrastructure of treatment activities;

- 2) to contribute in technological innovation;
- 3) to increase the capacity of active treatment in inpatient medicine, outpatient medicine and day treatment;
- 4) to develop the centre's household and service standard;
- 5) to mark clinical competencies, to promote coordination and cooperation in treatment and diagnostics;
- 6) to contribute in professionalism and teams; and
- 7) to develop international cooperation.

The Medical Centre fulfilled its main objective established for 2011: restoration of the share in the provision of treatment service that had reduced in 2010. In specialised medical care the money-based proportion of the Medical Centre accounted for 23% of the special medical care budget of the Estonian Health Insurance Fund. At the same time the purposeful and strenuous work towards increasing treatment volume turned out to be rather expensive (increase in staff and treatment costs) and exceeded the budget funds of the Health Insurance Fund, due to which the Medical Centre has to experience the largest loss over time.

The biggest changes concerning infrastructure and organisation in 2011 were moving the departments (except pathology) that had remained in Hiiu (surgery moved out in last weeks of 2010) to Mustamäe and moving the Follow-up Care Clinic from Keila to Hiiu. While making preparations for moving the departments in Hiiu, a modern 31-bed day treatment department and an outpatient chemotherapy department were reconstructed in Mustamäe, on the first floor of Block A. The chemotherapy reconstitution centre that located in Hiiu was moved to Mustamäe and its capacity was doubled. In Mustamäe a new Endoscopy Department was reconstructed where all the activities in the field of endoscopy in the Medical Centre concentrated. A new, third linear accelerator was obtained and installed in Mustamäe and then two accelerators locating in Hiiu were moved to Mustamäe. The registry office of the outpatient clinic in Mustamäe Section was also extended. In order to prepare moving the Follow-up Care Clinic that located in Keila, 39 repair works were performed in Hiiu, during which at first the inpatient activities of the Skin and Sexual Diseases Centre and the Occupational Diseases and Health Centre were transferred to two floors and then the vacated third floor was adjusted for the Nursing Care Department. At the same time repair work was performed in the building at Hiiu 44 according to the needs of the Follow-up Care Departments.

The most important preparatory work for the next stage of the project for renovation of Block C and the Pathology Block in 2011 were as follows: adoption of a detailed plan for the registered immovable of the Mustamäe Section (J. Sütiste tee 19), completion of the building design documentation of the second construction stage, completion of expert assessments of the building design documentation and the conduct of public procurement for construction. The preparatory work of the project also includes the completion of the new Endoscopy Department on the first floor of Block B in Mustamäe in the last months of the year and establishment of temporary space for Invasive Cardiology and Functional Diagnostics Departments.

The Medical Centre managed to maintain its most important development priorities in medical care development, quality, information systems, and research and development.

Human resources management

The Medical Centre had 3,436 employees as of 31 December 2011. Nurses and care workers comprise the biggest group of employees with a total of 2,023 employees. In addition to nurses and care workers the Medical Centre employs 483 doctors. Each year approximately one hundred doctors and residents obtain practical knowledge in the Medical Centre; in 2011 their number was 101.

The average number of employees as full-time equivalent in 2011 was 3,285.09.

In 2011, the personnel work was affected by the tight budget, similarly to 2010. Due to an increase in business volumes (outpatient and day treatment) and deficit in medical staff more stress than before had to be laid on increasing staff costs. Therefore the management had to make difficult decisions to secure balance between costs and investments. An increase in intensity of work also entails an increase in risks relating to quality and communication. However, in 2011 the staff turnover increased (from 8% to 14%) mainly on the account of nursing. In addition to finding employment abroad, we also lost experienced staff to central hospitals in Tallinn (lower work intensity and sometimes higher remuneration). Replacement of nurses who have terminated their employment contract is a huge problem as there are no reserves on labour market. In respect of doctors it is positive to mention that 18 young doctors who completed residency (approx. 4% of the total number of doctors) joined the hospital, the turnover of doctors remains low (less than 5%). More problematic issue is stiff competition among the staff in Tallinn.

This was the most complicated year for departments who had to move; however, moving also affected several departments in Mustamäe with which the departments from Hiiu joined. Thanks to the proactive organisational work of the heads and nurse managers in clinics, centres and departments as well as that of support services and moulding the attitudes of the staff, the process was smooth and did not entail a significant increase in dissatisfaction or resignation of employees. A special committee was engaged in restoration of good labour relations in the Follow-up Care Clinic and in moving the Clinic and an important contribution was also made by Dr. Arvo Petersell and Aleksei Gaidajenko, Nursing Director of the Centre. By the end of the year Dr. Merike Johanson was elected, by competition, new head of the Clinic and Master Lenne Rätsep was elected a new nurse manager.

A new employee adaptation programme for new employees of the Medical Centre was introduced along with a methodical support to their heads.

Following construction and repair work, analyses of risks of the working environment were conducted in services, Block X, the Blood Centre and renovated departments of Block B.

Last year the Centre continued the tradition of awarding grants to young doctors and recognising its best secretaries, nurses and carers. In the autumn conference the senior doctor Eldur Annus from the Orthopedics Centre of the Surgery Clinic was awarded the *Grand Man* title for his contribution in the development of the Medical Centre and the Orthopaedics Centre.

Our employees have also gained recognition outside the Centre: the general surgeon Jaan Tepp and the senior nurse Elle Siirak from the Neurosurgery Centre gained recognition as outstanding members of the medical staff from the Tallinn City Government.

Quality management

In 2011, the development of a quality management system continued at the management level of the Centre in general as well as in all of its structural units. The focus was on the development of new quality systems, standardisation of processes (incl. the conduct of audits), preparation of patient instructions and preparation of new documents of the organisation's handbook and updating existing documents.

The most important major projects included:

- the establishment of the transplantation centre and initiation of the development of quality systems arising therefrom;
- during the development of quality systems for handling of tissues and organs a special organ donor/recipient module was developed as a part of the information system of the Centre;
- extending the scope of accreditation of the laboratory, covering in full the microbiology and blood bank laboratories and diagnostics of tumour markers;
- carrying out a satisfaction survey among inpatients;
- 27 patient information leaflets were issued.

Research and development cooperation

The interdisciplinary and cooperation seminars initiated in the Medical Centre, such as the autumn conference of the centre, the spring conference of emergency medicine, interdisciplinary cooperation seminars, the information event of the Internal Medicine Clinic for family doctors, the autumn conference of the Psychiatry Clinic, etc., which have an impact on the healthcare landscape are becoming a tradition.

The Medical Centre is a founder partner in two healthcare clusters: the Estonian HealthTech Cluster and the Estonian HealthExport Cluster. In addition, negotiations are held for joining the Estonian Cell Treatment Cluster.

Cooperation with other medical centres and hospitals, the University of Tartu, the Technomedicum of the Tallinn University of Technology, the Competence Centre for Cancer Research, the ELIKO Technology Competence Centre in Electronics, Information and Communication Technologies, and the International Atomic Energy Agency is continuing.

The research activities of the Medical Centre are coordinated as from 2011 by the Research and Development Division. In 2011, there were 34 employees with a doctoral degree and 19 predoctorate students working in the Medical Centre. In 2011, employees of the Medical Centre issued 38 publications at international level, 8 in the Eesti Arst magazine and 15 in the Lege Artis magazine.

Employees of the Medical Centre were involved in the submission of 11 new applications for the commencement of research projects.

They also participated in the preparation of two applications to the Estonian Science Foundation, of which the project “Bioenergetic profile determination in cancer diagnosis and treatment” also received financing. The project is carried out in cooperation with the National Institute of Chemical Physics and Biophysics and the Competence Centre for Cancer Research.

In addition, employees of the Medical Centre took part in three calls for applications organised by Archimedes Foundation: “Supporting biotechnology research and development activities”, Programme for promoting capacity of health sciences “TerVe” (“Healthy”) and “Supporting healthcare research and development activities”. Under the “Supporting healthcare research and development activities” measure 10 applications were submitted with the participation of doctors of the Medical Centre and the results will be clear in the first half of 2012.

In 2011 the Medical Centre participated in the European Union joint project “Quantification of sun exposure in Europe and its effects on health – Eurosun”.

The Cardiology Centre, the Surgery and Anaesthesiology Clinic of the Medical Centre continue to participate in cooperation with the Tallinn University of Technology (TUT) and the ELIKO Technology Competence Centre in the R&D project “Biosignals in medical diagnostics”.

