

**The North Estonia Medical Centre Foundation**  
REGISTRY CODE 90006399  
CONSOLIDATED ANNUAL REPORT

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## TABLE OF CONTENTS

TABLE OF CONTENTS .....	2
MANAGEMENT REPORT .....	3
CONSOLIDATED ANNUAL ACCOUNTS .....	7
CONSOLIDATED BALANCE SHEET (IN EUR) .....	7
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE (IN EUR) .....	8
CONSOLIDATED CASH FLOW STATEMENT (IN EUR) .....	9
STATEMENT OF CHANGE IN NET ASSETS (IN EUR) .....	10
NOTES TO ANNUAL ACCOUNTS .....	11
Note 1. Accounting policies used .....	11
Note 2. Subsidiaries of the Group .....	16
Note 3. Cash (in EUR) .....	16
Note 4. Receivables and advances (in EUR) .....	16
Note 5. Trade receivables (in EUR) .....	17
Note 6. Prepaid taxes and tax arrears (in EUR) .....	17
Note 7. Inventories (in EUR) .....	17
Note 8. Tangible fixed assets (in EUR) .....	18
Note 9. Intangible fixed assets (in EUR) .....	20
Note 10. Operational lease (in EUR) .....	20
Note 11. Financial lease (in EUR) .....	21
Note 12. Loan commitments (in EUR) .....	21
Note 13. Payables and prepayments (in EUR) .....	22
Note 14. Employee-related payables (in EUR) .....	23
Note 15. Provisions (in EUR) .....	23
Note 16. Targeted financing, donations and grants (in EUR) .....	23
Note 17. Revenue from business activities (in EUR) .....	24
Note 18. Miscellaneous operating expenses (in EUR) .....	24
Note 19. Labour costs (in EUR) .....	24
Note 20. Other expenses (in EUR) .....	24
Note 21. Other financial income and expenses (in EUR) .....	25
Note 22. Related parties (in EUR) .....	25
Note 23. Subsequent events .....	25
Note 24. Accruals (in EUR) .....	25
Note 25. Unconsolidated balance sheet of the parent company (in EUR) .....	26
Note 26. Unconsolidated statement of financial performance of the parent company (in EUR) .....	26
Note 27. Unconsolidated cash flow statement of the parent company (in EUR) .....	27
Note 28. Unconsolidated statement of changes in net assets of the parent company (in EUR) .....	27

Attached documents:  
AUDITOR'S REPORT

## MANAGEMENT REPORT

The North Estonia Medical Centre Foundation (hereinafter the Medical Centre or PERH) is a regional hospital and its principal activity is to provide specialised medical care in the majority of fields of medicine, to be the basis for continuing and pre-diploma medical education, and to conduct health care research.

The Medical Centre operates at two levels: at the level of a regional hospital – the Medical Centre has the obligation to provide health care at the highest level of specialisation to persons covered by health insurance from all counties in Estonia, and at the level of a central hospital – to provide somewhat less specialised health care to patients mainly from Tallinn and Harju County and from west, north and central Estonia. The Medical Centre provides emergency medical service in Harju County, Estonia's small islands, Märjamaa, Hiiu County and Lääne County as well as a reanimation ambulance service in north Estonia. Emergency care is provided to anyone who needs it.

On 21 August 2014, the Government of the Republic approved the document entitled “The Estonian Health Development Trends 2020” (EHDT), which among other issues also addresses the networking of hospitals in Estonia as the cooperation process of different types of hospitals. In this process, regional hospitals as competence centres (Tartu University Hospital and the Medical Centre will ensure an actual capacity to provide required special medical care services in the areas of responsibility of general and local hospitals. The timeline of the hospital network reform has been established by order of the Government of the Republic No. 296 adopted on 4 July 2014, “Operational Programme for Cohesion Policy Funds 2014-2020”, which sets the objective that the relative importance of general and local hospitals in which a regional hospital has acquired an interest/required interest has to stand at 80% by the end of the current EU funding period (clause 2.2.4.1 of the Operational Programme), i.e. that 10 out of the 12 general and local hospitals in Estonia have to be networked.

