# 2017 CONSOLIDATED ANNUAL REPORT

North Estonia Medical Centre Foundation

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#### MANAGEMENT REPORT

#### 1. OVERVIEW

SA Põhja-Eesti Regionaalhaigla (North Estonia Medical Centre Foundation, hereinafter also referred to as "the Medical Centre") is a leading healthcare institution and champion of innovation in Estonia. The Medical Centre has 4,000 employees working in seven clinics comprising 32 specialist centres, offering the highest standard of care across almost all specialties. The Medical Centre provides cancer treatment for more than half of Estonia's cancer patients. They also have the largest trauma centre in Estonia and the largest cardiology and psychiatry centres in Northern Estonia.

The Medical Centre has three subsidiary hospitals: Raplamaa Hospital (SA Raplamaa Haigla) and Läänemaa Hospital (SA Läänemaa Haigla) as of 2015 and Hiiumaa Hospital (SA Hiiumaa Haigla) as of 2017. The Medical Centre made a €600,000 contribution to the foundation capital of Hiiumaa Hospital in 2017 and will make another, €200,000 contribution in 2018. The Medical Centre made €350,000 contributions to the foundation capital of Raplamaa Hospital and Läänemaa Hospital in 2017 (2016: €400,000 each).

In 2017, a framework partnership agreement was signed with Rakvere Hospital, and in 2018, with Järvamaa Hospital. In previous years, cooperation agreements have also been concluded with Pärnu Hospital for providing chemotherapy (2014) and hematology services (2017).

The Medical Centre operates at two levels:

- 1. Regional hospital the Medical Centre has the obligation to provide healthcare of the highest level of specialization to persons covered by health insurance from all counties in Estonia.
- 2. Central hospital provision of somewhat less specialized healthcare to patients mainly from Tallinn and Harju County and from Western, Northern and Central Estonia.

The Medical Centre provides emergency medical services in Harju County, Estonia's small islands, Raplamaa, Hiiu County and Lääne County and reanimation ambulance services in Northern Estonia. Emergency care is provided to anyone who needs it.

A broad range of services and high-quality patient approach ensure that the Medical Centre has plenty of patients and an intensive utilization of resources resulting from this gives economic efficacy, including in the field of 24-hour specialized medical care, and extensive clinical experience provides the basis for high-quality treatment.

National Health Plan 2009–2020 recognizes that healthy citizens form the basis for national development, because the healthier a person the more they can contribute to the development of the society and economy.

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Given the above, the Medical Centre has set the following strategic objectives in its 2017–2019 Development Plan:

- 1. Increase the contribution of the Medical Centre to public health and the healthcare system by being a strategic partner to the Estonian Health Insurance Fund and ensuring the capability of the local hospital network in their area of responsibility.
- 2. Improve the satisfaction and safety of patients and the effectiveness of treatment.
- 3. Instill common organizational culture and values and improve staff motivation.
- 4. Ensure sustainable development by investing in maintaining and improving the professional qualification of employees, medical equipment and buildings.

As at the end of the 2017 financial year, Raplamaa Hospital (SA Raplamaa Haigla), Läänemaa Hospital (SA Läänemaa Haigla) and Hiiumaa Hospital (SA Hiiumaa Haigla) belonged to the consolidation group of the Medical Centre.

#### 2. ORGANIZATION AND STAFF

### 2.1. Employees

As at 31 December 2017, North Estonia Medical Centre Foundation had 4,080 employees (2016: 3,985), Raplamaa Hospital 186 employees (2016: 209), Läänemaa Hospital 177 employees (2016: 176) and Hiiumaa Hospital 65 employees, amounting to a total of 4,508 employees (2016: 4,370) for the consolidation group.

The organizational structure of the Medical Centre provides for a division into medical and support structures. The medical structure includes 7 clinics: the Anaesthesiology Clinic, the Diagnostics Division, the Follow-Up Care Clinic, the Surgery Clinic, the Oncology and Haematology Clinic, the Psychiatry Clinic and the Internal Medicine Clinic. The clinics are further divided into centres, 32 altogether. The Palliative Care Service constitutes a separate centre. The support structure includes 17 separate services and departments.

Nursing staff and care workers form the largest group of employees – a total of 2,423 people (2016: 2,355). The number of physicians working at the Medical Centre is 582 (2016: 573). Every year, around a hundred doctor-residents obtain practical knowledge at the Medical Centre and as at the end of 2017 their number stood at 139.

Raplamaa Hospital employs 55 physicians (2016: 64) and 89 nurses and caregivers (2016: 96). Läänemaa Hospital employs 20 physicians (2016: 20) and 110 nurses and caregivers (2016: 2,107). Hiiumaa Hospital employs 16 physicians and 27 nurses and caregivers.

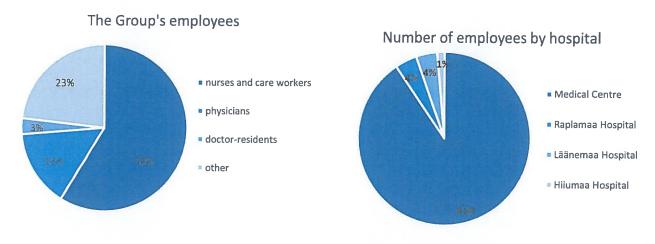


Figure 1. Figure 2.

The average number of full-time employees in 2017 was 4,263 (2016: 3,805): North Estonia Medical Centre Foundation – 3,849 (2016: 3,475), Raplamaa Hospital – 187 (2016: 169), Läänemaa Hospital – 176 (2016: 161) and Hiiumaa Hospital – 51.

#### 2.2. Management Board

As at 31 December 2017, the Management Board of North Estonia Medical Centre consisted of two members: Chairman of the Management Board Agris Peedu and Clinical Director Dr. Andrus Remmelgas. The third board member – Katrin Rasmann – resigned from the Management Board in 2017. On 12 January 2018, Terje Peetso was appointed to the board and should assume office on 16 April 2018. As a member of the Management Board her areas of responsibility will include R&D, training, international cooperation, quality management and medical equipment.

The management boards of Läänemaa Hospital and Raplamaa Hospital have one member. Tõnis Siir and Kaire Aadamsoo continued as members of the Läänemaa Hospital and Raplamaa Hospital management boards respectively. The Management Board of Hiiumaa Hospital consists of two members: Riina Tamm continued as a board member and on 1 October 2017 Tõnis Siir was appointed, adding a second member to the board.

The remuneration paid to members of the management boards in the financial year was as follows: North Estonia Medical Centre Foundation – €330,000 (2016: €434,000), Raplamaa Hospital – €48,000 (2016: €14,000), Läänemaa Hospital – €39,000 (2016: €46,000), Hiiumaa Hospital – €16,000.

#### 2.3. Supervisory Board

The Supervisory Board of North Estonia Medical Centre Foundation comprises 7 members and held a total of 11 meetings in 2017. In 2017, Arvo Mesikepp, Hanno Matto and Vladimir Šokman were appointed to the

Supervisory Board. Georg Männik, Marika Priske, Kaie Koskaru-Nelk and Imre Rammul continued as members of the Supervisory Board. The Chairman of the Supervisory Board is Georg Männik.

An audit committee operates under the Supervisory Board. As at the end of 2017, members of the Audit Committee included Guido Viik, Apo Oja, Hanno Matto and Kaie Koskaru-Nelk.

In 2017, the Supervisory Board of Läänemaa Hospital included Chairman of the Supervisory Board Meelis Roosimägi and board members Andrus Remmelgas, Aivi Karu, Helle Saarsoo and Urmas Sukles. Chairman of the Supervisory Board of Raplamaa Hospital was Agris Peedu and board members Tõnis Blank, Margus Jaanson, Meelis Roosimägi and Jaan Tepp. Chairman of the Supervisory Board of Hiiumaa Hospital was Agris Peedu and board members Agris Koppel, Leonhard Kukk, Meelis Roosimägi and Reili Rand.

The remuneration paid to members of the Supervisory Board and Audit Committee of North Estonia Medical Centre Foundation in 2017 amounted to €37,000 (2016: €40,000), remuneration to members of the Supervisory Board of Raplamaa Hospital to €8,000 (2016: €5,000), remuneration to members of the Supervisory Board of Läänemaa Hospital to €9,000 (2016: €8,000) and remuneration to members of the Supervisory Board of Hiiumaa Hospital to €3,000.

#### 3. OPERATING RESULTS

In 2017, consolidated revenue amounted to €191,542,000 (2016: €177,341,000) of which €180,298,000 (2016: 167,404,000) or 94.1% (2016: 94.3%) came from North Estonia Medical Centre Foundation.

The Group's key financial ratios:

	2017	Incl. the Medical Centre	2016	Incl. the Medical Centre
Business income (€000)	187,602	176,445	173,025	163,147
Operating result for the financial year (€000)	9,273	9,134	803	675
Current ratio (current assets / short-term liabilities)	2.35	2.30	2.11	2.11
Quick ratio (cash / short-term liabilities)	1.55	1.51	1.29	1.29
Net asset ratio (net assets / assets)	58.25%	57.10%	55.61%	54.44%
Net debt ((debt - liquid assets) / operating income)	11.76%	13.38%	18.11%	19.83%
ROA ((operating result for the financial year / assets) * 100)	4.35%	4.46%	0.39%	0.34%

### 3.1. Revenue from the provision of health services

The total value of the contract entered into with the Estonian Health Insurance Fund in 2017 amounted to €153 million (2016: €142 million), of which out-patient specialized medical care accounted for €48 million (2016: €45 million) or 31.1% (2016: 31.8%), day treatment €7 million (2016: €7 million) or 4.6%, (2016: 4.7%) and in-patient specialized medical care €99 million (2016: €90 million) or 64.2% (2016: 63.5%).