In cooperation with the TUT Department of Biomedical Engineering the Nephrology Department continued participation in the study “A novel optical technology for monitoring of uremic toxins – potential markers for malnutrition-inflammation syndrome and CVD risk”.

In cooperation with the Competence Centre for Cancer Research the Oncology and Haematology Clinic participates in the development of models for diagnostics and treatment of melanoma and in the project for the development of natural killer cells and continues participation in the development of molecular diagnostic models for breast cancer and colorectal cancer.

In the Internal Medicine Clinic several new projects were commenced in the field of pulmonology in 2011: the studies focus on clinical studying of asthma, chronic obstructive lung disease and sleep apnoea.

In cooperation with the IT service of the Medical Centre the development work of several disease-based databases (e.g. database of bariatric patients) was started.

The Cardiology Centre was also an active participant in the activities of the Estonian Myocardial Infarction Registry.

Clinical trials of medicines

Clinical trials of 34 medicines started in the Medical Centre in 2011 (22 in 2010) and the number of ongoing trials by the end of the year was 92 (73 in 2010).

219 thousand euros of income was received from clinical trials in 2011, which is 5.6% less than in 2010. The reason is the receipt of payments for the commenced trials presumably in the next reporting year.

In 2011, the Medical Centre started under the leadership of a clinical pharmacologist of the Medical Centre for the first time in Estonia in-service training on clinical trials of medicines and good clinical practices for doctors who have not undergone such training for five years or more. Considering the partners' positive response, this initiative could become a model to be followed in the future.

Development of treatment services

Similarly to the previous year, the centre once again focused on the improvement of treatment quality in 2011 and on the introduction and implementation of new methods:

- In cooperation with the Health Board the project of small islands will be launched. As a result of the project the Anaesthesiology Clinic trained the required staff and started the provision of emergency aid on Kihnu Island;
- closer cooperation with several county hospitals (Rakvere, Läänemaa and Kuressaare Hospitals), where specialist doctors of the Medical Centre see patients and provide outpatient consultations;
- activities in the field of multi-organ donorship and transplantation were enhanced both in the Centre as well as with partner hospitals;
- in cooperation with family physicians an e-consultation (condition-based prioritising in ambulatory treatment) pilot project was implemented;
- palliative care (supportive care) team and cooperation with partners inside and outside the hospital became operational;
- joint oncology and haematology polyclinic and day-treatment centre were established, which as a new approach makes it possible to render services to oncological and haematological patients with quite similar basic profile in joint treatment complex;
- Nephrology Centre and Thrombosis Office were established in the Internal Medicine Clinic, making it possible to organise better medical treatment in these specialties;
- skin tumour and melanoma office and soft tissue tumours and sarcoma office started operation in the Surgery Clinic;
- several new diagnostic methods were implemented in the Diagnostics Division: capillary electrophoresis, serological analyses in the field of infectious diseases, new allergy markers, several new tumour markers (HE4, SCC, etc.). In the field of radiology and nuclear medicine a first SIRT (*Selective Internal Radiation Therapy*) procedure was performed, in the Department of Nuclear Medicine first peptide receptor radiotherapy sessions were performed in patients with neuroendocrine tumours, in blood centre determination of B-hepatitis with NAT method. In the Pathology Centre the application of FISH investigations was developed further, macroblock investigations and immunocytochemistry were added;
- new methods in the Internal Medicine Clinic:
 - ✓ opening of chronic occlusion of retrograde coronary artery was performed in the Cardiology Centre for the first time in the hospital;

- ✓ the application of new muscle investigation myotonometry was started in the Centre of Occupational Diseases and Health;
- ✓ counselling of patients with alcohol dependency was started in the Tuberculosis Department and possibilities for the treatment of addiction disorders were offered;
- ✓ the Chemotherapy Centre started to implement new individualised biological treatment methods for stomach, colorectal and pulmonary cancer; in patients with testis cancer high-dose chemotherapy with the transplantation of peripheral blood stem cells in cooperation with haematologists; implementation of several new CUP and NPP programs (in the treatment of melanoma, sarcomas and prostate and renal cancer);
- ✓ the Radiotherapy Centre applied IGRT and IMRT radiotherapy.
- the Surgery Clinic introduced HIPEC (*Hyperthermic Intraperitoneal Chemotherapy*) method that is indicated for gastrointestinal and gynaecological cancers;
- in November the treatment of prostate cancer with implanted radioactive granules (LDR) was started in cooperation with Berlin and PERH urologists, radiotherapists and anaesthesiologists.

Revenue from provision of health services

The total volume of contracts concluded with different departments of the Estonian Health Insurance Fund in 2011 amounted to 98.64 million euros, of which outpatient specialised medical care formed 28.4 million euros (28.8%, 2010: 27%), day treatment 3.4 million euros (3.5%, 2010: 3%) and inpatient specialised medical care 66.9 million euros (67.8%, 2010: 70%).

In comparison with the year 2010 the contract volume grew by 5.6%. The highest increase in volume was in oncology – 1.9 million euros and in haematology 0.65 million euros. The contract volume reduced the most in the field of urology – 0.55 million euros.

The number of treatment cases financed by the Health Insurance Fund increased compared to 2010 by 2.1%, i.e. the total number was 336.6 thousand, incl. 296 thousand (88%) of outpatient treatment cases, 5.9 thousand (1.8%) of day treatment cases and 34 thousand (10.2%) of inpatient treatment cases. The largest increase was in psychiatry by 2,770 treatment cases, in internal diseases by 2,452 treatment cases and in pulmonology by 2,030 treatment cases. The number of treatment cases reduced in orthopaedics by 1,752 treatment cases, in neurology by 1,528 treatment cases and in ophthalmology by 1,106 treatment cases.

As more and more services are provided in day treatment, both the number of treatment cases (1,914 treatment cases) as well as the monetary volume (0.55 million euros) has increased significantly.

In inpatient treatment the increase in the number of treatment cases as well as in monetary volume was the largest in oncology (351 additional treatment cases for 0.5 million euros) and cardiology (375 treatment cases for 0.3 million euros).

Emergency specialised medical care provided to persons not covered by health insurance is paid for by the Ministry of Social Affairs. In 2011, medical care was provided on 5,968 occasions (2010: 6,974 occasions) and the total cost of the treatment services provided to them was 2.4 million euros (2010: 2.22 million euros).

In 2011, there were 4 expensive treatment cases (with the cost of more than 64 thousand euros, in 2010 two treatment cases) with a total cost of 324,647 euros (2010: 139,741 euros).

Volumes of health services provided

In 2011, the Medical Centre provided outpatient medical care in 30 specialities. Doctors saw a total of 382,509 outpatients in 2011, which shows that the total number of such consultations has increased by 37,902 (11%) in comparison to 2010 (344,607). The absolute number of consultations has increased the most in the specialities of gynaecology, cardiology, rheumatology, anaesthesiology, rehabilitation and dermatovenerology.

Inpatient specialised medical care was provided in 23 specialities. The number of beds as of the end of 2011 was 1,164, incl. 826 active treatment beds.

The number of hospitalised patients in 2011 was 36,159, which has increased by 27 patients (0.1%) in comparison to 2010 (36,132).

Investments

The Medical Centre completed its investments pursuant to the investment plan included in the development plan of the North Estonia Medical Centre.

The amount of the investments made in 2011 was 13.6 million euros, incl. 7.5 million euros invested in construction and reconstruction and 4.3 million euros invested in equipment. Reconstruction work performed under the ERDF financing project comprised 1.5 million euros and renovation of other buildings comprised 5.9 million euros of construction investments.

The biggest investments in 2011 were made in equipment of the Radiotherapy Centre (a total of 2.1 million euros), in technology of the Radiology Centre (a total of 0.8 million euros) and in equipment of the Cardiology Centre (a total of 0.5 million euros).

The investments have been recognised without VAT. Health services are not subject to value added tax and, therefore, value added tax on investments is recognised as expenditure for the period; A total of 2.3 million euros was calculated as VAT on investments among expenses in 2011.