Given the above, the Medical Centre has set the following strategic objectives in its 2015-2017 Development Plan:

1. To establish a group by acquiring a required interest or a qualifying holding in the general hospitals within the responsibility area of the Medical Centre for the creation of a common setting of treatment and diagnosis.
2. To merge four general hospitals to the Group from 2015 to 2017. In 2015, the Medical Centre and the Association of Local Authorities of Rapla County (the Founder of the Rapla County Hospital Foundation) established a new foundation, Rapla County Hospital (on 26 February 2015), and with Haapsalu City, a new foundation, Lääne County Hospital (13 February 2015). In accordance with the articles of association of these new foundations established for the management of the Rapla County and Lääne County hospitals, the Medical Centre may nominate three members to the supervisory councils of the foundations, and the local government can nominate two members to the supervisory councils. Through this, the Medical Centre has taken an essential role in directing the daily operations of the hospitals.

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

As of 31 December 2015, the Medical Centre had 3,979 employees, Rapla County Hospital 256 employees and Lääne County Hospital 182 employees, i.e. 4,417 in total. The staff of the Medical Centre are divided between 7 clinics (medical structure) and 17 services (supporting structure). Nursing staff and care workers form the largest group of employees – a total of 2,358 employees. In addition to nursing and care staff, the Medical Centre employs 542 physicians. Every year, around a hundred doctor-residents obtain practical knowledge at the Medical Centre and as of the end of 2015, their number stood at 141.

Rapla County Hospital employs 66 physicians (ten of them work full-time) and 80 nurses and carers. Lääne County Hospital employs 18 physicians and 109 nurses and carers. The average number of employees in 2015 was 3,798, i.e. 3,457 at the Medical Centre, 182 at Rapla County Hospital and 160 at Lääne County Hospital.

### Revenues, expenses and the result

In 2015, the consolidated revenues stood at EUR 175,945,362 and, of this, the separate revenue of the Medical Centre amounted to EUR 168,784,769 or 95.9%. The net surplus for the financial year stood at EUR 13,420,554. Principal financial ratios

	2015	incl. the Medical Centre	2014	incl. the Medical Centre
Operating revenue	163,541,267	156,422,704	146,181,704	146,181,704
Net surplus for the financial year	13,420,555	13,708,135	8,093,634	8,093,634
Current ratio (current assets/short-term liabilities)	1.91	1.92	1.46	1.46
ROA (%) ((net surplus for the financial year/assets)*100)	6.5%	6.9%	4.5%	4.5%

## Key developments

The Development Plan of the North Estonia Medical Centre Foundation established the main development trends of the hospital from 2015 to 2017 (which include some more important projects that were implemented in 2015):

1. To proceed with the optimisation and modernisation of treatment infrastructure: the construction work of the 3<sup>rd</sup> stage of the C block was completed and a permit for use was obtained. A new kitchen and staff canteen were established.
2. To increase the capacity of active treatment in the inpatient department and to increase the output in the outpatient and day treatment departments: the overall number of patients grew by 4,125 – mainly on the account of day treatment and independent nursing care. In 2015, the medical specialists in nephrology and oncology started to deliver e-consultations. During 2015, a total of 2,420 e-consultations were provided to 104 family health centres. In comparison with 2014, the number of participating family health centres has increased by 36 centres (53%) and the number of e-consultations delivered by 1,036 (75%).
3. To develop welfare and service standards: the new web solution of the hospital is developed for the more effective exchange of information with patients and partners.
4. To map clinical competences and to promote coordination and cooperation in the setting of treatment and diagnosis: the Lääne and Rapla County hospitals were networked through the establishment of subsidiary hospitals in February 2015. The unit of emergency surgery was established. The organisation of regular conferences also continued.
5. To invest in professionalism and teams: traditional grants for young doctors were also awarded in 2015. The election of Nurse of the Year, Carer of the Year, Secretary of the Year and Customer Service Assistant of the Year were run as well and the best employees were recognised.

In 2016, the activities are performed based on the 2016-2018 Development Plan, which states that the main development trends of the Medical Centre are:

1. To improve the quality of treatment through improved quality management.
2. To create a common setting for treatment and diagnosis:
  - (1) We develop cooperation and partnership with family physicians and the hospitals that refer patients to the Medical Centre. We promote training programmes, mutual work processes and the exchange of related information (e-consultation, applications of telemedicine).
  - (2) We will merge another two hospitals to the Medical Centre Group from 2016 to 2018.
  - (3) We help the networked hospitals provide medical care in their local counties at the agreed level, ensure consistent quality of treatment, staffing and main competences, and the modernisation of the infrastructure and equipment.
3. We deliver a better experience to patients and their family during their stay at the hospital and their interaction with the hospital.
4. We develop the principles, skills and systems related to leadership and employee motivation and unify these across the hospital.
5. We invest in the development of treatment processes and technologies.
6. We develop the medical campus in Mustamägi and Hiiu and transfer treatment activities from other locations there (except from networked hospitals).
7. We develop cooperation with R&D and educational institutions.
8. We optimise treatment opportunities according to the purchasing power of the Health Insurance Fund and we invest in the growth of paid-for services, including their export.