The value of the contract increased 7.9% from 2016 (2016 vs 2015: 5.0%). Increase was the highest in oncology (€1.9 million), cardiology (€1.3 million) and neurology (€0.9 million). In 2016, increase was the highest in oncology (€2.5 million), orthopedics (€1.1 million) and neurology (€0.9 million).

The number of treatment cases funded by the Health Insurance Fund increased 1.9% from 2016 (2016 vs 2015: 2.9%), the total number of treatment cases being 369,200 (2016: 362,400) distributed as follows:

			% of all treatment cases	
Treatment case	2017	2016	2017	2016
Out-patient	326,800	321,200	88.5%	88.6%
Day treatment	8,400	8,000	2.3%	2.2%
In-patient	34,000	33,300	9.2%	9.2%

In the financial year, the number of out-patient treatment cases increased the most in orthopedics (2,357 treatment cases), oncology (2,223 treatment cases) and rheumatology (1,503 treatment cases); in 2016, in psychiatry (2,510 treatment cases), oncology (1,891 treatment cases) and ophthalmology (1,436 treatment cases).

The number of treatment cases decreased in dermatovenerology (1,890 treatment cases), general surgery (711 treatment cases) and cardiology (531 treatment cases). In 2016, the number of treatment cases decreased in face and jaw surgery (195 treatment cases), hematology (133 treatment cases) and pulmonology (126 treatment cases).

The number of day treatment cases increased the most in oncology (418 treatment cases) (2016: in nephrology, 169 treatment cases). The number of in-patient treatment cases increased the most in oncology (412 treatment cases) and neurology (229 treatment cases) and decreased in orthopedics (201 treatment cases) and general surgery (200 treatment cases). In 2016, the number of treatment cases increased the most in bone marrow transplantation (70 treatment cases) and hematology (48 treatment cases) and decreased in cardiology (248 treatment cases) and internal medicine (119 treatment cases).

The emergency specialized medical care provided to patients not covered by health insurance is paid for by the Ministry of Social Affairs. In 2017, emergency care was provided in 4,388 cases (2016: 5,520 cases) and the total cost of health services provided to these patients amounted to €3 million (2016: €3.2 million).

There were 32 treatment cases in 2017 the cost of which exceeded €65,000, amounting to a total of €3.2 million (2016: 21 treatment cases amounting to €2 million).

The total value of the contract entered into between Raplamaa Hospital and the Estonian Health Insurance Fund in 2017 amounted to €4.4 million (2016: €4.2 million): out-patient €1.7 million, day treatment €0.4 million and in-patient €2.4 million (including prevention, independent in-patient nursing care and readiness fees). The number of treatment cases funded by the Health Insurance Fund in 2017 was 33,474 (2016: 35,242), including 30,541 (2016: 32,210) out-patient, 877 (2016: 858) day treatment and 2,056 (2016: 2,174) in-patient cases (including prevention, independent in-patient nursing care and readiness cases).

The total value of the contract entered into between Läänemaa Hospital and the Estonian Health Insurance Fund in 2017 amounted to €4.5 million (2016: €4.3 million): out-patient €1.4 million, day treatment €0.15 million and in-patient €3 million (including prevention, independent in-patient nursing care and readiness fees). The number of treatment cases funded by the Estonian Health Insurance Fund was 31,946 (2016: 33,286), including 29,027 (2016: 30,291) out-patient, 588 (2016: 557) day treatment and 2,331 (2016: 2,438) in-patient cases (including prevention, independent in-patient nursing care and readiness cases).

The total value of the contract entered into between SA Hiiumaa Haigla and the Estonian Health Insurance Fund in 2017 amounted to €1.8 million. In 2017, out-patient services amounted to €0.4 million, day treatment to €0.2 million and in-patient services to €1.3 million (including prevention, independent in-patient nursing care and readiness fees).

## 3.2. Health services provided

In 2017, the Medical Centre provided medical care in 32 medical fields (2016: 32 medical fields). The total number of out-patient consultations in 2017 stood at 389,449 (2016: 381,879). In comparison with 2016, the total number of consultations has increased by 7,570 visits or 2% (2016 vs 2015: decreased by 3,335 visits or 1%).

In 2017, the emergency medicine department performed an average of 178 (2016: 176) out-patient consultations in 24 hours, i.e., a total of 64,814 (2016: 64 201) consultations, which is 1% more than in 2016 (2016 vs 2015: the average decreased by 2.1%).

The average number of hospital beds in 2017 was 1,075 (2016: 1,160), including 785 (2016: 858) active treatment beds. In comparison with 2016, the average number of hospital beds has decreased by 1.9% (2016 vs 2015: decreased by 2%).

The total number of in-patients in 2017 was 34,452 (2016: 34,878), decreasing by 396 patients or 1.1% in the financial year (2016 vs 2015: decreased by 941 patients or 2.6%).

The number on day-patients in 2017 was 7,579 (2016: 7,080), increasing the volume of day treatment services by 499 cases (2016: 511 cases) or 7% (2016: 7.8%) compared to the previous year.

Raplamaa Hospital had 95 beds in 2017 (2016: 95), which were divided based on actual demand as follows: 32 in internal medicine, 10 in surgery, 7 in day treatment and 25 in in-patient nursing. Raplamaa Hospital provided medical care in 16 medical fields (not including emergency care, pain management consultations and young athletes' health checks). In 2017, the hospital recorded a total of 40,181 out-patient consultations (2016: 40,992) 7,530 of which were emergency medicine department cases. The number of patients treated in day treatment and surgery was 698, the number of in-patients 1,450. In-patient nursing services were provided to 302 patients. Nurses and midwives performed a total of 1,654 independent consultations.

Läänemaa Hospital provided medical care in 18 medical fields. The total number of out-patient consultations in 2017 was 35,554 (2016: 37,224). The number of hospital beds was 103 (2016: 103) and the total number of in-patients 2,427. The number of treatment cases was 31,946 (2016: 31,747), including 29,027 (2016: 29,144) out-patient, 588 (2016: 557) day treatment and 2,331 (2016: 2,046) in-patient cases (including prevention, independent in-patient nursing care and readiness cases).

In 2017, Hiiumaa Hospital had 18 active treatment beds, 13 beds in independent nursing and 2 in intensive care. The number of hospital beds was the same in 2016. A total of 1,020 in-patients were treated, including 156 patients receiving in-patient nursing services. The total number of bed-days amounted to 6,640. Out-patient specialized medical care was provided to 7,989 patients. Emergency medicine department treated 3,543 people.

## 3.3. Investments

The Medical Centre made investments in accordance with the investment plan included in the Development Plan of the North Estonia Medical Centre.

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The volume of investments made in 2017 totaled €7.4 million (2016: €9.4 million), including €3.6 million (2016: €2.8 million) in construction and reconstruction, €2.9 million (2016: €5.7 million) in medical equipment and €0.9 million (2016: €0.2 million) in the acquisition of other non-current assets. A major part of the investments in construction were related to the extension to the lobby and the reconstruction of the main entrance of the building at J. Sütiste tee 19 and construction of a two-level parking area nearby. The addition of new parking spaces has made parking significantly more convenient for the hospital's patients and visitors. As a part of the reconstruction works, an easy-access disabled parking space was established in front of the main entrance. Improvement works were conducted in the Blood Centre at Ädala 2 and in the B-block of the Mustamäe unit at J. Sütiste tee 19, where the burn and plastic surgery units were renovated and evacuation systems upgraded.

In 2017, the biggest technological investments were made in the equipment of the Internal Medicine Clinic (a total of €0.5 million) and lab and radiology technology (a total of €0.9 million).

All investments have been presented exclusive of VAT. Healthcare services are VAT exempt and all services and goods purchased and investments made for the provision of healthcare services are therefore recorded under operating expenses net of VAT and the relevant VAT expense is recognized separately under other expenses. In 2017, VAT on investments in the amount of €1.4 million (2016: 1.6 million) was recognized under expenses for the reporting period.

In 2018, the Medical Centre plans to invest €16.9 million in medical technology and €3.3 million in other equipment. The majority of the investments in technology in 2018 will be made in the Diagnostics Division.

There are plans to invest €4.5 million in construction in 2018. A significant part of these investments will be made to reconstruct the hospital's existing buildings at Paldiski mnt 52 and J. Sütiste tee 19 (the B-block) and begin the planning phase of the Y-block at J. Sütiste tee 19. The Y-block will house the hospital's pathology department and those day treatment and in-patient departments that have heightened environmental technology requirements (including the day treatment department of the Oncology and Haematology Clinic, the wards of the Chemotherapy and Haematology Centres, the haemodialysis department and wards of the Nephrology Centre etc.). For financing, a loan agreement was made with EIB for a loan in the amount of €24.5 million.

The total amount of investments of Raplamaa Hospital in 2017 stood at €0.05 million (2016: €0.02 million), including €0.02 million in medical technology and €0.02 million in construction. Hospital equipment, furniture and fittings were also acquired. Raplamaa Hospital plans to invest €1.9 million in non-current assets in 2018, including €1.3 million in the development of Rapla's primary level healthcare centre. The total cost of the project is estimated at €1.7 million, of which €1.1 million will be funded from EU Structural Funds. Repair works on the ground floor of the hospital are also planned in order to improve the facilities of the emergency medicine department and build contemporary dressing rooms for its employees.