Structure

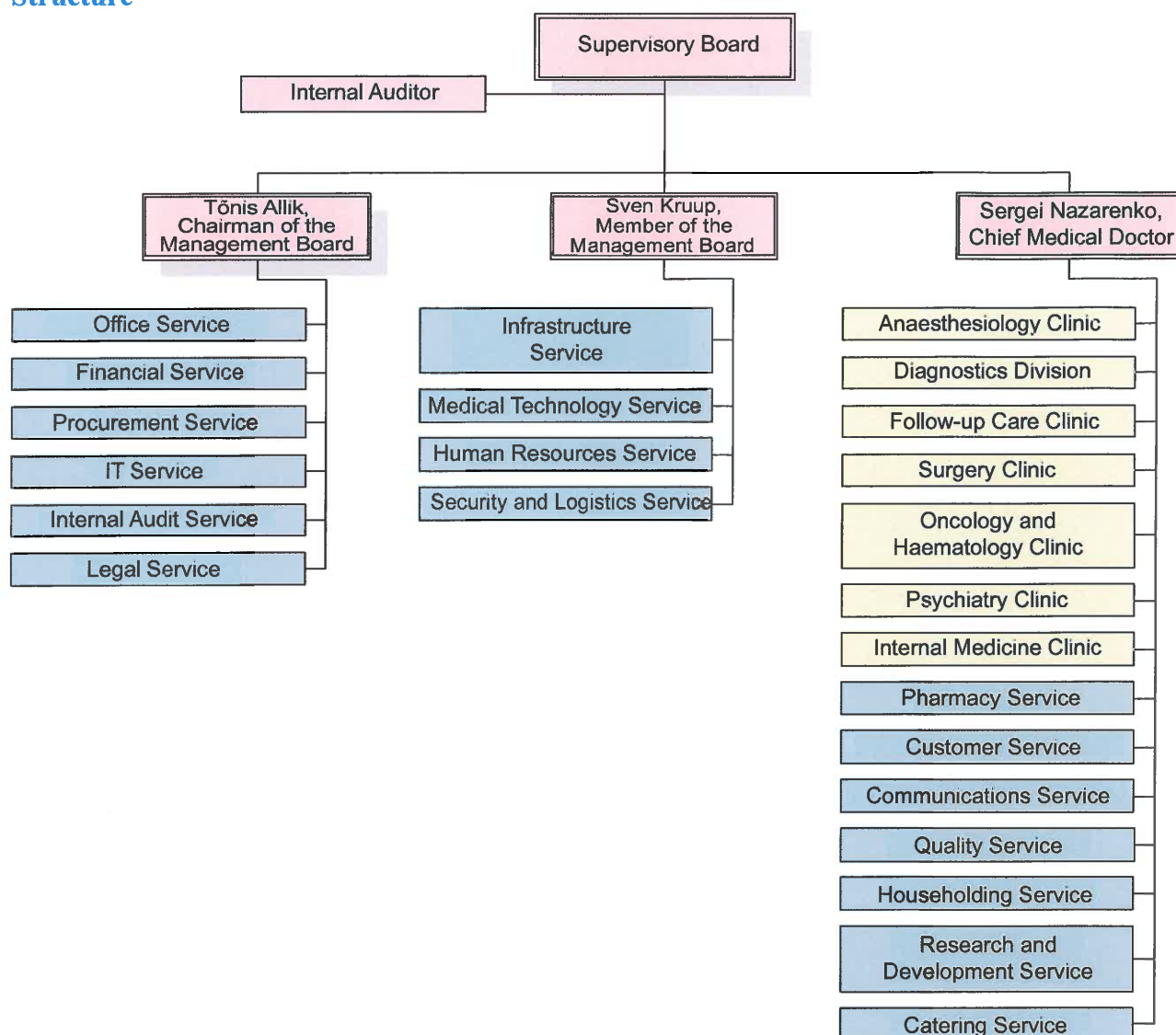


Figure 1 Management structure of the Medical Centre as of 31 December 2011

Action plan for 2012

The main priorities for 2012 are the development of medical care and improvement of availability thereof as well as making planned investments, restoration of income for the staff and maintaining the achieved intensity of work.

The action plan for 2012 is aimed at carrying out the strategic trends defined in the development plan of the Medical Centre.

Management

In respect of work volumes of 2012 the focus will be on maintaining the intensity achieved in 2011 and on better organisation and development of work both in the centre as well as with partners outside the centre. One of the main tasks is also the restoration of the investment capacity of the centre in connection with abolition of the price coefficient on the price list of the Health Insurance Fund and continuation with the planned investment programme, incl. the commencement of stage II of the europroject.

The Medical Centre will continue organising and supporting national and international medical conferences in 2012. The centre considers it important to recognise its employees: elections of a *Grand Man/Lady*, recipients of grants of a young doctor, nurses and caregivers of the year in clinics and secretaries of the year.

Human resources management

In 2012 attention will be paid, as before, to the improvement of management competences of heads of the Medical Centre by providing various internal training events in the field of management and personnel work to its employees. In 2012, a lot of fixed term management contracts with heads of clinical structural units will expire, which will bring along the conduct of several competitions for finding heads.

The conduct of analyses of risks of the working environment in departments renovated during repairs and the conduct of training events in the field of occupational safety will also continue. In addition to regular training events in ergonomics practical short trainings will take place in departments. As a new training event, next year training in radiation safety meant for all radiation employees of the Medical Centre will be organised.

Quality management

Development of the existing quality management system will continue in 2012. Preparations for accreditation will continue in the Blood Centre and the Pathology Centre. The development of the Transplantation Centre will continue, the activity licence for handling of autologous stem cells and allogeneic blood vessels will be renewed and the field of handling will be extended.

Development of information systems

In 2012, the centre will introduce a digital medical file in the Emergency Medical Department and a medical record in the outpatient clinic. For the purpose of analysing treatment quality the first internal databases according to diseases will be created. A reporting system of common IT environment will be developed to monitor clinical activities, performance of contract and execution of the budget. A laboratory and pathology IT system will be introduced in full.

Development of treatment activities

The development of the process and technology standard of treatment activities will continue according to the priorities defined in the development plan.

In 2012 attention will be paid, as before, to the development of fee-charging services and promotion of export opportunities in addition to the performance of the contract concluded with the Health Insurance Fund.

In cooperation with the Health Board the project of small islands will continue. Under the project the required staff has already been trained in the Anaesthesiology Clinic and the provision of emergency aid on Kihnu Island has started. This year Ruhnu and Vormsi will also be involved in the project.

Investments in equipment

The Medical Centre completed its investments pursuant to the investment plan included in the development plan of the North Estonia Medical Centre. Significant investments will be made in 2012 in replacing existing outdated equipment with new devices as it will help the Centre to guarantee the development of its treatment services, incl. introduction or implementation of new treatment methods.

There are plans to invest 9.2 million euros (incl. VAT) in medical technology and fittings and 0.9 million euros (incl. VAT) in other equipment in 2012.

The biggest investments in medical technology are:

- 3.3 million euros (incl. VAT) will be invested in radiology equipment and 1.2 million euros (incl. VAT) in endoscopy equipment of the Diagnostics Division;
- 1.3 million euros (incl. VAT) in anaesthesia and intensive care equipment of the Anaesthesiology Clinic and equipment of the Emergency Medical Centre;
- 1.0 million euros (incl. VAT) in the technology of the Surgery Centre of the Surgery Clinic;
- 0.6 million euros (incl. VAT) in the technology of the Radiotherapy Centre of the Oncology and Haematology Clinic;

- 0.3 million euros (incl. VAT) in the technology of the Cardiology Centre of the Internal Medicine Clinic.

Infrastructure

The priorities in 2012 are to continue construction investments for the reconstruction of the Mustamäe Block, which will be financed by the ERDF as well as by a long-term investment loan. Investments in improvements of the treatment premises and engineering and security solutions of the existing buildings will also continue. The priorities in 2012 include first of all repair work relating to the fulfilment of fire safety requirements and improvement of household conditions of the Psychiatry Clinic.

In 2012, construction investments total 15.9 million euros (incl. VAT), of which investments in the reconstruction of the Mustamäe Block amount to 13.8 million euros and in improvements of the treatment premises and engineering and security solutions of the existing buildings amount to 2.1 million euros.

2 ANNUAL ACCOUNTS

Declaration of Management Board

The management board hereby declares its liability for the correct preparation of the Annual Accounts of the North Estonia Medical Centre Foundation (SA Põhja-Eesti Regionaalhaigla) presented on pages 14 to 35 and represents and warrants the following:

1. the accounting policies and procedures used in preparing the Annual Accounts comply with the generally accepted accounting principles of Estonia and with the general rules for state accounting;
2. the Annual Accounts give a fair and true view of the financial position of the North Estonia Medical Centre Foundation and the results of its operations and cash flow;
3. any material circumstances that became evident before the date of preparation of the Annual Accounts (18 April 2012) have been appropriately taken into account and presented in the Annual Accounts;
4. The North Estonia Medical Centre Foundation is a going concern.