## Cooperation in research and development

Interdisciplinary and cooperation seminars that were initiated by the Medical Centre and which affect the medical landscape are becoming a tradition, e.g. the spring conference of emergency medicine, the autumn conference of the Surgery Clinic, the conference of nursing management, the autumn conference of the Psychiatry Clinic, etc.

The Medical Centre is the founding partner in two health care clusters: the Estonian HealthTech Cluster and the Estonian Medical Services Export Cluster.

Cooperation with other hospitals, the University of Tartu, the Technomedicum of Tallinn University of Technology, the Competence Centre for Cancer Research, ELIKO Tehnoloogia Arenduskeskuse OÜ and the International Atomic Energy Agency also continues.

In 2015, there were 36 new clinical investigations registered at the Medical Centre and as of the end of 2015, the number of active clinical trials amounted to 142 (2014: 121).

In 2015, 30 research projects were registered in the register of research.

## Revenues from the provision of health services

The total price of the contract entered into with the Estonian Health Insurance Fund in 2015 stood at EUR 135.2 million, of which outpatient specialised medical care accounted for EUR 39.7 million or 29.4% (2014: 29.3%), day treatment EUR 5.8 million or 4.3% (2014: 3.9%) and inpatients specialised medical care EUR 89.7 million or 66.3% (2014: 66.8%).

In comparison with 2014, the volume of the contract increased by 6.07%. The volume increased the most in oncology (by EUR 1.97 million), in cardiology (by EUR 0.9 million) and in psychiatry (by EUR 0.9 million).

The number of treatment events funded by the Health Insurance Fund increased by 0.4% in comparison with 2014, i.e. the number of treatment events stood at 351.5 thousand, of which outpatients events accounted for 309.8 thousand (88.1%), day treatment events 7.5 thousand (2.2%) and inpatient treatment events 34.2 thousand (9.7%). The number of outpatient treatment events increased the most in orthopaedics (1,300 treatment events), urology (925 treatment events) and haematology (907 treatment events). The number of treatment events decreased in psychiatry (2,756 treatment events), occupational diseases (716 treatment events) and dermatovenerology (535 treatment events). In day treatment, the number of treatment events increased the most in nephrology (114 treatment events). In inpatient treatment, the number of treatment events increased the most in oncology (162 treatment events) and urology (114 treatment events), and decreased in pulmonology (190 treatment events) and otorhinolaryngology (189 treatment events).

The emergency specialised medical care provided to patients not covered by the health insurance is paid for by the Ministry of Social Affairs. In 2015, emergency medical care was delivered in 5,137 events (2014: 5,970 events) and the total cost of health services provided to these patients stood at EUR 2.8 million (2014: EUR 2.9 million).

In 2015, there were 19 extremely expensive treatment events (the cost of the event exceeded EUR 65 thousand), which totalled EUR 1.74 million (2014: 20 treatment events amounting to EUR 2.0 million).

The volume of the contract between Rapla County Hospital and the Estonian Health Insurance Fund for the 2015 calendar year stood at EUR 3.7 million, of which the 9-month figure in the Consolidated Annual Report is EUR 3.0 million. The number of funded treatment events in 2015 stood at 32,993, which included 29,500 outpatient and 2,435 inpatient treatment events (together with nursing/caring treatment events).

The volume of the contract between Lääne County Hospital and the Estonian Health Insurance Fund for the 2015 calendar year stood at EUR 3.7 million, of which outpatient medical care accounted for EUR 1.3 million, day treatment for EUR 0.1 million and inpatient specialised medical care for EUR 2.3 million. The number of treatment events funded by the Estonian Health Insurance Fund stood at 31,172, which included 29,287 outpatient treatment events, 555 day treatment events and 2,330 inpatient treatment events.

## Volumes of health services delivered

In 2015, the Medical Centre provided medical care in 30 medical fields. The total number of outpatient consultations in 2016 stood at 385,214. In comparison with 2014 (376,628), the total number of consultations has decreased by 9,637 visits (2.6%).

In 2015, the emergency medicine department performed an average of 188 outpatient consultation in 24 hours, i.e. a total of 68,927 consultations, which is 4.8% more than in 2014. The total number of hospital beds as of the end of 2015 stood at 1,184 and included 863 active treatment beds. In comparison to 2014, the number of beds has not substantially changed. The total number of inpatients in 2015 was 35,789 and in comparison with 2014 (36,145), the number has decreased by 356 inpatients (-1.0%).