The total amount of investments of Läänemaa Hospital in 2017 stood at €0.2 million (2016: €0.08 million), including €0.06 million in equipment and €0.01 million in construction. Major extension and reconstruction works in the emergency medicine department were completed in the financial year. Preparations for rebuilding the 2<sup>nd</sup> floor of the hospital to accommodate the out-patients' department began. The dressing rooms and common areas of the kitchen staff were reconstructed. The space freed up when reconstructing the kitchen area was rebuilt to provide new rooms for the administration. There are plans to invest a total of €0.6 million in 2018, including €0.4 million in construction and €0.2 million in equipment. New rooms for the out-patients' department should be finished in the financial year. The hospital will invest in autoclave, endoscopy, ophthalmology and otorhinolaryngology equipment. The project of developing Rapla's primary level healthcare centre will continue: the planning and design phase is currently ongoing.

In 2017, Hiiumaa Hospital invested in new CT equipment with an acquisition cost of €0.06 million. Investments planned for 2018 include the acquisition of a new X-ray machine and other medical equipment (ultrasound, endoscopy). The hospital is also planning to start developing a healthcare centre in cooperation with family physicians.

#### 4. KEY DEVELOPMENTS

#### 4.1. Main activities in 2017

The Development Plan of the Medical Centre establishes the main development trends and key strategies of the hospital for the period from 2017 to 2019:

- 1. Improving the quality of treatment through improved management
- 2. Creating a (more) uniform setting for treatment and diagnosis
- 3. Delivering a better experience to patients and their family during their stay at the hospital and their interaction with the hospital
- 4. Developing the principles, skills and systems related to leadership and employee motivation and harmonizing these across the hospital
- 5. Investing in the development of treatment processes and technologies
- 6. Developing the medical campuses in Mustamägi and Hiiu and relocating departments from other locations (except for networked hospitals) to these central campuses
- 7. Promoting cooperation with R&D and educational institutions
- 8. Optimizing services in accordance with the resources available from the Estonian Health Insurance Fund

The organizational concept of the Medical Centre's quality management system was developed and implemented in 2017. An audit was conducted to assess the compliance of the quality systems of the Medical Centre's pharmacy with ISO 9001:2015. The Medical Centre also participated in the development and implementation of national and internal quality indicators and conducted their periodic in-patient satisfaction survey.

The satisfaction and dedication of employees can be ensured by professional management and good organization of work. Because of that we continued to educate our leaders also in 2017 and prepared a public procurement for outsourcing a more comprehensive management training package. We developed a questionnaire for rating the activities of management personnel and will introduce it in 2018.

We have implemented a variety of measures to recognize the good work of our employees. We stepped up our health promotion activities (e.g., participation in sporting events) and made preparations for an indoors recreation trail project. The trail was opened in 2018. We provided equal opportunities for using additional vacation days for all employees and started to offer psychological counseling to help avoid psychosocial risks.

We continued to invest in training our employees in order to help them in developing the necessary skills and competencies for their work in a rapidly evolving working environment.

The already traditional Young Physician Scholarships were awarded also in 2017. Nurse of the Year, Caregiver of the Year, Secretary of the Year, and Customer Service Assistant of the Year titles were awarded to the best of the best of the support personnel and many other great employees also recognized. The Grand Lady of the Year was chosen to be oncology surgeon Riina Kütner.

The extension to the lobby at J. Sütiste tee 19 and the construction of a two-level parking area nearby were completed. A procurement for designing the Y-block building was organized. The installation of the pneumatic tube transport system was finished. The pneumatic tube system is used for transporting medicines, samples, documents and other small items between different floors and departments, improving internal logistics and ensuring the speedy delivery of urgent samples.

#### 4.2. Investments in 2018

In 2018, the reconstruction work of the B-block at J. Sütiste tee continues with the aim of modernizing the treatment environment for the patients and the working environment for the hospital's employees.

A new location for the Psychiatry Clinic will be selected and design works started in 2018.

SA Põhja-Eesti Regionaalhaigla is focusing on developing the Mustamägi medical campus as a functional hospital system in cooperation with SA Tallinna Lastehaigla (Tallinn Children's Hospital). There are plans to cooperate with Tallinn Children's Hospital in order to develop a women's and children's clinic that would further enhance the quality of neonatal medical care in Tallinn. We work together with the Children's Hospital to build a multi-story car park and helipad on the campus.

#### 4.3. 2017 patient satisfaction survey

Traditionally, patient satisfaction surveys are conducted in the Medical Centre each spring. An in-patient satisfaction survey was conducted in April 2017. A total of 1,570 questionnaires were returned.

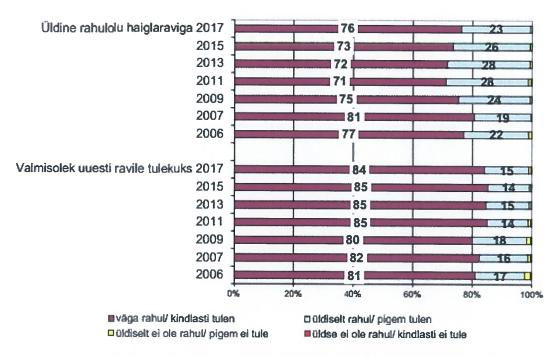


Figure 3. General satisfaction with the hospital and willingness to come back for treatment

52% of the questioned patients were women and 48% men, the average age of the respondents was 60.5. The results of the survey revealed that 76% of the respondents were very much satisfied with their stay, which is 3 percentage points more than in the 2015 survey. 84% expressed their willingness to come back for treatment, if the need should arise. Feedback from patients is vital for improving the treatment experience and the clinics and support centres can use this for planning their activities.

### 4.4. Cooperation in research and development

#### 4.4.1. Publications

The Medical Centre was mentioned in 139 new publications, 73 of them in international peer-reviewed journals. Statistically, the Internal Medicine Clinic has published the most publications (33), followed by the Psychiatry Clinic (14) and the Surgery Clinic (12).

#### 4.4.2. Clinical trials

In 2017, there were 105 ongoing clinical trials and a total of 21 new clinical trials were registered. Statistically, the number of ongoing clinical trials was the highest in the Internal Medicine Clinic (12), followed by the Oncology and Haematology Clinic (6), the Anaesthesiology Clinic (2) and the Psychiatry Clinic (2).

### 4.4.3. Projects

One of the most noteworthy projects is the clinical flagship program in personalized medicine for smart prevention of breast cancer and cardiovascular diseases in collaboration with the Estonian Genome Centre, University of Tartu, Tartu University Hospital and Tallinn University of Technology. The project's budget is €1.5 million of which the share of the Medical Centre is about €0.2 million.

In collaboration with our partner Estonian Connected Health Cluster and with the help of our hard-working physicians three small but very innovative projects were started:

- 1. A joint development project of Documental, the Estonian Genome Center and the Medical Centre. A psychiatric platform was developed and tested.
- 2. A joint development project of Cognus and the Medical Centre. Methods for audification of nursing histories were developed and tested.
- 3. A joint development project of Transformative and the Medical Centre. An algorithm is being developed that would identify early warning signs of sudden cardiac arrest from cardiological monitoring data.

In addition, employees of the Medical Centre took part in and innovation program on chronic obstructive pulmonary disease organized by Tehnopol.

#### 4.4.4. Research and Development Committee

The Research and Development Committee held seven meetings in 2017. A total of 81 decisions were made, supporting the staff of the Medical Centre in their R&D activities with €68,000.

Publication bonuses – €10,400

Doctoral degree bonus - €1,300

Eesti Arst journal bonus - €1,300

Additional remuneration for R&D activities outside official working hours – €55,000, equaling 5,524 hours of R&D

### 4.5. Development prospects

The forecast income of the Medical Centre for 2018 is €194.1 million and total expenses €194.0 million, translating into a result of €0.1 million. The EBITDA forecast for 2018 is €11.6 million.

The total value of the contract entered into with the Estonian Health Insurance Fund in 2018 should increase 6.4% from the previous year, mainly in in-patient services. The average cost of a treatment case has been brought into compliance with actual numbers, but the hospital's actual need is even higher. In order to meet the patients' expectations and shorten the waiting lists, the number of treatment cases needs to increase as well. The Medical Centre is already now ready to cope with this potential increase in their work load.

The operating expenses related to clinical activities in 2018 are budgeted to be €12.2 million or 9.6% higher than in 2017, primarily due to increasing staff costs and technology-related expenses. Staff costs will increase as a result of commitments assumed under the CBA and effective recruitment activities reducing the number of available positions. The hospital is planning to review the remuneration principles for physicians on call and increase the number of additional vacation days. The expenses related to medical equipment will increase as a result of the new maintenance and repair agreements recently concluded and the procurements organized for the acquisition of hospital equipment, furniture and fittings in 2017 are also expected to be finalized in 2018, draining resources from the investment budget.

The budgets of support functions and general administrative expenses will increase by €4.3 million. Most of this increase will come from staff cost. Transportation expenses are also expected to increase, primarily due to the rise in the price of plane tickets. Updating the hospital's hardware systems is expected to increase IT expenses and following a procurement conducted in 2017 expenses related to Microsoft software licenses should also rise. In 2018, VAT and amortization costs are expected to increase as a result of the final stages of the implementation of the hospital's large-scale investment plan.

In fulfilling our mission and realizing our vision we are guided by the following goals in planning our activities:

1. We will develop a working environment and culture that is guided by the patients' needs and supports the staff's dedication to their work.

## Patient-oriented approach

The starting point for planning the hospital's activities are the needs of the patients. When discussing changes, its effect on the patients and staff must always be taken in account.

## **Prized working environment**

We make a conscious effort to keeping and hiring the best employees and creating a supportive working environment. For improving the motivation and safety of the staff, we will create a safe, enjoyable and healthy working environment.

#### E-hospital

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We modernize our e-solutions in such a way to enable the collection of data once at the point of origination and ensure access to data exactly when and where it is needed thereby reducing the need for duplication of data collection and transfer.