Tõnis Allik Chairman of the Management Board _____

Sven Kruup Member of the Board _____

Sergei Nazarenko Member of the Board _____

Balance Sheet

thousands of euros

ASSETS

	<i>Notes</i>	31.12.2011	31.12.2010
Cash at bank and in hand	2	1,576	1,116
Receivables and prepayments	3	15,375	14,791
Stock	4	3,034	2,604
Total current assets		19,985	18,511
Long-term financial investment	5	3	3
Tangible fixed assets	6	114,218	115,232
Intangible assets	7	1,216	879
Total fixed assets		115,437	116,114
TOTAL ASSETS		135,422	134,625

LIABILITIES AND NET ASSETS

Loans payable	8	992	316
Payables and prepayments	10	17,401	17,043
Short-term provisions		133	438
Targeted financing	11	6	0
Total current liabilities		18,532	17,797
Long-term payables		48,058	44,587
Total noncurrent liabilities		48,058	44,587
Capital		20,257	20,257
Granted capital		13,986	13,986
Retained earnings		37,998	34,039
Result for financial year		-3,409	3,959
Total net assets		68,832	72,241
TOTAL LIABILITIES AND NET ASSETS		135,422	134,625

Signed for identification purposes:

AS Deloitte Audit Eesti

Income statement

thousands of euros

	<i>Notes</i>	2011	2010
Operating income			
Revenue from the state budget	12	2,539	2,467
Revenue from sale of medical services to health insurance funds	12	101,577	93,973
Revenue from sale of medical services to legal and natural persons	12	7,826	7,554
Revenue from economic activities		961	819
Subsidies	13	1,924	10,130
Other operating revenue		361	461
Total operating income		115 188	115,404
Operating expenses			
Purchase of goods, raw materials and services	14	-38,811	-31,388
Production costs of the Blood Centre	14	-1,128	-1,094
Management expenditure	14	-11,940	-12,975
Labour costs	15	-47,115	-44,466
Other operating expenses	14	-7,746	-11,346
Total operating expenses		-106,740	-101,269
Depreciation and write-down of fixed assets	6, 7	-10,766	-9,386
Operating results		-2,318	4,749
Financial income and expenses	16	-1,091	-790
Result for financial year		-3,409	3,959

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Cash Flow Statement

thousands of euros

	<i>Notes</i>	2011	2010
Cash flow from operating activities			
Proceeds for medical services from the Health Insurance Fund		100,301	93,062
Proceeds for medical services from institutions		14,331	11,788
Proceeds from the state budget		2,106	8,183
Interest received		6	54
Other proceeds		546	1,150
Invoices paid to suppliers		-60,837	-54,713
Remuneration paid to employees		-27,882	-26,717
Taxes paid		-19,877	-18,684
Interest paid		-1,048	-744
Other expenses paid		-57	-110
Total cash flow from operating activities		7,589	13,269
Cash flow from investing activities			
Paid for fixed assets		-12,443	-22,117
Proceeds from disposal of fixed assets		1,598	8
Total cash flow from investing activities		-10,845	-22,109
Cash flow from financing activities			
Loans taken	8	5,000	0
Repayment of loan principal	8	-968	-7,200
Finance lease principal repayments	8	-316	-336
Total cash flow from financing activities		3,716	-7,536
Net change in cash at bank and in hand		460	-16,376
Cash at bank and in hand at the beginning of the period	2	1,116	17,492
Cash at bank and in hand at the end of the period	2	1,576	1,116

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Report on changes in net assets

thousands of euros

	Capital	Granted capital	Retained earnings	Profit/loss for the financial year	Total
Balance at 31.12.2008	20,257	13,986	5,470	-3,520	36,193
Profit/loss for the financial year	0	0	0	32,089	32,089
Balance as of 31.12.2009	20,257	13,986	1,950	32,089	68,282
Retained earnings	0	0	32,089	-32,089	0
Profit/loss for the financial year	0	0	0	3,959	3,959
Balance as of 31.12.2010	20,257	13,986	34,039	3,959	72,241
Retained earnings	0	0	3,959	-3,959	0
Profit/loss for the financial year	0	0	0	-3,409	-3,409
Balance as of 31.12.2011	20,257	13,986	37,998	-3,409	68,832

Notes to Annual Accounts

Note 1. Accounting principles and basis of estimations used in the preparation of the Annual Accounts

General principles

The 2011 Annual Accounts of the North Estonia Medical Centre (hereinafter: the Medical Centre, foundation) have been prepared in compliance with the generally accepted accounting principles of Estonia. The generally accepted accounting principles of Estonia are based on internationally recognised accounting and reporting principles. The basic requirements of those accounting principles have been established in the Accounting Act, which is supplemented by the guidelines issued by the Estonian Accounting Standards Board and the requirements laid down in the general rules for state accounting.

As from 1 January 2011 Estonia acceded to the euro zone and the Estonian kroon (EEK) was replaced with the euro (EUR). Therefore, the Medical Centre converted its accounting into euros as from this date. Reference data were converted at the official exchange rate of 15.6466 EEK/EUR.

The figures in these Annual Accounts have been presented in euros. For the sake of an overview, the figures have been presented in thousands of euros.

The Annual Accounts have been prepared pursuant to the acquisition cost principle, except the revaluations of certain assets and financial instruments.

The Income Statement has been prepared using income statement layout no. 1 as presented in the Accounting Act.

Transactions in foreign currency

The accounting currency of the company is the euro and all other currencies are deemed to be foreign currencies.

Foreign currency transactions are recognised using the official exchange rate quoted by the European Central Bank at the date of the transaction (the exchange rates of the Bank of Estonia until 31 December 2010). Gains and losses on foreign currency transactions related to settlements of suppliers and purchasers are reported in the income statement as operating revenue and expenses for the financial year. Any other gains and losses on foreign currency transactions are reported in the Income Statement as financial income and expenses.

Cash and cash equivalents

Cash and cash equivalents include short-term (acquired with a term of up to three months) investments of high liquidity which can be converted for a known amount of money and which entail no considerable risk related to changes in their market value, incl. cash at bank and in hand, demand deposits, and time deposits of up to three months. Cash flow has been recorded in the Cash Flow Statement using the direct method.

Financial Assets

Financial assets consist of cash, short-term and long-term financial investments, trade receivables and other short-term and long-term receivables.

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Financial assets have initially been recorded at the acquisition cost which is equal to the fair value of the consideration paid for the financial asset in question. The initial acquisition cost comprises all costs that are directly attributable to the acquisition of the financial asset in question, including consideration paid to agents and consultants, non-recoverable duties and taxes relating to the transaction, and other similar charges, except costs and expenses related to the acquisition of financial assets that are reported at the fair value thereof through the income statement.

All purchases and sales of financial assets concluded on an arm's length basis are reported at the trade date, i.e. at the date on which the foundation undertook to purchase or sell a given financial asset (e.g. signed a contract). Purchases and sales where transfer of the purchased or sold financial assets from the seller to the purchaser occurs during the period that is usual on the given market or required under the relevant market regulations are deemed to occur under ordinary market conditions.

After initial recording all the financial assets are recognised at the fair value thereof, except accounts receivable from other parties (recognised at adjusted acquisition cost) and investments in shares whose fair value cannot be determined reliably (recognised at acquisition cost).

Receivables

Receivables from other parties are recognised using the adjusted acquisition cost method, i.e. at their present value, less uncollectible amounts.

The probability of collection of receivables is assessed at least at the end of each quarter. The probability of collection of each receivable is evaluated separately, if practicable. If this is not practicable, receivables are evaluated using the approximation method that is based on experience of earlier periods. Receivables are evaluated considering circumstances that may affect the probability of collection of receivables and have become known by the balance sheet date or after the balance sheet date until preparation of the Accounts.


Upon evaluation of receivables using the approximation method, receivables whose payment deadline has been exceeded:

- 1) by 90–180 days shall be written down 50%;
- 2) by more than 180 days shall be written down 100%.

An exception to the aforesaid is receivables for medical services from insurance companies in the case of which the period before a write-down is up to 3 years.

The write-down is recognised in the Balance Sheet on the contra-account of the write-down as a negative amount and under expenses depending on the type of the receivable (in the Income Statement under the 'Other operating expenses' account). If the write-down of a receivable was recognised under 'Uncollectible receivables', but it later appears that the receivable is uncollectible, the receivable as well as the write-down thereof are written off the Balance Sheet on a relevant contra-account. No additional expenses are incurred at that moment any more. A receivable is deemed as uncollectible if there are no possibilities for the collection of the receivable or if the expenses to be incurred upon recovery thereof exceed the estimated income to be received from the proceeds.