Day treatment service was delivered in 6,569 cases and in comparison with 2014 (6,366), the volume of day treatment services has increased by 203 cases (3.2%).

Rapla County Hospital provided medical care in 30 medical fields. The total number of outpatient consultations stood at 44,669 and included 1,089 events of nursing care. The number of hospital beds stood at 79 and the number of inpatients at 2,457.

Lääne County Hospital provided medical care in 18 medical fields. The total number of outpatient consultations stood at 36,529, the number of hospital beds at 103 and the number of inpatients at 2,613.

## Investments

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

The volume of investments made in 2015 totalled EUR 21.4 million, including EUR 16.8 million in construction and renovation work and EUR 2.1 million in equipment. Capital expenditure included reconstruction work in the amount of EUR 13.7 million, which was performed within the ERDF funding project, and repair work of other facilities in the amount of EUR 1.3 million.

In 2015, the biggest investments were made in the equipment of the Cardiology Centre (a total of EUR 0.5 million) and lab and pathology technology (a total of EUR 0.6 million).

The volumes of capital expenditure have been presented exclusive of VAT. Health care services are exempt from VAT and thus the VAT from investments is offset for the respective period. In 2015, the total amount of VAT offset from investments stood at EUR 3.8 million.

In 2016, the Medical Centre plans to invest EUR 13.3 million (amount without VAT) into medical technology and EUR 1.8 million into other equipment. Of the investments into technology, the Diagnostics Clinic and the Oncology and Haematology Clinic account for the largest part.

Capital expenditures (amount without VAT) amount to EUR 3.1 million in 2016 and the largest expenses are related to the extension of the lobby of the building at 19 Sütiste Road and the completion of the construction of a two-level car park.

The total amount of investments of Rapla County Hospital in 2015 stood at EUR 55.6 thousand and of Lääne County Hospital at EUR 116 thousand.

In 2016, Rapla County Hospital and Lääne County Hospital plan to make investments in equipment in an amount comparable to 2015.

## CONSOLIDATED ANNUAL ACCOUNTS

### CONSOLIDATED BALANCE SHEET (in EUR)

	31.12.2015	31.12.2014	Note No.
<b>ASSETS</b>			
Current assets			
Cash	22,752,956	13,314,047	3
Receivables and prepayments	24,247,489	23,948,732	4
Inventories	3,250,024	3,267,099	7
<b>TOTAL CURRENT ASSETS</b>	<b>50,250,469</b>	<b>40,529,878</b>	
<b>FIXED ASSETS</b>			
Financial investments	3,195	3,195	
Tangible fixed assets	154,866,179	139,248,709	8
Intangible fixed assets	2,140,699	1,752,601	9
<b>TOTAL FIXED ASSETS</b>	<b>157,010,073</b>	<b>141,004,505</b>	
<b>TOTAL ASSETS</b>	<b>207,260,542</b>	<b>181,534,383</b>	
Liabilities and net assets			
Short-term liabilities			
Loan commitments	2,430,659	2,100,805	12
Payables and prepayments	23,149,513	24,982,372	13
Provisions	622,412	615,681	15
Targeted financing, donations, grants	97,810	81,179	
<b>TOTAL SHORT-TERM LIABILITIES</b>	<b>26,300,394</b>	<b>27,780,037</b>	
Long-term liabilities			
Loan commitments	67,894,291	60,417,720	12
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>67,894,291</b>	<b>60,417,720</b>	
<b>TOTAL LIABILITIES</b>	<b>94,194,685</b>	<b>88,197,757</b>	
Net assets			
Foundation capital	34,243,357	34,243,357	
Accumulated profit for previous periods	59,093,269	50,999,635	
Net surplus for the financial year	13,708,135	8,093,634	
<b>NET ASSETS OWNED BY THE PARENT COMPANY</b>	<b>107,044,761</b>	<b>93,336,626</b>	<b>25</b>
<b>NET ASSETS OF SUBSIDIARY HOSPITALS</b>	<b>6,021,096</b>	<b>0</b>	
<b>TOTAL NET ASSETS</b>	<b>113,065,857</b>	<b>93,336,626</b>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>207,260,542</b>	<b>181,534,383</b>	

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE (in EUR)