#### Infrastructure

We will finish the construction of the Y-block at the Mustamägi medical campus and build a new block for the Psychiatry Clinic, thus increasing the proportion of modern hospital space in the Medical Centre. We will continue renovating block B at the Mustamägi medical campus in order to provide better amenities to our patients and a better working environment for our staff.

2. We will achieve the best possible treatment results for our patients, using developments in medicine and health services organization.

### **Professional development**

Our fundamental principle is the capability of providing high level hospital care, which is supported by world class diagnostics. In accordance with developments in medicine and healthcare we will increase the share of day-patient treatment and day-patient surgery. We will also develop out-patient services and long-distance consulting (telemedicine, e-consulting, physician-to-physician consulting, distance diagnostics) capabilities.

#### **Organization of treatment**

The organization of treatment activities is moving away from emphasizing classical structural unit management and more towards emphasizing the sharing of knowledge between physicians in interdisciplinary and intradisciplinary work-groups and the organization of treatment through these work-groups.

#### **Networking and co-operation**

We will create a network through the use of different forms of co-operation that enables the efficient use of available resources in the interest of the patient and ensures a sustained treatment for the patient. The closest partners of the Medical Centre are its subsidiary hospitals. The intra-group allocation of competencies is based on the principle that the quality of service for the patient must be guaranteed and, if possible, in the nearest hospital.

## Quality

The Medical Centre's quality management system is based on internationally approved medical quality principles. The development of the quality management system is process-centered. Quality assurance will happen through a constant and dynamic process, the goal of which is to find the best options and methods for professional self-assessment and assessment of productivity.

3. We will teach, develop possibilities for studying and research and will co-operate to find new solutions.

### A hospital that teaches and learns

The importance of the Medical Centre in educating young physicians and nurses has been increasing and so has our responsibility in growing and developing our teaching staff. Because of that, we value constant professional development of our staff by increasing our training budget and supporting the attainment of scientific degrees.

#### Scientific research

We support scientific research by enabling our employees to free their time for that purpose without the loss of income. We will develop the Medical Centre as a scientific research platform and create conditions suitable for conducting 1<sup>st</sup> and 2<sup>nd</sup> stage clinical trials. We will increase the amount of clinical and academic research, create a network of scientific coordinators of the different clinics.

#### 5. RISK MANAGEMENT

In 2017, the focus of the Medical Centre has been on crisis management, so that the hospital would have agreed upon action plans and a management structure in place to deal with different crisis and to determine what are their responsibilities and rules of conduct in a crisis situation.

To prevent risks in information systems, data management and to reduce their possible effects in the operation of the Medical Centre, an information security and data protection task force is operating as of the beginning of 2018, managing the setting up of appropriate organizational, technological and physical security measures in the Medical Centre.

The risk management priorities for 2018 are the following:

- 1. Preparation of crisis plans, continuation of business plans and recovery plans
- 2. Establishing the principles of information security
- 3. Mapping of operational, financial and project risks, their assessment and development of control mechanisms

For risk management the Medical Centre uses the model of three lines of defense. The first line of defense is management control, the second line of defense includes different risk management and compliance control functions established by the management and the third line of defense is providing independent assurance.

To detect conflicts of interest and manage those risks a mandatory disclosure and approval procedure is implemented in addition to the procedural restrictions. The Medical Centre demands confirmations of the lack of conflict of interest from members of the procurement board and will update the principles of declaring the economic interests of the management.

The Medical Centre's quality management system for providing healthcare services in its hospitals is based on internationally approved medical quality principles and on the Joint Commission International Accreditation Standards for Hospitals and will ensure the hospital's readiness for accreditation. The development of the quality management system for the Medical Centre will be process-centered. Quality

#### **North Estonia Medical Centre Foundation**

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assurance will happen through a constant and dynamic process, the goal of which is to find the best options and methods for professional self-assessment and assessment and monitoring of productivity.

Different unit based quality systems, based on specific nature of different structural units, have been integrated into the Medical Centre's quality management system. The following quality systems have already been integrated with the Medical Centre's quality management system: the Blood Centre's quality system, the laboratory quality system (EVS-EN ISO 15189), the cell, tissue and organ processing quality system based on national standards (autologous stem cells, allogeneic blood vessels, allogeneic bone tissue, allogeneic skin transplants, heart). The integration of the quality system of the Medical Centre's pharmacy is underway. The creation of the Pathology Department's quality system (EVS-EN ISO 15189), IAEA requirements based Radiotherapy Centre's quality system and the quality system for the Nuclear Medicine Department has been started as has the development of a national standards based quality system for radiation safety.

## **North Estonia Medical Centre Foundation**

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# 2017 CONSOLIDATED ANNUAL REPORT

# Group overview and contact details

The Medical Centre consolidation group (the Group) includes the following foundations: Põhja-Eesti Regionaalhaigla (the Medical Centre), Rapla Haigla (Raplamaa Hospital), Läänemaa Haigla (Läänemaa Hospital).

The Group operates in the Republic of Estonia and provides healthcare services. The Group employed 4,508 people in 2017 (2016: 4,370 people).

Business name:

North Estonia Medical Centre Foundation

Registry code:

90006399

Legal address:

J. Sütiste tee 19, 13419 Tallinn, Estonia

Telephone:

+372 617 1300

Email:

info@regionaalhaigla.ee

Website:

www.regionaalhaigla.ee

# **Consolidated balance sheet**

In euros	<b>31 December 2017</b>	<b>31 December 2016</b>	Notes
ASSETS			
Current assets			
Cash	42,869,810	34,873,982	3
Receivables and prepayments	18,879,491	18,842,681	4
Inventories	3,326,825	3,170,658	7
TOTAL CURRENT ASSETS	65,076,127	56,887,321	
Non-current assets			
Financial investments	3,196	3,196	
Investment property	4,026	0	8
Property, plant and equipment	147,433,841	149,013,351	9
Intangible assets	757,868	297,829	10
TOTAL NON-CURRENT ASSETS	148,198,931	149,314,375	
TOTAL ASSETS	213,275,058	206,201,696	
LIABILITIES			
Short-term liabilities			
Debt	4,135,658	2,470,595	13
Payables and prepayments	22,893,077	23,657,406	14
Provisions	621,497	792,058	17
Liabilities from grants intended for specific purposes	27,000	61,764	
TOTAL SHORT-TERM LIABILITIES	27,677,233	26,981,823	
Long-term liabilities			
Trade payables	601,897	0	
Debt	60,754,870	64,551,149	13
TOTAL LONG-TERM LIABILITIES	61,356,768	64,551,149	
TOTAL LIABILITIES	89,034,000	91,532,972	
Net assets			
Foundation capital at nominal value	34,243,357	34,243,357	
Operating result for previous periods	80,724,618	79,622,500	
Operating result for the financial year	9,273,083	802,867	
TOTAL NET ASSETS	124,241,058	114,668,724	
TOTAL LIABILITIES AND NET ASSETS	213,275,058	206,201,695	



# **Consolidated economic outturn account**

In euros	2017	2016	Notes
Revenue			
Donations and grants	4,729,483	4,795,126	18
Business income	187,601,939	173,025,279	19
Other income	10,964	-479,241	
TOTAL INCOME	192,342,387	177,341,164	
Expenses			
Direct expenses of projects funded from targeted financing	-3,851,753	-4,119,688	18
Donations and grants made	-35,290	-16,821	
Miscellaneous operating expenses	-69,534,245	-67,204,148	20
Staff costs	-88,355,350	-81,129,154	21
Depreciation, amortization and impairment	-10,452,837	-13,174,594	9, 10
Other expenses	-10,566,858	-10,606,995	22
Total expenses	-182,796,333	-176,251,400	
OPERATING RESULT FROM PRINCIPAL ACTIVITY	9,546,053	1,089,764	
Other financial income and expenses	-272,970	-286,897	23
OPERATING RESULT FOR THE FINANCIAL YEAR	9,273,083	802,867	



# **Consolidated statement of cash flows**

In euros	2017	2016	Note
Cash flows from principal activity			
Government grants and donations received	3,793,079	8,401,182	
Grants made	-7,500	0	
Proceeds from the sale of goods and services	191,361,701	177,013,292	
Other proceeds from principal activity	0	858,537	
Purchase of goods and services	-85,408,043	-77,117,248	
Staff costs	-91,357,551	-85,326,337	
Interest received	13,717	36,028	
Interest paid	-193,222	-276,995	
Other cash flows from principal activity	0	-1,410,479	
TOTAL CASH FLOWS FROM PRINCIPAL ACTIVITY	18,202,182	22,177,980	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-7,886,298	-7,696,354	
Proceeds from sale of property, plant and equipment	7,308	905,125	
Networked hospital cash balance	153,800	0	
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	-7,725,190	-6,791,229	
Cash flows from financing activities			
Loans repaid	-2,482,249	-3,265,725	
Finance lease liabilities repaid	-26,704	0	
Government grants for non-current assets	27,790	0	
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	-2,481,163	-3,265,725	
TOTAL CASH FLOWS	7,995,828	12,121,026	
Cash and cash equivalents at the beginning of the period	34,873,982	22,752,956	
CHANGE IN CASH AND CASH EQUIVALENTS	7,995,828	12,121,026	
Cash and cash equivalents at the end of the period	42,869,810	34,873,982	,



# **Consolidated statement of net assets**

In euros	Foundation capital	Accumulated result	Total net assets
31 December 2015	34,243,357	72,801,404	107,044,761
Hospitals networked in the financial year	0	6,821,096	6,821,095
Group results for the financial year	0	802,867	802,867
31 December 2016	34,243,357	80,425,367	114,668,724
Hospitals networked in the financial year	0	299,250	299,250
Group results for the financial year	0	9,273,084	9,273,084
31 December 2017	34,243,357	89,997,701	124,241,058



## Notes on annual accounts

## Note 1 Accounting policies

#### 1.1. General information

The consolidated annual accounts of SA Põhja-Eesti Regionaalhaigla have been prepared in accordance with the Estonian financial reporting standard. The Estonian financial reporting standard is body of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles, which principal requirements are established by the Accounting Act of the Republic of Estonia and supplemented by the guidelines issued by the Estonian Accounting Standards Board.