If an estimate provided earlier about the amount of uncollectible receivables later changes, this is recognised as a change in expenses in the period when the estimate changed. Upon receipt of an uncollectible receivable, the reduction of the expenses earlier recognised is indicated in the period when the receipt took place and the balance of the receivable as well as its contra-account is thus also reduced.

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Inventories

Inventories are recognised at the acquisition cost thereof, which comprises their purchase price, customs duties related to the purchase and direct transportation costs. Pursuant to the general rules for state accounting the non-recoverable duties and taxes related to the acquisition of assets have not been attached to the acquisition cost of the assets. The non-recoverable duties and taxes related to the acquisition are recorded in the "Other operating expenses" account in the Income Statement.

The acquisition cost of inventories is determined on the basis of the individual cost (pharmaceuticals) and FIFO (except pharmaceuticals) method. Inventories have been assessed in the Balance Sheet at the lower of their acquisition cost or net realisable value. The difference in the value that is identified as a result of assessment of inventories is recognised as an expense for the financial year in the Income Statement under 'Write-down of inventories'.

Long-term financial investment

Under the general rules for state accounting, securities and derivative instruments (except held-to-maturity bonds) are measured at fair value. If there is no information about the fair value, the investments are recognised at acquisition cost by adjusting it with write-down, where necessary. If the acquisition cost is unknown, the investments are measured at nil value.

Participation in foundations and non-profit associations is recorded as follows:

- 1) if the company has controlling influence over the foundation or non-profit association (as a rule, over 50% of the voting right), the participation will be recognised at 100%;
- 2) if the company does not hold significant influence over the foundation or non-profit association (as a rule, 20-50% of the voting right), the participation or financial investment will not be recognised in the balance sheet. Monetary contributions to the foundation capital are recognised as subsidies granted.

Foundations and non-profit associations in which the company participated with at least a 20% voting right, but which are not recorded in the balance sheet are disclosed in the notes to the financial statements.

Tangible fixed assets


Assets that cost two thousand euros and more and whose useful lives exceed one year are deemed to be tangible fixed assets. Assets whose useful life is more than 1 year, but whose acquisition cost is less than two thousand euros, Account of fittings of minor value that have been written off is kept off the Balance Sheet.

Tangible fixed assets are registered at their acquisition cost, which comprises the purchase price and expenses directly attributable to acquisition. According to the general rules for state accounting, VAT and other recoverable duties and taxes are not capitalised into the acquisition cost of fixed assets. Tangible fixed assets are thereafter recognised in the Balance Sheet at their historical cost less accumulated depreciation and potential write-downs resulting from impairment.

If a tangible asset item consists of separable components with different useful lives, those components are recognised separately and depreciated at different rates depending on their useful lives.

Further expenditure related to registered tangible fixed assets (e.g. replacement of certain parts of some asset items) is added to the book value of the assets only if the following criteria are met:

- 1) the foundation is likely to benefit from them in the future, and
- 2) the acquisition cost of the asset item can be assessed reliably.

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Replaced parts are written off the Balance Sheet. All other expenditure is recognised as expenses in the period when the expenditure was incurred.

In depreciation of tangible assets the straight-line method is used. The depreciation rate is established separately with regard to each fixed asset object, depending on its useful life.

Annual depreciation rates for classes of fixed assets:

Land	0%
Buildings and construction works	2–5%
Machinery and equipment	20%
Other fixed assets	20–33%

The depreciation methods, rates and residual values of tangible fixed assets are reviewed at the end of each financial year. If necessary, differences in new estimates are recognised under changes in accounting estimates, i.e. only proactively.

Possible impairment of tangible assets is assessed if certain events or developments imply that the recoverable amounts of the assets may be smaller than their balance sheet value. In the event of such events or developments, the foundation will carry out evaluation of the recoverable amount of its assets. If the estimated recoverable amount of the assets is below their book value, the assets or assets constituting a cash-generating unit are written down to their recoverable amount, which is equal to the higher of the present value (or value in use) of the future cash flow from the assets or the fair value of the assets less costs to sell. The write-down is recognised as an expense for the financial year in the 'Depreciation and write-down of fixed assets' account of the Income Statement.

If later the recoverable amount of the assets exceeds its book value, the write-down is cancelled and the book value of the assets is increased, but not in excess of the book value of the assets that would have been recorded if the assets had not been written down. Cancellation of a write-down of assets is reported in the same account of the income statement where the previous write-down was reported.


Tangible fixed assets are derecognised if the assets are transferred or if the foundation does not expect any economic benefits from the use or sales of the assets. Gains and losses on sales of tangible fixed assets are recognised as a total amount in the 'Other operating revenue' account of the Income Statement. Upon removing assets from the Balance Sheet if they become unfit for use, the losses incurred are recorded in the 'Depreciation and write-down of fixed assets' account of the Income Statement.

Intangible assets

Intangible assets have been recorded if the following conditions have been met:

- 1) the asset item is controlled by the foundation;
- 2) the foundation is likely to earn income from the use of the asset item in the future;
- 3) the acquisition cost of the asset item can be reliably established.

Intangible assets have initially been recorded at the acquisition cost thereof, which comprises the purchase price and expenses directly attributable to acquisition. VAT and other recoverable duties and taxes are not capitalised into the acquisition cost of intangible fixed assets. Intangible assets have further been recorded in the Balance Sheet at the acquisition cost thereof less accumulated depreciation and write-downs resulting from any impairment.

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In the case of intangible fixed assets the useful lives thereof have been assessed to be limited. In depreciation of intangible assets the straight-line depreciation method is used. The annual depreciation rates are the following:

Licences	20%
Software	20%

The depreciation cost of intangible assets is recognised in the 'Depreciation and write-down of fixed assets' account in the Income Statement. Similarly to tangible fixed assets, the periods and methods of depreciation of intangible fixed assets are reviewed at the end of each financial year. There were no changes in the accounting assessments during the financial year.

Financial liabilities

Financial liabilities include payables to suppliers, accrued expenses and other short-term and long-term debts.

Financial liabilities are initially recorded at their acquisition cost, which is equal to the fair value of the consideration received for the financial liability in question. Thereafter financial liabilities are recorded at their adjusted acquisition cost.

Interest expenses relating to financial liabilities are recorded on the accrual basis as periodic expenses under 'Financial income and expenses' in the Income Statement. A financial liability is derecognised after it has been paid, cancelled or expired.

Provisions and contingent liabilities

Liabilities incurred during the financial year or in previous years, which have a legal or contractual basis and require relinquishment of assets in the future and whose cost can be reliably established, but whose final cost or payment deadline has not been specified are recognised as provisions on the balance sheet. Provisions are assessed pursuant to the estimates of the management board, experience and opinions of independent experts if necessary.

Promises, guarantees and other liabilities which under certain conditions may become liabilities in the future are disclosed in the notes to the annual accounts as contingent liabilities.


Lease Accounting

Capital lease means a lease relationship where all significant risks and benefits related to the title of the property are transferred to the lessee. All other lease transactions are recognised as operating lease.

In the lessee's balance sheet assets acquired under finance leases are recorded at an acquisition cost of the assets or at the present value of minimum lease payments in case the latter was lower. The depreciation period of assets acquired under finance lease is the economic life or lease period of the assets, whichever is shorter. Finance lease payments have been divided into financial expenses and payment of lease liabilities in such a way that the interest rate would be the same at each moment. Financial income is recognised in the 'Financial income and expenses' account of the Income Statement. The depreciation cost of the depreciable assets related to finance lease in the financial year is recognised in the 'Depreciation and write-down of fixed assets' account in the Income Statement.

In the case of operating lease, the leased assets are recorded in the lessor's balance sheet. The lessor records the operating lease payments as income and the lessee records them as expenses over the lease period using the straight-line method.

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Recognition of income and expenses

Revenue is recognised at the fair value of the payments received or to be received. Revenue consists of operating income less price rebates, ineligible subsidies, unaccepted services and returned products and goods. Revenue from the core activity of the Medical Centre includes the following:

- 1) sale of health services to the Estonian Health Insurance Fund and other legal and natural persons;
- 2) provision of diagnostic services to other medical institutions and family physicians;
- 3) provision of the emergency medical care services;
- 4) conduct of psychiatric examinations;
- 5) provision of medical training and supervision of residents;
- 6) sales of blood products to legal persons providing health service.