	2015	2014	Note No.
Revenue			
Donations and grants	12,055,891	7,798,252	16
Operating revenue	163,541,267	146,181,704	17
Other income	348,204	14,890	
<b>TOTAL REVENUE</b>	<b>175,945,362</b>	<b>153,994,846</b>	
Expenses			
Direct expenses of projects funded from targeted financing	-3,318,602	-153,085	16
Donations and grants delivered	-63,184	-79,011	
Other operating expenses	-62,293,313	-57,861,582	18
Labour costs	-74,681,461	-64,869,342	19
Depreciation and impairment of fixed assets	-9,494,582	-9,511,470	8,9
Other expenses	-12,171,861	-12,505,974	20
<b>TOTAL EXPENSES</b>	<b>-162,023,003</b>	<b>-144,980,464</b>	
<b>NET SURPLUS FROM PRINCIPAL ACTIVITY</b>	<b>13,922,359</b>	<b>9,014,382</b>	
Other financial income and expenses	-501,804	-920,748	21
<b>NET SURPLUS OF PARENT COMPANY</b>	<b>13,708,135</b>	<b>8,093,634</b>	
<b>NET SURPLUS OF SUBSIDIARY HOSPITALS</b>	<b>-287,580</b>	<b>0</b>	
<b>NET SURPLUS FOR THE FINANCIAL YEAR</b>	<b>13,420,555</b>	<b>8,093,634</b>	



## CONSOLIDATED CASH FLOW STATEMENT (in EUR)

	2015	2014	Note No.
Cash flow from principal activities			
Donations and grants received	8,828,981	10,422,167	
Proceeds from the sale of goods and provision of services	167,239,863	150,734,243	
Other proceeds from principal activity	169,086	161,342	
Payments to suppliers for goods and services	-76,708,491	-72,450,293	
Payments to employees	-46,193,581	-37,903,038	
Interest received	9,924	3,876	
Interest paid	-599,806	-875,129	
Other cash flow from principal activity	-31,211,376	-26,824,498	
<b>TOTAL CASH FLOW FROM PRINCIPAL ACTIVITY</b>	<b>21,534,600</b>	<b>23,268,670</b>	
Cash flow from investing activities			
Paid on acquisition of tangible and intangible fixed assets	-19,943,008	-20,625,662	
<b>Net cash flow from the merger of subsidiary hospitals</b>	<b>1,506,830</b>	<b>0</b>	
<b>TOTAL CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-18,436,178</b>	<b>-20,625,662</b>	
Cash flow from financing activities			
Loans raised	8,500,000	20,000,000	12
Repayments of loans raised	-2,159,513	-14,064,516	12
<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>6,340,487</b>	<b>5,935,484</b>	
<b>TOTAL CASH FLOW</b>	<b>9,438,909</b>	<b>8,578,492</b>	
Cash and cash equivalents at beginning of period	13,314,047	4,735,555	3
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>9,438,909</b>	<b>8,578,492</b>	
Cash and cash equivalents at end of period	22,752,956	13,314,047	3

## STATEMENT OF CHANGE IN NET ASSETS (in EUR)

				Total net assets
	Foundation capital	Accumulated net surplus	Net assets of subsidiary hospitals	
<b>31.12.2013</b>	34,243,357	50,999,635	0	85,242,992
Net surplus for the financial year	0	8,093,634	0	8,093,634
<b>31.12.2014</b>	34,243,357	59,093,269	0	93,336,626
Subsidiary hospitals merged	0	0	6,308,676	6,308,676
Net surplus of parent company	0	13,708,135	0	13,708,135
Net surplus of subsidiary hospitals	0	0	-287,580	-287,580
<b>31.12.2015</b>	34,243,357	75,801,404	6,021,096	113,065,857

## **NOTES TO ANNUAL ACCOUNTS**

### **Note 1. Accounting policies used**

#### **General information**

The Annual Accounts of the North Estonia Medical Centre Foundation (hereinafter the Medical Centre or institution) for 2015 have been prepared in accordance with the accounting principles generally accepted in Estonia. The accounting principles generally accepted in Estonia are based on internationally recognised accounting and reporting principles, the basic requirements of which have been established in the Republic of Estonia Accounting Act and supplemented by the guidelines issued by the Estonian Accounting Standards Board and the requirements set in the general rules for state accounting.

The performance figures of the North Estonia Medical Centre Foundation and its subsidiary hospitals (Lääne County Hospital Foundation and Rapla County Hospital Foundation) have been presented in euro. Information on subsidiary hospitals is available in Note 2.