The performance figures of SA Põhja-Eesti Regionaalhaigla and its subsidiary hospitals (SA Läänemaa Haigla, SA Raplamaa Haigla, SA Hiiumaa Haigla) have been presented in euros. Information on subsidiary hospitals has been disclosed in Note 2.

The annual accounts have been prepared based on the acquisition cost model, except for the revaluations of certain assets and financial instruments. In consolidated statements, all subsidiary hospitals have been consolidated line-by-line. All intra-group receivables and liabilities, transactions between group entities and the resulting unrealized gains and losses have been eliminated.

Notes to the consolidated annual accounts disclose the separate unconsolidated main financial statements of the entity consolidated (the parent hospital). The main financial statements of the parent hospital have been prepared based on the same accounting principles which have also been applied in the preparation of the consolidated annual accounts.

#### 1.2. Financial assets

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

Financial assets are initially recognized at cost, being the fair value of the consideration given. The initial acquisition cost includes all expenses related to the financial asset, including fees paid to agents and consultants, non-refundable taxes associated with the transaction and other similar expenses related to their acquisition (except for the financial assets that are financial assets that are measured at fair value through profit or loss).

All regular way purchases and sales of financial assets are recognized at the date of the respective transaction, i.e., on the date on which the institution committed (e.g., by entering into a contract) to buy or sell the financial asset. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. After initial recognition, all financial assets are measured at fair value, except for receivables from other parties (measured at amortized cost) and investments into shares, when it is not possible to reliably measure their fair value (measured at cost).

#### 1.3. Cash

Cash and cash equivalents. Cash and cash equivalents comprise short-term (acquired for the maximum term of 3 months) highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value, including cash in hand and in bank, demand



deposits and deposits with a maximum term of 3 months. Cash flows are recognized in the cash flow statement using the direct method.

#### 1.4. Financial investments

Long-term financial investments. In accordance with the general rules for state accounting, securities and derivatives (excluding held-to-maturity bonds) are recognized at fair value.

If information about their fair value is not available, such items are to be recognized at cost, adjusted for write-down, where necessary. If the acquisition cost is unknown, investments are recognized at zero value.

### 1.5. Receivables and prepayments

Trade receivables are measured at amortized cost, i.e. at their present value, less doubtful amounts. The collectability of receivables is evaluated at least at the end of each quarter. If possible, the collectability of every receivable is evaluated separately. If this is not practical, the indirect method is used to evaluate receivables based on historical experience.

Receivables are valued on the basis of the circumstances known at and after the balance sheet date until the preparation of financial statements that may impact the collectability of receivables. The evaluation of trade receivables using the indirect method covers those receivables that are past due:

- 1) for 90 to 180 days, write-down by 50%
- 2) more than 180 days, write-down by 100%

An exception to the above are the receivables from insurance companies for the provision of medical services, which are not written down before three years have passed.

Allowances are recorded in the balance sheet as negative amounts in their respective contra-accounts and in expenses depending on the type of the receivable (under other expenses in the economic outturn account). If an allowance was recorded in the doubtful receivables account, but it is later determined to be uncollectable, the receivable and its allowance in the corresponding contra-account are both written off.

No additional expenses are incurred. A receivable is classified as uncollectable if there is no possibility of collecting the receivable or its collection costs exceed the estimated proceeds from its collection.

If a prior estimate of allowance for doubtful receivables changes, it is accounted for as a change in expense for the period in which the estimate changed. If a doubtful receivable is collected, the previously recognized expense is reduced in the period of collection and the balance of the receivable itself and its contra-account reduced.

### 1.6. Inventories

As the Group belongs to the public sector, inventories are recognized in accordance with the general rules for state accounting. In accordance with the public sector financial accounting and reporting guidelines, which entered into force on 1 January 2004, the VAT and other non-refundable taxes paid upon the acquisition of inventories are expensed at the time of the acquisition and not included in the acquisition cost of inventories. The non-refundable taxes and fees related to the acquisition are presented under other expenses in the economic outturn account.

The acquisition cost of inventories has been determined by applying the individual cost (medicines) and FIFO methods (excl. medicines). Inventories are measured in the balance sheet at the lower of their acquisition cost and net realizable value. The difference in the value identified by the measurement of inventories is recognized as an expense for the reporting period under other expenses in the economic outturn account.



#### 1.7. Investment property

Investment property is property (land or a building or part of a building) leased out to entities outside the public sector to earn rentals. Rooms and buildings used by public sector entities are recognized as property, plant and equipment.

The Group uses the cost model under which investment property is recognized in accordance with the same accounting policies that are used for accounting for property, plant and equipment.

The estimated useful lives of the Group's investment property are as follows:

Buildings 10 years

### 1.8. Property, plant and equipment

Property, plant and equipment are tangible assets that are used for the rendering of services, leasing out assets or for administrative purposes and that are expected to be used during more than one year. An item of property, plant and equipment is carried in the balance sheet at its carrying amount, i.e., its acquisition cost less any accumulated depreciation and any accumulated impairment losses.

#### **Acquisition cost**

An item of property, plant and equipment is measured on initial recognition at cost.

- The acquisition cost of purchased property, plant and equipment comprises its purchase price and any costs directly attributable to its acquisition necessary for bringing the asset to its operating condition and location.
- VAT or any other taxes or state fees related to the acquisition are not capitalized in the acquisition cost of property, plant and equipment.
- The acquisition cost of self-constructed assets comprises the costs related to the preparation of the site, materials and services used in the construction of the asset and staff costs.

When the construction of an item of property, plant and equipment lasts for a substantial period of time and is financed with a loan or other debt instrument, the related borrowing costs are not capitalized in the cost of the item, but recognized under interest expenses in the period they are incurred.

In the consolidated annual accounts, the property, plant and equipment of subsidiary hospitals at the time of networking have been recognized at their carrying amount.

#### Depreciation

Each part of an item of property, plant and equipment that has a substantially different useful life and the cost of which is material compared to the total cost of the item is depreciated separately.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated.

The depreciation methods, rates and residual values of property, part and equipment are reviewed at least at the end of each financial year. If the new estimates differ from previous estimates, the changes will be recorded as changes in accounting estimates, i.e., prospectively.

The estimated useful lives of property, part and equipment are reviewed during annual inventories, whenever subsequent expenses are recognized or substantial changes made in development plans. If the new estimated useful life of the asset differs from its previous estimate, the change is accounted for as a change in accounting estimates by changing the remaining useful life of the asset item and, as a result, also its depreciation in any future periods.



### Assessment of the useful life of property, plant and equipment

The useful life of property, plant and equipment is determined based on the actual period of using the asset as estimated by the management. Recent experience has shown that the actual period of using the assets has proved to be a little longer than the estimated useful life of the assets.

The estimated useful lives of the Group's property, plant and equipment are as follows:

Buildings and structures 20–50 years

Machinery and equipment 5 years

Other property, plant and equipment 3–5 years

#### **Additions**

Any subsequent costs related to the items of property, plant and equipment shall be added to the cost of the asset item or recognized as separate asset items only if the future economic benefits are expected to flow to the Group and the acquisition cost of the item can be reliably measured. If a part of an item of property, plant and equipment is replaced, the cost of the new part will be added to the acquisition cost of the asset and the replaced part or a proportionate share of the replaced property, plant and equipment shall be written off the balance sheet. Costs related to ongoing maintenance and repairs shall be charged to period expenses in the economic outturn account.

#### Derecognition

An item of property, plant and equipment is derecognized upon its disposal, decommissioning or if the Group expects no future economic benefits from its disposal. Any profits and losses from the derecognition of property, plant and equipment are charged to other operating income or other operating expenses in the economic outturn account of the period when the items are derecognized.

### Impairment of assets

If the recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount.

Impairment losses include amortization.

### 1.9. Intangible assets

Intangible assets are recognized if the following conditions are met:

- 1) The asset item is controlled by the entity.
- 2) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity.
- 3) The cost of the asset can be measured reliably.

#### **Intangible assets**

An intangible asset shall initially be measured at cost which comprises the purchase price and other costs directly attributable to the acquisition. An intangible asset shall be carried in the balance sheet at its cost, less any accumulated amortization and any accumulated impairment losses. Intangible assets include software, which has a finite useful life. The Group had no intangible assets with indefinite useful lives in the reporting or previous period.



#### **Software**

Expenditures arising from the day-to-day maintenance and servicing of software are recognized as an expense as incurred. Purchased computer software that is not an integral part of the related hardware is recognized as an intangible asset. Software developed and controlled by the Group is recognized under intangible assets if the following conditions are met:

- It is technically feasible to complete the software so that it will be available for use.
- The management intends to complete and use the asset.
- The software is usable.
- It is possible to demonstrate how the software will generate future economic benefits.
- The technical, monetary and other resources to complete and use the software are available.
- The costs related to the development of the software can be measured reliably.

Development cost that do not meet the above criteria are expensed. Any costs related to software that are initially recorded as expenses cannot be recognized as intangible assets in future periods. Software costs are amortized on a straight-line basis over the estimated useful life of the software, which is 5 years.

In the consolidated annual accounts, the intangible assets of subsidiary hospitals at the time of networking have been recognized at their carrying amount and at cost at the year-end.