Revenue from ancillary activities includes rental income, subsidies from registers, conduct of clinical trials and other revenue (targeted financing, grants, revenue from sales of assets, etc.).

Operating income is recognised on the accrual basis using the realisation principle, i.e. the revenue is calculated at the moment of realisation or for period(s) specified in contracts. Revenue from the sales of goods is recorded when all the essential risks relating to ownership have passed to the purchaser and the operating income and the expenses relating to a transaction can be reliably established. Revenue from sales of services is recorded upon the provision of the service. Sales revenue does not include the amounts received by the Medical Centre but collected in the name of other persons, and prepayments made by purchasers.

Operating income also includes the collectible amounts calculated but not received by the balance sheet date about which no collection document has been submitted (e.g. interest of the previous period not received by the balance sheet date; open health files as of the end of the year). Interest income is recorded on accrual basis.

Upon recording economic transactions, the principle of conformity of the revenue and expenses has been followed. According to the principle, the costs necessary for receipt of the income of the financial year have been transferred to the expenses of the financial year. Expenses are recorded on the accrual basis at the moment of sales.


Labour expenses include wages and salaries of employees calculated on the accrual basis, any fees and fringe benefits equal to the aforementioned upon taxation and taxes calculated thereon. Costs related to the workforce and not paid during the financial year are recorded as employee-related liabilities. The liability of unused holiday days and unpaid holiday pays is assessed once a year as of the end of the financial year and it is recorded under costs of the financial year.

Other costs include other operating expenses, depreciation and write-down of fixed assets and financial income and expenses. Other operating expenses include the following:

- 1) expenses relating to taxes, fees and fines;
- 2) costs of uncollectible receivables;
- 3) other operating expenses.

Depreciation and write-down of fixed assets include depreciation and impairment of tangible and intangible fixed assets.

Financial income and expenses include income and expenses of financial investments and loan payables assumed. Financial income and expenses are recorded in the period of their emergence.

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Targeted financing**Targeted financing received for acquisition of fixed assets**

In accordance with an amendment to the general rules for state accounting and in compliance with the IPSAS 23 principles as from 1 October 2007 the public sector entities whose principal objective is not earning profit to the owner shall record, as an exception, the targeted financing received for acquisition of fixed assets as income during the period when the fixed assets were acquired.

Targeted financing of operating expenses

Income from targeted financing of operating expenses is recognised in the Income Statement in proportion to the expenses related thereto. Upon recording income the gross approach is applied, i.e. subsidies received and expenses compensated are reported under different entries in the Income Statement. Income relating to targeted financing is recognised in the 'Other operating revenue' account in the Income Statement.

Events after the balance sheet date

The Annual Accounts duly take into account and disclose all essential events and circumstances that have become known until the date of preparation of the Annual Accounts.

Note 2. Cash at Bank and In Hand

thousands of euros

	31.12.2011	31.12.2010
Cash in hand	0	12
Cash in transit ¹	0	9,
Bank	1,576	1,095
Total	1,576	1,116

¹Amounts presented by the Medical Centre to the collection company, but not yet received.

Note 3. Receivables and prepayments

thousands of euros

	31.12.2011	31.12.2010
Receivables from the Estonian Health Insurance Fund	7,614	7,852
Other accounts receivable	1,460	1,424
Accrued income ¹	4,137	2,622
Other receivables ²	1,906	2,692
Prepayments for services	264	216
Uncollectible trade receivables ³	-6	-15
Total receivables and prepayments	15,375	14,791

¹ Accrued income consists of revenue from open health files in an amount of 4,137 thousand euros (2010: open health files in an amount of 2,622 thousand euros). To evaluate the open health files, stocktaking of the open health files was carried out at the end of the financial year as a result of which the health services provided in 2011 but not presented to buyers as of 31 December 2011 are recorded under income of 2011.

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²Other receivables consist of the following receivables:

	31.12.2011	31.12.2010
Targeted financing receivable for operating expenses	0	1
Targeted financing receivable for acquisition of fixed assets	1,881	2,557
Other subsidies receivable	2	2
Security deposits paid	7	7
Prepaid VAT	9	107
Prepaid VAT for fixed assets	7	18
Total other receivables	1,906	2,692

³The following changes in uncollectible receivables took place (with regard to the period):

	31.12.2011	31.12.2010
Balance at the beginning of the period	-15	-2
Additional write-downs	-5	-15
Uncollectible receivables written off the balance sheet	8	0
Receipt of uncollectible receivables	6	2
Balance at the end of the period	-6	-15

Note 4. Inventories

thousands of euros

	31.12.2011	31.12.2010
Pharmaceutical products	1,234	988
Finished goods (blood products)	144	144
Maintenance materials	69	69
Prostheses, surgical materials ¹	1,051	904
Medical materials	471	428
Strategic inventories	60	59
Fixtures, fittings and tools	5	6
Prepayments for inventories	0	6
Total	3,034	2,604

¹ During the financial year an analysis of changes in and values of the assets was made as a result of which the used surgical materials written down earlier were written up in the amount of 74 thousand euros. The aforementioned amount has been recorded in the Income Statement under the 'Goods, raw materials and services purchased' account (in 2010: 45 thousand euros was written down).

Note 5. Long-term financial investments

In accordance with a decision of the supervisory board of 16 December 2004 the Medical Centre participated in the establishment of the Competence Centre for Cancer Research (AS Vähituumingute Tehnoloogia Arenduskeskus) by contributing to the share capital 3 thousand euros. The contribution to the share capital was made on 11 January 2005. Five thousand shares with a nominal value of 0.6 euros were acquired. The Medical Centre holds a 12.5% stake in the public limited company. The total equity as of 31.12.2011 amounted to 69 thousand euros and as of 31.12.2010 64 thousand euros.

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In accordance with a decision of the supervisory board of 20 April 2006 the Medical Centre participated in the establishment of the Picture Archiving and Communication System (SA Eesti Tervishoiu Pildipank) by contributing to the share capital 6 thousand euros that forms 50% of the share capital of the established foundation. The remaining 50% of the share capital was paid by the University of Tartu Hospital (Tartu Ülikooli Kliinikum SA). The total equity as of 31.12.2011 amounted to 757 thousand euros and as of 31.12.2010 553 thousand euros.

As the Medical Centre does not hold a controlling influence over PACS, or the right to participate in the distribution of profit, the stake is not recorded in the Balance Sheet.

Note 6. Tangible fixed assets

thousands of euros

Group of fixed assets	Land	Buildings and dwelling houses	Machinery and equipment	Other fixed assets	Construction in progress and prepayments	TOTAL
Acquisition cost as of 31.12.2009	8,093	33,129	32,931	1,972	59,918	136,043
Fixed assets acquired	0	0	11,565	316	10,848	22,729
Reclassification	0	65,052	64	115	-65,231	-5
Fixed assets written off	0	-3	-1,553	-155	0	-1,711
Acquisition cost as of 31.12.2010	8,093	98,178	43,007	2,248	5,535	157,061
Fixed assets acquired	1	20	2,276	99	7,354	9,750
Reclassification	0	5,006	1,603	7	-6,696	-80
Fixed assets written off	-255	-3,950	-957	-93	-69	-5,324
Acquisition cost as of 31.12.2011	7,839	99,254	45,929	2,261	6,124	161,407
Depreciation						
Depreciation as of 31.12.2009	0	12,552	20,353	1,322	0	34,227
Depreciation for financial year	0	3,149	5,896	234	0	9,279
Sales and write-offs	0	0	-1,534	-143	0	-1,677
Depreciation as of 31.12.2010	0	15,701	24,715	1,413	0	41,829
Depreciation for financial year	0	2,820	5,722	210	0	8,752
Write-down	0	0	0	0	0	0
Sales and write-offs	0	-2,433	-866	-93	0	-3,392
Depreciation as of 31.12.2011	0	16,088	29,571	1,530	0	47,189
Residual value as of 31.12.2009	8,093	20,577	12,578	650	59,918	101,816
Residual value as of 31.12.2010	8,093	82,477	18,292	835	5,535	115,232
Residual value as of 31.12.2011	7,839	83,166	16,358	731	6,123	114,218

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In 2009, construction continued on Block X of the building, with a part of the renovation work conducted in 2009 capitalised. In 2010, 65,052 thousand euros of the renovation work of Block X were capitalised.