The Annual Accounts have been prepared based on the acquisition cost model, except the revaluations of certain assets and financial instruments.

#### **Consolidation principles**

In consolidated statements, all subsidiary hospitals have been consolidated on a line-by-line basis. All intragroup receivables and payables, transactions between the Group's companies and the unrealised gains resulting from these have been eliminated.

#### **Unconsolidated financial statements of the parent hospital presented in the Notes to the Consolidated Annual Accounts**

The 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.

#### **Financial assets**

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

Financial assets are initially recorded at their cost, which is the fair value of the consideration paid for the financial asset. Initial 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 (except for the financial assets that are recognised at their fair value through the changes in the statement of the financial performance) related to their acquisition.

All purchases and sales of financial assets performed under regular market conditions are recognised at the date of their transaction, i.e. on the date when the institution assumed a liability (e.g. by entering into a contract) for the purchase or sale of a certain financial asset. Purchases and sales performed under regular market conditions mean such purchases and sales, in the event of which the financial asset sold or purchased is transferred from the seller to the purchaser during the period that has been established in the market or required in the market regulations. After initial recognition, all financial assets are disclosed at their fair value, except for receivables from other parties (these are recognised at adjusted cost) and investment into shares, when it is not possible to reliably measure their fair value (these are recognised at cost).

## Cash

Cash and cash equivalents. Cash and cash equivalents comprise short-term (acquired for the maximum term of 3 months) and highly liquid investments that can easily be converted into a known sum of money and which do not involve a substantial risk that their market value may change, including cash at hand and in the bank, demand deposits and deposits with the maximum term of 3 months.

Cash flows are recognised in the statement of cash flows based on the direct method.

## Financial investments

Long-term financial investment. In accordance with the general rules for state accounting, securities and derivatives (excluding held-to-maturity bonds) are recognised at their fair value. If the information on their fair value is not available, financial instruments need to be recognised at cost, which is adjusted by discount if necessary. If the acquisition cost is not known, financial instruments are recognised at zero value.

## Receivables and prepayments

Trade receivables are recognised by using the adjusted cost method, i.e. at their present value, less uncollectible amounts.

The collectibility of receivables is evaluated at least at each quarter end. If possible, the probability of the collectibility of every trade receivables is evaluated separately. If this is not practical, an approximate method is used to evaluate receivables based on historical experience.

Receivables are valued based on circumstances known at and after the balance sheet date until the preparation of financial statements that may impact the collectibility of receivables.

The evaluation of trade receivables based on the approximation method covers those receivables that are past due by:

- (1) for 70 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, as these 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 receivable (in the 'Other operating expenses' line in the Statement of Financial Performance). If an allowance was recorded in the doubtful receivables account but it is later determined to be uncollectible, the receivable and its allowance in the corresponding contra-account are both derecognised. At that time, no incremental expense is incurred. A receivable is classified as uncollectible if there is no possibility of collecting the receivable or its collection costs exceed the estimated proceeds from 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. In the case of the collection of doubtful receivables, the previously recognised expense is reduced in the period of collection and concurrently the balance of the receivable itself and its contra-account are reduced.

## Inventories

Inventories are accounted for at their cost, which consists of their purchase price, purchase-related custom duties and direct transportation expenses. In accordance with the general rules for state accounting, the acquisition cost does not include non-returnable taxes related to the acquisition of inventories. The non-returnable taxes and fees related to the acquisition are presented in the 'Other operational expenses' line in the Statement of Financial Performance.

The acquisition cost of inventories has been determined by applying the individual cost (medicines) and the FIFO principle (excl. medicines). Inventories have been measured in the balance sheet at the lower than the acquisition cost or their net realisable value. The difference in the value identified by the measurement of inventories is recognised as an expense for the reporting period in the 'Inventory amortisation charges' line in the Statement of Financial Performance.

## Tangible and intangible fixed assets

### Tangible fixed assets

Tangible fixed assets comprise assets at the acquisition cost from EUR 2 000 and with the useful life of over one year. Expensed stocks of little value are reported off-balance sheet.

Tangible fixed assets are initially recognised at their acquisition cost, which comprises the purchase price and expenses directly attributable to their acquisition. In accordance with the general rules for state accounting, VAT and other refundable taxes and fees are not capitalised in the acquisition cost of fixed assets. Tangible fixed assets are further recognised in the balance sheet at their acquisition cost less accumulated depreciation and potential write-downs resulting from the impairment of their value.

In the Consolidated Annual Accounts, the tangible fixed assets of subsidiary hospitals at the time of networking have been recognised at their residual value and at cost at the year-end.