The threshold for capitalizing property, plant and equipment, and intangible assets is €5,000, except for land, which is recognized at cost regardless of its acquisition cost.

#### 1.10. Leases

Finance lease is a lease which transfers substantially all risks and rewards incidental to ownership to the lessee. All other lease transactions are treated as operating lease.

Assets leased under a finance lease are recorded in the lessee's balance sheet at the lower of acquisition cost and present value of minimum lease payments. Assets leased under finance lease terms are depreciated over the shorter of the lease term and their estimated useful lives. Finance lease payments are apportioned between financial expenses and the payments of lease liability so that the interest rate would be the same at any given moment. Financial expenses are recognized under other financial income and expenses in the economic outturn account. The depreciation costs for the period, which are related to finance leases, are recognized under depreciation, amortization and impairment in the economic outturn account.

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

#### 1.11. Financial liabilities

Financial liabilities are trade payables, accrued expenses and other short-term and long-term debts.

Financial liabilities are initially recognized at cost, being the fair value of the consideration received for the financial liability. Financial liabilities are subsequently measured at amortized cost.

Interest expenses associated with financial liabilities are recognized on accrual basis as expenses for the period under other financial income and expenses in the economic outturn account.

A financial liability is derecognized when the liability is paid, canceled or expired.



### 1.12. Provisions and contingent liabilities

Liabilities assumed during the reporting period or previous periods, which have a legal ground or a contractual basis, which requires the relinquishment of an asset in the future and the cost of which can be reliably measured, but the final cost or payment term of which has not been fixed, are recognized as provisions in the balance sheet. Provisions are measured based on the estimates and experience of the management and, if necessary, also the estimates of independent experts.

Promises, guarantees and other commitments that in certain circumstances may become liabilities are disclosed as contingent liabilities in the notes to the annual accounts.

#### 1.13. Donations and grants

Earmarked grants that involve certain conditions are recognized as government grants.

Government grants that do not involve any future-related conditions are recognized as revenue for the period in which the right of claim arises. Government grants that involve future-related conditions are recognized as revenue for the period in which these conditions are met. Received government grants not meeting these requirements are recognized as liabilities in the balance sheet.

Government grants for covering operating expenses are recognized based on the principle of matching revenues and expenses (income from government grants is recognized in proportion to the related costs). Government grants for financing assets are recognized as income for the period when the assets acquired with government grants are recognized as non-current assets in the balance sheet.

#### 1.14. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue consists of sales revenue less any discounts, unaccepted services and returned goods or products. Revenue of from the principal activity of the Medical Centre includes:

- 1) The sale of healthcare services to the Estonian Health Insurance Fund and other legal and natural persons
- 2) The provision of diagnosis services to other healthcare institutions and family physicians
- 3) The provision of ambulance services
- 4) The performance of psychiatric expert analyses
- 5) The provision of continuing medical education and coaching of residents
- 6) The sale of blood products to legal entities that provide healthcare services

Revenue from supporting activities includes rental income, subsidies by registers, income from clinical trials of medicines and other income. Operating income is recognized on accrual basis based on the principle of realization, i.e., income is stated at realization or over the term(s) set in the contract.

Revenue from the sale of goods is recognized when all material risks related to the ownership of the asset have been transferred to the buyer, and the amount of revenue and expenses related to the transaction can be reliably measured. Revenue from sales of services is recorded when the service is provided. Money claimed on behalf of other persons and paid to the Medical Centre or advance payments from buyers are not included in sales revenue.

Receivables not paid by the balance sheet date and not claimed (e.g., interest generated for the previous period and not paid by the balance sheet date; unfinished health files measured by the end of the year) are also recognized as operating income. Interest income is recorded on accrual basis.



#### 1.15. Expenses

In recognizing economic transactions, the principle of matching revenues and expenses is followed, i.e., expenses for the period are the expenses that are necessary for generating the revenue for the period. Expenses are recognized in accordance with the accrual method.

Staff costs include wages to employees calculated according to the accrual method; other remunerations that are taxed under equal terms and fringe benefits together with the relevant taxes.

Staff costs that have not been paid during the period have been recognized as liabilities to employees. The liability arising from unused holidays and unpaid holiday pay is measured annually at the end of the reporting year and recognized as expenses for the period then ended.

Other expenses include other operating expenses, depreciation, amortization and impairment, and financial income and expenses. Other operating expenses comprise:

- 1) Taxes, fees and fines
- 2) Expenses related to doubtful receivables
- 3) Other operating expenses

Depreciation and amortization charges of non-current assets comprise the depreciation, amortization and impairment of property, plant and equipment, and intangible assets.

Financial income and expenses comprise the gains and losses from financial investments and borrowings. Financial income and expenses are recognized in the period of their generation.

#### 1.16. Related parties

Parties are deemed related if one party exercises control over the other party or has significant influence over the business decisions of the other party, including owners, members of the management and supervisory boards, their family members and other companies over which the aforementioned persons have control or significant influence.

## 1.17. Subsequent events

All known significant events and circumstances that have become evident by the date of completing this report have been properly recognized and disclosed in the annual accounts.



## Note 2 Subsidiaries of the Group

SA Põhja-Eesti Regionaalhaigla (North Estonia Medical Centre Foundation) networked SA Läänemaa Haigla (Läänemaa Hospital) on 13 February 2015, SA Raplamaa Haigla (Raplamaa Hospital) on 26 February 2015 and SA Hiiumaa Haigla (Hiiumaa Hospital) on 24 July 2017.

The transactions of Hiiumaa Hospital have been consolidated in the Group's reports as of 1 August 2017.

In the case of foundations, founding members do not exercise control through their interest, but through the nomination of the members to the supervisory board.

The Medical Centre has the right to nominate three members and local authorities have the right to nominate two members to the supervisory boards of networked hospitals. Through this, the Medical Centre has taken an essential role in directing the daily operations of the hospitals.

## Note 3 Cash

In euros	31 December 2017	31 December 2016
Cash at State Treasury	40,601,603	33,450,381
Cash at commercial banks	2,232,150	1,404,335
Cash in hand	36,058	19,171
Cash in transit	0	94
Total cash	42,869,810	34,873,982

## Note 4 Receivables and prepayments

In euros	31 December 2017	31 December 2016	Notes
Customer receivables	13,866,061	13,928,086	5
Accounts receivable	13,873,480	13,928,905	
Doubtful receivables	-7,419	-819	
Accrued income	4,478,102	4,340,855	
Prepayments and deferred expenses	463,763	494,541	
Other receivables	40,324	11,447	
Receivables from grants	18,354	45,228	
Tax prepayments and receivables	12,833	8,923	6
Interest receivables	53	13,602	
Total receivables and prepayments	18,879,491	18,842,681	



Note 5 Trade receivables

In euros	31 December 2017	31 December 2016	Notes
Accounts receivable	13,873,480	13,928,905	
Doubtful receivables	-7,419	-819	
Total trade receivables	13,866,061	13,928,086	4
Doubtful receivables at the beginning of the period	-818	-7,433	
Receivables declared doubtful in the period	-7,491	1,267	
Irrevocable receivables	890	5,347	
Doubtful receivables at the end of the period	-7,419	-819	4

Note 6 Tax prepayments and liabilities

In euros 31 December 2017		17	31 December 2016		Notes		
Type of tax	Prepaid	Payable	е	Prepaid	F	Payable	
Social tax		0 2,	109,970		0	1,879,420	
Personal income tax		0 1,	095,699		0	983,123	
Unemployment insurance premium		0 :	139,296		0	124,228	
Mandatory funded pension		0 :	107,946		0	96,173	
Income tax on fringe benefits		0	34,907		0	18,515	
Value added tax	18	0	11,388		0	65,300	
Other tax prepayments and liabilities		0	426		0	554	
Prepayment account balance	12,83	3	0	8,92	23	0	4
Total tax prepayments and liabilities	12,83	3 3,4	499,632	8,92	23	3,167,313	14

## Note 7 Inventories

In euros	31 December 2017	31 December 2016
Medicines	1,675,604	1,447,750
Stock of prostheses	1,031,059	1,167,350
Medical supplies	382,487	369,376
Finished goods	245,001	214,465
Blood supply	71,924	110,707
Food supplies	59,284	29,772
Strategic reserves	28,674	81,847
Stocks	19,857	15,156
Other supplies	10,220	23,142
Allowance for inventories	-197,286	-282,320
Total inventories	3,326,825	3,170,658

# Note 8 Investment property

In euros	Land	Buildings	Total
Changes in 2017			
Investment property from networking a subsidiary hospital at carrying amount	4,026	0	4,026
Balance as at 31 December 2017			
Acquisition cost	4,026	18,445	22,471
Accumulated depreciation	0	-18,445	-18,445
Carrying amount as at 31 December 2017	4,026	0	4,026

Between 1 August 2017 and 31 December 2017 no lease income was received from and no expenses incurred in relation to the investment property.