In 2011, a registered immovable at Pargi 30, Keila (with an acquisition cost of 3,950 thousand euros) along with land (with an acquisition cost of 255 thousand euros) and the fixed assets remaining there (with an acquisition cost of 213 thousand euros) with a residual value of 1,782 thousand euros were sold at the price of 1,598 thousand euros.

In 2011, "Contract for transfer of registered immovable as non-monetary contribution to foundation and real rights contract" was concluded between the North Estonia Medical Centre and the Ministry of Social Affairs. According to the contract, the right to use the improved registered immovable of emergency medical service centre in Tammemäe Village, Saku Rural Municipality, Harju County, was transferred to the North Estonia Medical Centre. According to the calculations of the real estate agency Uus Maa OÜ, the market value of the appraised object was 21 thousand euros, of which the value of the land formed 1 thousand euros. The transferable object belonged among construction-in-progress of the North Estonia Medical Centre with an acquisition cost of 88 thousand euros. The Saku emergency medical service centre was recorded at an acquisition cost of 20 thousand euros and with an acquisition cost of the land 1 thousand euros as a non-monetary contribution made by the Ministry of Social Affairs to the foundation capital.

Note 7. Intangible fixed assets

thousands of euros

Intangible assets	Licences	Software	Ongoing projects	Total
Acquisition cost as of 31.12.2010	35	472	637	1,144
Fixed assets acquired	2	128	209	339
Requalification	0	413	-333	80
Acquisition cost as of 31.12.2011	37	1,013	513	1,563
Depreciation as of 31.12.2010	8	257	0	265
Depreciation for financial year	7	75	0	82
Depreciation as of 31.12.2011	15	332	0	347
Residual value as of 31.12.2010	27	215	637	879
Residual value as of 31.12.2011	22	681	513	1,216

On-going intangible fixed asset projects as of 31.12.2011: 1) laboratory information system, with a cost of 126 thousand euros; 2) radiology information system, with a cost of 97 thousand euros; 3) pathology information system, with a cost of 84 thousand euros; 4) introduction of the reporting environment system, with a cost of 44 thousand euros; 5) development of the X-road interface of the digital registry office, with a cost of 40 thousand euros; 6) development of the identity management system, with a cost of 63 thousand euros; 7) introduction of electronic referral, with a cost of 58 thousand euros; 8) other software investments, with a cost of one thousand euros.

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Note 8. Loans payable

thousands of euros

2011	Current portion	Long-term portion: 1-5 years	Long-term portion: over 5 years	Total liability
Bonds ¹	0	12,000	0	12,000
Long-term bank loans ^{2,4}	968	9,935	26,097	37,000
Financial lease liabilities ³	24	0	0	24
Total loans payable	992	21,935	26,097	49,024

2010	Current portion	Long-term portion: 1-5 years	Long-term portion: over 5 years	Total liability
Bonds ¹	0	12,000	0	12,000
Long-term bank loans ²	0	6,622	25,378	32,000
Financial lease liabilities ³	316	24	0	340
Total loans payable	316	18,646	25,378	44,340

¹ In 2008, unsecured bonds were issued for 12 million euros. The underlying currency of the bonds is the euro and the redemption deadline is 30.06.2014. The interest rate of the bonds consists of the base rate, which is one month's Euribor plus interest margin 0.6%.

² The underlying currency of the long-term bank loan is the euro and the nominal value is 32 million euros. The interest rate is tied with the six months' Euribor, with the interest margin of 0.22% added. The long-term loan is due for repayment on 31 December 2025.

³ See Note 9 for additional information.

⁴ The underlying currency of the long-term bank loan is the euro and the nominal value is 5 million euros. The interest rate is tied with the six months' Euribor, with the interest margin of 0.574% added. The long-term loan is due for repayment on 1 December 2031.

AS SEB Pank and the Medical Centre have concluded an overdraft agreement in the amount of 4 million euros (underlying currency: EUR). The overdraft had not been used as of 31 December 2011.

Nordea Bank Finland Plc Estonia Branch and the Medical Centre have concluded an overdraft agreement in the amount of 3 million euros (underlying currency: EUR).

Note 9. Financial and Operating Lease**Finance lease**

thousands of euros

	31.12.2011	31.12.2010
Short-term portion of liability – payable within 1 year	24	316
Long-term portion of liability – payable within 1-5 years	0	24
Total financial lease liabilities	24	340

See Note 8 for further information.

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Information on fixed assets leased under valid finance lease contracts as of 31.12.2011 has been brought out in the table below:

	Acquisition cost 31.12.2011	Residual value 31.12.2011	Acquisition cost 31.12.2010	Residual value 31.12.2010
Total cost of leased equipment	711	238	2,171	14

Operating lease

thousands of euros

	2011	2010
Means of transport	92	85
Economic equipment and software	59	63
Medical equipment	258	253
Total operating lease payments	409	401

Pursuant to the operating lease contracts which are applicable as of 31.12.2011 and which cannot be discontinued the operating lease expense of the following periods totals 262 thousand euros (31.12.2010: 304 thousand euros).

In 2011, income from operating lease contracts amounted to 408 thousand euros (2010: 496 thousand euros).

The foundation has leased out approximately 6.42% of the premises on operating lease terms. The acquisition costs and residual values as of 31 December 2011 are the following:

	31.12.2011	1.12.2010
Buildings		
Acquisition cost of assets leased out under operating lease	2,026	2,026
Residual book value of assets leased out under operating lease	1,060	1,104

In the future the foundation will receive 491 thousand euros from the operating lease contracts that cannot be discontinued.

Note 10. Payables and prepayments

thousands of euros

	31.12.2011	31.12.2011	31.12.2010	31.12.2010
	Short-term	Long-term	Short-term	Long-term
Payables to suppliers	8,634	0	9,876	545
Employee-related liabilities	3,622	0	3,740	0
Taxes payable ¹	3,372	0	3,127	0
Other liabilities	1,282	0	220	0
Prepayments received ²	491	15	80	30
Total payables and prepayments	17,401	15	17,043	575

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¹ Taxes payable divide as follows according to the types of taxes:

	31.12.2011	31.12.2010
Social tax	1,983	1,856
Personal income tax	1,041	962
Unemployment insurance premium	235	216
Funded pension	76	48
Other taxes	37	45
Total taxes payable	3,372	3,127

² Long-term prepayments received consist of 30 thousand euros received for the purchase of personal protection equipment from the Health Board and charged to income in 2011–2012.

Note 11. Targeted financing

thousands of euros

Targeted financing of operating expenses includes:	31.12.2011	31.12.2010
Balance of liabilities at the beginning of the period	0	2
Targeted financing received	6	57
Targeted financing depreciated as income	0	-59
Balance of liabilities at the end of the period	6	0

Targeted financing, broken down by providers of financing:

	Balance, 31.12.2011	Received in 2011	Used in 2011	Balance, 31.12.2010
Janssen-Cilag Polska Sp. Estonian Branch	6	6	0	0
Total	6	6	0	0

Note 12. Operating income

thousands of euros

	2011	2010
State budgetary revenue, including:	2,539	2,467
emergency medical aid	2,539	2,467
Revenue from sales of medical services to health insurance funds, including:	101,577	93,973
provision of health services under contracts	97,883	89,898
preventive treatment	194	216
other services provided under contracts	3,205	3,675
health services to foreigners	295	184
Revenue from sales of medical services to legal and natural persons, including:	7,826	7,554
revenue from local governments	2,374	2,214
sales of services to other health care institutions	1,760	1,781
sales of blood products and services of the Blood Service	1,603	1,626
visit fee, in-patient fee	541	551
health services to establishments, insurance companies	997	925
other fee-paying health services	551	457

The sum of the operating revenue corresponds to EMTAK code 8610.

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Note 13. Subsidies

thousands of euros

	2011	2010
Subsidies, including:	1,924	10,130
Remuneration for resident supervision	98	69
Supervision of student practice	0	6
Targeted financing received for operating expenses	29	14
targeted financing received for operating expenses from the Ministry of Social Affairs	159	162
targeted financing received for operating expenses – remuneration for residents	1,407	1,367
Other non-targeted financing	11	32
other non-targeted financing (subject to VAT)	0	6
foreign targeted financing relating to acquisition of fixed assets ¹	220	8,474

¹The European Commission approved the financial aid to be allocated from the European Regional Development Fund (ERDF) to the “Expansion and reconstruction of the North Estonia Medical Centre” project on 11 March 2010. The aid will be used for completing two stages of the Mustamäe medical district infrastructure development plan: construction of Block X and reconstruction of Block C and the Pathology Block. The ERDF aid for the expansion and reconstruction of the North Estonia Medical Centre project amounts to 66 million euros, whereas the estimated aggregate cost of the project without VAT amounts to 107 million euros.