If a tangible fixed asset item consists of separable components with different useful lives, these components are recognised as separate asset items and depreciated at different rates depending on their useful lives.

Later expenses related to the registered tangible fixed assets (e.g. the replacement of some parts of the asset item) are added to the book value of the asset item, if the following criteria are met:

- (1) it is probable that the institution will gain economic benefit from it in the future, and
- (2) it is possible to reliably measure the cost of the item.

Replaced parts are written off the balance sheet. All other expenses are stated as the expenses for the period, in which the respective expenditure was made.

In depreciating the items of tangible fixed assets, the institution applies the straight-line method. An individual depreciation rate has been assigned to every item according to its useful life.

Annual depreciation rates of asset groups are as follows:

Land 0%  
Buildings and structures 2-5%  
Machinery and equipment 20%  
Other fixed assets 20-33%

Depreciation methods, rates and final values are reviewed at the end of every financial year. If applicable, differences in estimates are stated as changes in accounting estimates, i.e. only in the future periods.

The possible impairment of the book value of a tangible fixed asset is reviewed, when certain events or changes in circumstances indicate that the recoverable amount of the asset might have fallen below its book value. If such circumstances occur, the institution will measure the recoverable amount of assets. The impairment is recognised as the expense for the reporting period in the 'Depreciation of fixed assets, discount' line in the Statement of Financial Performance.

If the recoverable amount of the asset later exceeds its book value, the discount is reversed and the book value of the asset is increased to the estimated book value that the asset might have had, if the discount had not been made. The reversal of the discount is recognised in the same line in the Statement of Financial Performance, where the earlier discount was stated.

The recognition of tangible fixed assets is stopped if the asset is disposed of or if the institution does not expect to gain any economic benefit from the use or sale of the asset. The gains and losses from the sale of tangible fixed assets are closed and stated in the 'Other operating revenue' line in the Statement of Financial Performance. Losses incurred due to the write-off of assets from the balance sheet because of their non-usability are stated in the 'Depreciation of fixed assets and discount' line in the Statement of Financial Performance.

### Intangible fixed assets

Intangible assets are recognised, if the following conditions are met:

- (1) the asset item is controlled by the institution;
- (2) it is probable that the institution will gain future benefit from the use of the item;
- (3) it is possible to reliably measure the cost of the asset item.

## Intangible fixed assets

Intangible fixed assets are initially recognised at their acquisition cost, which comprises the purchase price and expenses directly attributable to their acquisition. Value added tax and other recoverable taxes and fees are not capitalised in the cost of intangible assets. Intangible fixed assets are further recognised in the balance sheet at their acquisition cost less accumulated depreciation and potential write-downs resulting from the impairment of their value.

In the Consolidated Annual Accounts, the intangible fixed assets of subsidiary hospitals at the time of networking have been recognised at their residual value and at cost at the year-end.

Intangible assets are measured as assets with limited useful life.

In depreciating the intangible fixed assets, the institution applies the straight-line depreciation method. Annual depreciation rates are as follows:

Licenses 20%

Software 20%

The depreciation costs of intangible assets are stated in the 'Depreciation of fixed assets and discount' line in the Statement of Financial Performance. Similarly to tangible fixed assets, the depreciation periods and methods of intangible assets are reviewed at the end of every financial year. For this period, no changes were made in the accounting estimates.

**The threshold for recognition of fixed assets is EUR 2,000.**

## Leases

Lease agreements that transfer all substantial risks and rewards of the asset ownership over to leaseholder are considered finance leases. All other lease transactions are recognised as operational leases.

Assets acquired under the terms of finance lease are recognised in the leaseholder's balance sheet at cost or at the present value of minimum lease payments if the latter is lower. The depreciation period of assets acquired under the terms of finance lease is the useful life of the asset or the lease term depending on which is shorter. Finance lease payments are apportioned between finance charges and the payments of lease liability so that the interest rate is the same at all times. Finance charges are stated in the 'Financial revenue and expenses' line in the Statement of Financial Performance. The depreciation costs for the period, which are related to finance leases, are stated in the 'Depreciation of fixed assets and discount' line in the Statement of Financial Performance.

In the case of operational leases, the leased assets are recognised in the leaser's balance sheet. Operational lease payments are recognised over the lease term as the revenue of the leaser and the expense of the leaseholder.

## Financial liabilities

Financial liabilities are trade payables, accruals and other long-term or short-term liabilities.