Note 9 Property, plant and equipment

TOTA	Pre- payments	Projects in progress	Other	Machinery and equipment	Buildings	Land	In euros
						r 2015	Balance as at 31 December
22 235,222,92	128,222	52,186,580	1,015,882	59,023,433	114,966,380	7,902,427	Acquisition cost
0 -80,356,74	0	0	-635,995		-33,766,403	0	Accumulated depreciation Carrying amount as at
2 154,866,179	128,222	52,186,580	379,887	13,069,086	81,199,977	7,902,427	31 December 2015
							Changes in 2016
8 11,342,732	2,695,138	2,716,984	167,023	5,733,384	30,203	0	Acquisitions and additions
0 -8,050,434	0	0	-487,107	-7,201,915	-361,412	0	Written-off assets at carrying amount
0 -3,183,144	0	0	176,821	1,220,309	-4,580,274	0	Depreciation
0 -1,427,332	0	0	0	0	-648,906	-778,426	Disposed assets at carrying amount
0 -4,534,650	-2,803,360	-52,310,031	3,944	-3,941	50,578,738	0	Reclassification
						<b>2016</b>	Balance as at 31 December
0 232,553,240	20,000	2,593,533	699,742	57,550,961	164,565,003	7,124,001	Acquisition cost
0 -83,539,889	0	0	-459,174	-44,734,038	-38,346,677	0	Accumulated depreciation
0 149,013,351	20,000	2,593,533	240,568	12,816,923	126,218,326	7,124,001	Carrying amount as at 31 December 2016
							Changes in 2017
9 7,210,689	194,719	3,859,062	54,299	3,052,285	50,325	0	Acquisitions and additions
0 -10,217,718	0	0	-87,126	-4,078,809	-6,051,783	0	Depreciation
0 -111,946	0	-111,946	0	0	0	0	Written-off assets at carrying amount
0 -1,982	0	0	0	-1,982	0	0	Disposed assets at carrying amount
0 0	-70,000	-5,433,027	0	0	5,503,027	0	Reclassification
0 1,541,446	0	0	0	236,228	1,268,187	37,031	Assets from networking a subsidiary hospital at carrying amount
						2017	Balance as at 31 December
9 241,158,444	144,719	907,622	754,041	60,088,389	172,102,641	7,161,032	Acquisition cost
	0	0	-546,300	-48,063,744	-45,114,559	0	Accumulated depreciation
9 147,433,841	144,719	907,622	207,741	12,024,645	126,988,082	7,161,032	Carrying amount as at 31 December 2017



Disposed property, plant and equipment at selling price

Total	7,308	905,125
Other property, plant and equipment	0	5,000
Land	0	426,660
Buildings	0	473,465
Equipment	7,308	0
In euros	2017	2016

# Note 10 Intangible assets

In euros	Computer software	Licenses	Projects in progress and prepayments	Total
Balance as at 31 December 2015				
Acquisition cost	1,682,237	83,034	1,755,291	3,520,562
Accumulated amortization	-1,327,048	-52,815	0	-1,379,863
Carrying amount as at 31 December 2015	355,189	30,219	1,755,291	2,140,699
Changes in 2016				
Acquisitions and additions	167,824	42,244	496,748	706,816
Amortization	-177,829	-7,498	0	-185,327
Written-off assets at carrying amount	-98,785	-13,535	0	-112,320
Reclassification	0	0	-2,252,039	-2,252,039
Balance as at 31 December 2016				
Acquisition cost	1,751,276	111,743	0	1,863,019
Accumulated amortization	-1,504,877	-60,313	0	-1,565,190
Carrying amount as at 31 December 2016	246,399	51,430	0	297,829
Changes in 2017				
Acquisitions and additions	222,440	6,900	487,745	717,085
Amortization	-150,326	-19,797	0	-170,123
Written-off assets at carrying amount	0	0	-86,923	-86,923
Reclassification	238,899	0	-238,899	0
Balance as at 31 December 2017				
Acquisition cost	2,212,615	118,643	161,923	2,493,181
Accumulated amortization	-1,655,203	-80,110	0	-1,735,313
Carrying amount as at 31 December 2017	557,412	38,533	161,923	757,868



# Note 11 Operating lease

Operating	lease income
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In euros	2017	2016
Income from operating lease	348,840	613,078

## Future operating lease income under non-cancellable lease contracts

In euros	2017	2016
Within 12 months	350,000	613,000
Within 1–5 years	1,750,000	3,065,000

## **Carrying amount of leased assets**

In euros	2017	2016
Total other assets	1,655,361	930,451

## Accounting entity as lessee

In euros	2017	2016
Operating lease expense	1,496,353	1,221,030

## Future operating lease expense under non-cancellable lease contracts

In euros	2017	2016
Within 12 months	1,283,335	1,267,598
Within 1–5 years	2,290,707	3,424,544

## Note 12 Finance lease

In euros	As at 31 December 2017	Payable within 12 months	Payable within 1-5 years
Lease of medical equipment	6,823	6,823	0
Total finance lease liabilities	6,823	6,823	0

In euros	Balance at 31 December 2016	Payable within 12 months	Payable within 1-5 years
Lease of medical equipment	28,943	24,039	4,904
Lease of a car	4,526	2,607	1,919
Total finance lease liabilities	33,469	26,646	6,823



# Note 13 Debt

Long-term debt	31 December 2017	31 December 2016
Long-term bank loans	60,754,870	64,544,326
Long-term finance lease liabilities	0	6,823
Total long-term debt	60,754,870	64,551,149
Short-term debt	31 December 2017	31 December 2016
Short-term bank loans	4,128,835	2,445,869
Short-term finance lease liabilities	6,823	24,726
Total short-term debt	4,135,658	2,470,595

## Change in debt in the period

In euros	Balance as at 31 December 2016		Loans received	Balance as at 31 December 2017	Allocation by remaining maturity		
		Loans repaid			Within 12 months	Within 1–5 years	Over 5 years
Borrowings							
NIB	23,322,581	-2,064,516	0	21,258,065	2,064,516	13,292,277	5,901,271
EIB	43,338,710	-322,581	0	43,016,129	1,857,282	13,475,073	27,683,773
Swedbank	326,985	-56,853	339,379	609,511	207,036	402,475	0
Total	66,988,276	2,443,950	339,379	64,883,705	4,128,834	27,169,826	33,585,045
Finance lease liabilities	33,469	26,646	0	6,823	6,823	0	0
Total debt	67,021,745	2,470,596	339,379	64,890,528	4,135,657	27,169,826	33,585,045

In euros	Balance as at 31 December 2015	Loans repaid	Loans received	Balance as at 31 December 2016	Allocation by remaining maturity		
					Within 12 months	Within 1–5 years	Over 5 years
Borrowings							
NIB	25,387,097	-2,064,516	0	23,322,581	2,064,516	10,322,580	10,935,485
EIB	43,500,000	-161,290	0	43,338,710	322,580	12,637,341	30,378,789
Swedbank	92,487	-1,024,149	1,258,647	326,985	56,853	270,132	0
Total	69,066,302	3,249,955	1,258,647	66,988,276	2,443,949	23,230,053	41,314,274
Finance lease liabilities	86,718	53,249	0	33,469	26,646	6,823	0
Total debt	64,614,690	3,303,204	1,258,647	67,021,745	2,470,595	23,236,876	41,314,274



Carrying amount of assets pledged as collateral

In euros	31 December 2017	<b>31 December 2016</b>
Buildings	3,552,104	5,626,065
Land	91,698	63,540
Total	3,643,802	5,689,605

Loans taken from EIB and NIB are not secured by a pledge. The loan from EIB is secured by a €52.2 million guarantee issued by the Ministry of Finance. A €10 million overdraft agreement has been concluded with the Ministry of Finance. The overdraft facility was not used in 2017 (or 2016).

Loan	Contract date	Termination date	Loan amount in euros	Interest
NIB	8 June 2006	12 September 2028	21.2 million	6m Euribor + 0.22%
NIB	9 October 2017	5 October 2037	24.5 million	6m Euribor + 0.85%
Loans from EIB	16 September 2011	26 June 2034	43.5 million	6m Euribor + (0.40% - 0.75%)
Loans from Swedbank	2009-2012	2018-2022	1.7 million	6m Euribor + (1.29% - 1.95%)
SEB Pank	2009	2018	0.4 million	6m Euribor + 2.5%

# Note 14 Payables and prepayments

In euros	31 December 2017	31 December 2016	Notes
Trade payables	9,663,538	11,660,193	15
Employee payables	9,390,804	8,455,768	16
Tax payables	3,499,632	3,167,313	6
Other prepayments received	322,752	334,718	
Interest payables	16,352	15,614	
Other accrued expenses	0	23,800	
Total payables and prepayments	22,893,077	23,657,406	

# Note 15 Trade payables

In euros	31 December 2017	31 December 2016	Notes
Trade payables for goods and services	9,221,647*	9,852,574	
Trade payables for non-current assets	441,890	1,774,420	
Total trade payables	9,663,538	11,660,193	14

<sup>\*</sup> Does not include long-term trade payables



# Note 16 Employee payables

In euros	31 December 2017	<b>31 December 2016</b>
Remuneration liability	4,849,008	4,283,791
Tax liability	3,198,722	2,903,965
Vacation pay liability	1,327,354	1,256,356
Other employee payables	15,720	11,656
Total employee payables	9,390,804	8,455,768

## **Note 17** Provisions

In euros	2017	2016
Provisions as at 31 January	792,058	679,764
Provisions utilized in the period	-552,586	-739,025
Provisions made	382,025	851,319
Provisions as at 31 December	621,497	792,058

# Note 18 Fees, donations and grants intended for specific purposes

Fees, donations and grants intended for specific purposes recognized under income by providing entities

In euros	<b>31 December 2017</b>	<b>31 December 2016</b>
University of Tartu	3,538,452	3,322,038
Health Board	122,530	0
Other government grants	86,741	0
Ministry of Social Affairs	875,864	193,177
Ministry of Foreign Affairs	46,740	132,600
Estonian Research Council	38,576	4,576
Grants	11,026	0
Foreign grants	9,555	370,276
SA Põhja-Eesti Regionaalhaigla ERDF construction project	0	610,328
Total fees, donations and grants intended for specific purposes	4,729,483	4,738,854

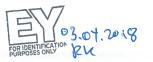


Direct expenses related to targeted financing

In euros	2017	2016	Notes
Staff costs	3,659,509	3,826,479	21
Operating expenses	116,855	157,137	
Other expenses	48,911	25,121	
Training expenses	26,479	110,951	
Total expenses	3,851,753	4,119,688	