The Minister of Social Affairs signed the decision on the financing of the national project on 13 August 2009, allowing the project to be financed before the decision of the European Commission. The project is scheduled to be carried out from 2007 to 2014.

The financial support paid out to the major project has been as follows: 2,120 thousand euros (in 2007), 14,356 thousand euros (in 2008) and 14,929 thousand euros (in 2009).


Of the aid of 2010 (in the total amount of 8,541 thousand euros) the ineligible amount of 67 thousand euros was repaid.

The financial support in 2011 amounted to 1,287 thousand euros, of which 37 thousand euros had to be paid back as ineligible support.

In addition, this amount was reduced by 1,030 thousand euros as under the ERDF project “Expansion and reconstruction of the North Estonia Medical Centre” the Financial Control Department of the Ministry of Finance carried out an audit verifying the payouts made to the project from 01.12.2009 to 30.11.2010 and expense receipts serving as a basis for the payouts and according to the final report of the project audit (of 06.01.2012) that was completed as a result of the audit it is recommended that the implementing body (Ministry of Social Affairs) request repayment of ineligible expenditure in an amount of approx. 1.4 million euros. Auditors found shortcomings in the conduct of public procurements.

By today the Medical Centre has received a directive of the Minister of Social Affairs along with justifications for partial recovery of the support in an amount of 1,030 thousand euros.

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Note 14. Operating expenses

thousands of euros

	2011	2010
Purchase of medical goods and services, including	38,811	31,388
pharmaceuticals, vaccines, blood and blood products	18,665	14,320
medical equipment	6,746	5,765
medical materials	12,414	10,292
outsourced medical services	986	1,011
Production costs of the Blood Centre	1,128	1,094
Administrative expenses, including	11,940	12,975
catering	1,480	1,447
laundry, acquisition of textile laundry	676	612
maintenance of immovables and buildings	4,728	6,142
maintenance of the lease space	130	110
transportation expenses	561	594
non-medical services	242	305
IT costs	848	883
office expenses	816	578
property maintenance and operating lease	2,159	2,039
employee-related expenses (training, business trips, insurance, health protection)	285	242
representation expenses	15	23
Other operating expenses, incl.	7,746	11,346
VAT expenses	9,481	11,160
domestic targeted financing for operating expenses	33	50
membership fees, entry fees	23	22
formation (cancellation) of provisions	-255	0
land tax	27	27
corporate income tax	0	2
state fees	7	7
natural resources usage and pollution charges	5	5
allowance for uncollectible receivables	5	3
translation difference, rounding (except for financial expenses)	12	7
damages, fines for delay (except for interest on tax arrears and financial expenses)	11	-1
statements of claim	9	16
write-down (write-up) of inventories	-77	45
income from sales of fixed assets	-1,535	3

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Note 15. Labour costs

EUR thousands

	2011	2010
Personnel expenses, incl.	47,115	44,466
wages and salaries	35,100	33,189
social tax	11,527	10,928
unemployment insurance	486	459
holiday pay (including social tax and unemployment insurance)	-283	-577
fringe benefits (including taxes)	285	284
performance pay provision (including social tax and unemployment insurance)	0	183

During the financial year the following salaries were calculated in terms of employee categories:

	2011	2010
Managers, Supervisory Board, heads of divisions	3,908	3,770
Top specialists	22,643	15,936
Assistant specialists	3,709	8,620
Maintenance staff, officials and other employees	4,840	4,863
Total	35,100	33,189

Note 16. Financial income and expenses**Financial income**

EUR thousands

	2011	2010
Interest income from deposits	6	54
Total financial income	6	54

Financial expenses

EUR thousands

	2011	2010
Interest expense on loans	-1,046	-828
Interest expense on finance lease	-3	-7
Other financial expenses	-48	-9
Total financial expenses	-1,097	-844

Note 17. Off-balance sheet assets

thousands of euros

	31.12.2011	31.12.2010
Medical current assets	6,152	5,279
Office equipment	69	170
Furniture	1,909	1,657
Administrative inventory	758	728
Other	1,135	973
Total off-balance sheet assets	10,023	8,807

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Off-balance sheet current assets are held under proprietary liability. In 2011 all assets with the cost of 2 thousand euros or less were transferred from the 'Fixed assets' account to 'Off-balance sheet assets'.

Note 18. Transactions with related parties

Related parties include members of the Management Board and the Supervisory Board and companies related thereto, except the companies which are not under the dominant influence and control of members of the Management Board and the Supervisory Board.

In 2011, members of the management board were paid remuneration in the amount of 146 thousand euros and members of the supervisory board in the amount of 24 thousand euros (2010: 162 and 20 thousand euros, respectively). The remuneration of the audit committee was 256 euros.

In accordance with contracts of members of the management board a member of the management board shall have the right to receive severance pay in the amount of three monthly salaries (in total 36 thousand euros) if the supervisory board removes the member prematurely, except if the removal was due to a deliberate damaging by the member of the management board of the interests of the North Estonia Medical Centre.

No severance pay has been meant for members of the supervisory board.

Transactions of the North Estonia Medical Centre with related parties are as follows:

Sales

thousands of euros	2011	2010
Companies related to members of the Management Board	1	9
Companies related to a member of the Supervisory Board	203	191
Total	204	200

Purchases

thousands of euros	2011	2010
Companies related to members of the Management Board	35	314
Companies related to a member of the Supervisory Board	1	5
Total	36	319


As of 31 December 2011 the North Estonia Medical Centre has from the aforementioned transactions the following receivables from and payables to the related parties (which have been reported under the 'Trade receivables' and 'Supplier payables' accounts):

Receivables

thousands of euros	31.12.2011	31.12.2010
Companies related to members of the Management Board	0	2
Companies related to a member of the Supervisory Board	15	20
Total	15	22

Payables

thousands of euros	31.12.2011	31.12.2010
Companies related to members of the Management Board	35	18
Companies related to a member of the Supervisory Board	1	0
Total	36	18

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Note 19. Loan collateral and pledged assets

A registered immovable located at J. Sütiste tee 19 in Tallinn has been pledged in collateral to overdraft agreement no. 2005011372 signed between AS SEB Pank and the North Estonia Medical Centre Foundation.

Type of pledge: mortgage in an amount of 1 million euros.

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of SA Põhja-Eesti Regionaalhaigla (Foundation North Estonia Medical Centre):

We have audited the accompanying annual accounts (pages 14 to 35) of SA Põhja-Eesti Regionaalhaigla, which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Annual Accounts

Management Board is responsible for the preparation and fair presentation of these annual accounts in accordance with Estonian Accounting Act, State Accounting Principles and the guidelines issued by the Estonian Accounting Standards Board, and for such internal control as the Management Board determines is necessary to enable the preparation of annual account that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

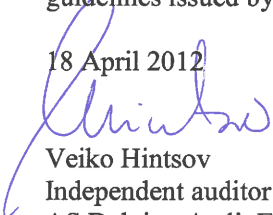
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the independent auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts present fairly, in all material respects, the financial position of SA Põhja-Eesti Regionaalhaigla as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act, State Accounting Principles and the guidelines issued by the Estonian Accounting Standards Board.

18 April 2012



Veiko Hintsov
Independent auditor No 328
AS Deloitte Audit Eesti
License No 27

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4 APPROVAL OF ANNUAL REPORT BY CHAIRMAN OF MANAGEMENT BOARD

The management board of North Estonia Medical Centre has reviewed and approved the 2011 Annual Report, which consists of the Management Report and the Annual Accounts and to which an Independent Certified Auditor's Report has been attached.

Management board

<i>Tõnis Allik</i>	<i>Chairman of the Management Board</i>	_____
<i>Sven Kruup</i>	<i>Member of the Board</i>	_____
<i>Sergei Nazarenko</i>	<i>Member of the Board</i>	_____

The Supervisory Board has reviewed and approved the Annual Report prepared by the Management Board and consisting of the management report and the Annual Accounts and to which the Auditor's Report has been attached.

Supervisory Board

Chairman of the Supervisory Board	Toomas Vilosius
Member of the Supervisory Board	Marelle Erlenheim
Member of the Supervisory Board	Tatjana Muravjova
Member of the Supervisory Board	Herdis Ojasu
Member of the Supervisory Board	Agris Peedu
Member of the Supervisory Board	Ester Pruuden
Member of the Supervisory Board	Kaupo Reede