# Note 19 Business income

In euros	2017	2016
Sale of services to the Estonian Health Insurance Fund	165,804,426	152,054,839
Sale of other medical services	18,313,647	17,505,641
Cost-sharing by patients	1,377,493	1,305,151
Lease income	611,853	620,278
Other services	501,986	486,439
Catering	394,201	433,637
Provision of training services	352,555	307,700
Treatment of patients not covered by health insurance	148,219	218,891
Sale of medicines	97,559	92,703
Total business income	187,601,939	173,025,279



# Note 20 Operating expenses

In euros	2017	2016
Medicines	23,325,161	21,264,014
Other purchased medical services	9,275,910	8,414,192
Medical supplies	9,088,765	8,478,155
Surgery supplies	6,910,658	7,128,868
Operating expense related to properties and buildings	5,843,102	5,823,095
Operating expense related to medical equipment	3,587,673	3,552,652
Medical services purchased	2,721,866	2,370,384
Special clothing	1,681,153	1,075,647
ICT expenses	1,602,667	3,630,376
Training expenses (incl. travel expenses)	1,121,198	697,965
Operating expense related to inventories	997,111	1,422,084
Food and catering	964,382	883,897
Administration expenses	814,736	835,136
Operating expense related to vehicles	905,073	840,179
Miscellaneous management expenses	590,709	669,829
Research and development	48,487	32,893
Production costs	43,508	76,027
Business trips (incl. trainings)	12,084	8,754
Total miscellaneous operating expenses	69,534,245	67,204,148

# Note 21 Staff costs

In euros	2017	2016	Notes
Remuneration, performance pay, vacation pay and bonuses	68,771,051	63,649,043	
Taxes calculated on staff costs	22,818,463	21,022,492	
Fringe benefits, incl. taxes	425,345	284,099	
Total staff costs	92,014,858	84,955,633	
Total staff costs less expenses compensated under targeted financing	88,355,350	81,129,154	18
Average number of full-time employees	3,842	3,805	



Note 22 Other expenses

In euros	2017	2016
VAT expenses	10,454,849	10,446,392
Other	79,325	55,879
Fines, penalties and compensations	78,587	98,405
Doubtful receivables	9,635	1,471
Exchange rate differences	1,981	4,827
Allowance for inventories	-57,519*	21
Total other expenses	10,566,858	10,606,995

The net realizable value of written-down inventories has increased and the previous write-down has been reversed.

# Note 23 Financial income and expenses

In euros	2017	2016
Interest income from deposits	169	31,394
Interest expenses from loans and bonds	-193,969	-248,713
Other financial income and expenses	-79,170	-69,578
Total other financial income and expenses	-272,970	-286,897



## Note 24 Related parties

### Related parties include:

- Foundations where the Group is one of the founding members
- Executive and senior management of the Medical Centre and foundations, non-profit associations and companies under their control or significant influence
- Members of the management boards of the subsidiaries of the Medical Centre and foundations, nonprofit associations and companies under their control or significant influence
- Family members (spouses, partners and children) of the members of executive and senior management of the Medical Centre and it subsidiaries' management boards and foundations, non-profit associations and companies under their control or significant influence

### Related party transactions

1. Transactions between the Medical Centre and executive and senior management of the Group's subsidiaries and foundations, non-profit associations and companies under their control or significant influence

In euros	2017	2016
Receivables	4,961	3,367
Liabilities	2,000	0
Purchases	0	79,125
Sales	52,246	55,040

### 2. Transactions with foundations where the Group is one of the founding members

In euros	2017	2016
Receivables	36,499	23,872
Liabilities	42,598	16,096
Liability related to the contribution to foundation capital	700,000	0
Purchases	295,370	24,863
Sales	137,447	186,631

## Other significant transactions

In euros	2017	2016
Staff costs, including fringe benefits and taxes	605,572	546,317



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## Note 25 Subsequent events

In 2018, negotiations with NIB were opened to change a covenant in the loan agreement. The aim of this process is to harmonize all loan covenants with the loan agreement concluded in November 2017.

SA Hiiumaa Haigla will be transitioning to the Global Budget system as of 1 April 2018. The agreement concluded with the Estonian Health Insurance Fund will help to cover the hospital's operating expenses.

In February 2018, Hiiumaa Hospital paid back the loan taken from AS SEB Pank (loan balance €117,794) ahead of schedule. In May 2018, the hospital will pay back the loan taken from AS Swedbank (€6,604) ahead of schedule.



Note 26 Unconsolidated statements of the parent company

## **Balance sheet**

In euros	31 December 2017	31 December 2016
ASSETS		
Current assets		
Cash	40,635,717	33,468,489
Receivables and prepayments	17,973,614	18,091,618
Inventories	3,232,435	3,068,597
TOTAL CURRENT ASSETS	61,841,766	54,628,704
Non-current assets		
Shares in subsidiaries	2,100,000	0
Financial investments	3,195	3,195
Property, plant and equipment	139,936,497	142,951,071
Intangible assets	753,083	291,064
TOTAL NON-CURRENT ASSETS	142,792,775	143,245,331
TOTAL ASSETS	204,634,541	197,874,035
LIABILITIES		
Short-term liabilities		
Debt	3,923,718	2,389,016
Payables and prepayments	22,296,859	22,668,620
Provisions	585,921	759,058
Liabilities from grants intended for specific purposes	27,000	61,764
TOTAL SHORT-TERM LIABILITIES	26,833,498	25,878,458
Long-term liabilities		PPA-PPA-Ballacian (ISBN 1964-09-14-collision common year negocrapers array forth also the collision added addition
Trade payables	594,857	0
Debt	60,352,395	64,276,114
TOTAL LONG-TERM LIABILITIES	60,947,252	64,276,114
TOTAL LIABILITIES	87,780,750	90,154,572
Net assets		
Foundation capital at nominal value	34,243,357	34,243,357
Operating result for previous periods	73,476,106	72,801,404
Operating result for the financial year	9,134,328	674,702
TOTAL NET ASSETS	116,853,791	107,719,463
TOTAL LIABILITIES AND NET ASSETS	204,634,541	197,874,035



# **Economic outturn account**

In euros	2017	2016
Revenue		
Donations and grants	4,642,665	4,735,958
Business income	176,445,091	163,146,827
Other income	11,164	-479,241
TOTAL INCOME	181,098,920	167,403,544
Expenses		
Direct expenses of projects funded from targeted financing	-3,812,167	-4,109,302
Donations and grants made	-35,290	-16,821
Miscellaneous operating expenses	-66,187,166	-64,388,389
Staff costs	-81,522,946	-74,962,676
Depreciation, amortization and impairment	-10,030,515	-12,718,972
Other expenses	-10,110,964	-10,259,623
Total expenses	-171,699,048	-166,455,783
OPERATING RESULT FROM PRINCIPAL ACTIVITY	9,399,873	947,761
Other financial income and expenses	-265,545	-273,059
OPERATING RESULT FOR THE FINANCIAL YEAR	9,134,328	674,702



# **Cash flow statement**

In euros	2017	2016
Cash flows from principal activity		
Government grants and donations received	3,770,764	8,379,844
Grants made	-7,500	0
Proceeds from the sale of goods and services	180,011,145	164,327,530
Purchase of goods and services	-81,309,492	-74,163,112
Staff costs	-84,563,372	-78,394,994
Interest received	13,549	35,935
Interest paid	-185,634	-263,656
TOTAL CASH FLOWS FROM PRINCIPAL ACTIVITY	17,729,460	19,921,547
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-7,580,524	-8,496,354
Proceeds from sale of property, plant and equipment	7,308	905,125
Contributions to foundation capital of subsidiary hospitals	-600,000	0
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	-8,173,216	-7,442,732
Cash flows from financing activities		
Loans repaid	-2,389,096	-2,225,806
Finance lease liabilities repaid	-1,920	0
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	-2,389,016	-2,225,806
TOTAL CASH FLOWS	7,167,228	12,253,009
Cash and cash equivalents at the beginning of the period	33,468,489	21,215,480
CHANGE IN CASH AND CASH EQUIVALENTS	7,167,228	12,253,009
Cash and cash equivalents at the end of the period	40,635,717	33,468,489



## **North Estonia Medical Centre Foundation**

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# **Statement of net assets**

In euros	Foundation capital	Accumulated result	Total net assets
31 December 2015	34,243,357	72,801,404	107,044,761
Results for the financial year	0	674,702	674,702
31 December 2016	34,243,357	73,476,106	107,719,463
Results for the financial year	0	9,134,328	9,134,328
31 December 2017	34,243,357	82,610,434	116,853,791

# Signatures of the management board to the annual report 2017

I hereby confirm the 2017 annual report of North Estonia Medical Centre Foundation:

Agris Peedu Member of the board

3 April 2018



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Code of legal entity: 10877299 VAT payer code: EE 100770654

### Translation of the Estonian Original

#### INDEPENDENT AUDITOR'S REPORT

#### To the Supervisiory Board of North Estonian Medical Center Foundation

#### Opinion

We have audited the consolidated financial statements of North Estonian Medical Center Foundation and its subsidiary foundations (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of economic outturn, consolidated statement of net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Estonian Financial Reporting Standard.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). 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 are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

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

#### Other information

Management is responsible for the other information. Other information consists of management report, but does not consist of 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 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 management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Estonian Financial Reporting Standard, and for such internal control as management 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, management 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 management 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 International Standards on Auditing (Estonia) 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 International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism 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 management.
- Conclude on the appropriateness of management'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.

Tallinn, 03 April 2018

Stan Nahkor

Authorised Auditor's number 508

Ernst & Young Baltic AS

Audit Company's Registration number 58