Financial liabilities are initially recognised at their cost, which is the fair value of the consideration received for the financial liability. Financial liabilities are further recognised in the balance sheet at adjusted cost.

Interest expenses associated with financial liabilities are recognised according to the accrual method as expenses for the period in the 'Financial revenue and expenses' line in the Statement of Financial Performance.

The recognition of the financial liability is stopped, when it has been paid off, cancelled or has expired.

## Provisions and contingent liabilities

Liabilities assumed during the reporting period or in 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 recognised as provisions on the balance sheet. Provisions are measured based on the estimates and experiences of the management and if necessary, also based on the estimates of independent experts.

Promises, securities and other obligations that may turn into a liability under certain conditions, are disclosed as contingent liabilities in the Notes to the Annual Accounts.

## Donations and grants

Earmarked grants that involve certain conditions are recognised as targeted financing. Targeted financing that does not involve any future-related conditions is recognised as revenue for the period in which the right of claim for targeted financing arises. Target financing that involves future-related conditions is recognised as revenue for the period in which these conditions are met. Such targeted financing received, which does not meet the conditions set to its recognition as revenue, is recognised as a liability in the balance sheet.

Targeted financing for operational expenses is recognised based on the principle of matching revenues and expenses (revenue from targeted financing is recognised in proportion with the related costs). In the event of targeted financing for assets, targeted financing is recognised as the revenue for the period in which the assets acquired via targeted financing are recognised as fixed assets in the balance sheet.

## Revenue

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

- (1) the sale of healthcare services to the Estonian Health Insurance Fund and other legal or 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 incurred from clinical trials of medicines and other revenue. Revenue from operating activities is recognised according to the accrual method and based on the principle of realisation, i.e. earnings are stated at realisation or over the term(s) set in the contract. Revenue from the sale of goods is recognised, when all substantial ownership risks have been transferred to the buyer and it is possible to reliably measure both the gains received from the sale and the cost of transaction. Revenue from sales of services is stated upon the provision of the service. 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 day and not claimed (e.g. interest generated for the previous period not paid by the balance sheet day; unfinished health files measured by the end of the year) are also recognised as revenue from operations. Interest income is recorded on accrual basis.

## Expenses

In recognising 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 recognised in accordance with the accrual accounting method.

Labour costs include wages to employees calculated according to the accrual method; other remunerations that are taxed under equal terms and fringe benefits with taxes calculated from them. Labour costs that have not been paid during the period have been recognised as liabilities to employees. The liability arising from unused holidays and unpaid holiday pay is measured annually by the end of the reporting year and recognised as the expenditure for the period ended.

Other expenses include other operational expenses, depreciation and discount of fixed assets, and financial revenue and expenses. Other operational expenses comprise:

- (1) tax, fee and fine charges;
- (2) expenses related to doubtful receivables;
- (3) other operating expenses.

Depreciation and amortisation charges of fixed assets comprise the depreciation and impairment losses of tangible and intangible fixed assets.

Financial revenue and expenses comprise the gains and losses from financial investments and loan liabilities. Financial revenue and expenses are recognised at the time of their generation.

## 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 also owners, members of the management board and the supervisory board, their family members and other companies over which the aforementioned persons have control or significant influence.

## Subsequent events

All known significant events and circumstances that have become evident by the date of completing this report have been properly recognised and disclosed in the Annual Accounts.

## Note 2. Subsidiaries of the Group

Subsidiary hospitals of the North Estonia Medical Centre Foundation:

Subsidiary hospitals	Country of operation
Lääne County Hospital Foundation	Estonia
Rapla County Hospital Foundation	Estonia

The North Estonia Medical Centre Foundation networked the Lääne County Hospital Foundation on 13 February 2015 and Rapla County Hospital Foundation on 26 February 2015. The Medical Centre nominates three members to the Supervisory Council and local authorities nominate two members to the Supervisory Council. Through this, the Medical Centre has taken an essential role in directing the daily operations of the hospitals. In the event of foundations, the founding members do not exercise control through their interest, but through the nomination of the members to the Supervisory Council.

## Note 3. Cash (in EUR)

	31.12.2015	31.12.2014
Cash at hand	30,285	21,664
Cash on bank accounts	22,722,671	13,262,633
Cash in transit	0	29,750
<b>Total cash</b>	<b>22,752,956</b>	<b>13,314,047</b>

As of 31 December 2014, the North Estonia Medical Centre Foundation has entered into a contract with the Ministry of Finance for the use of the E-State Treasury account and the balance of funds held on the E-State Treasury account as of 31 December 2015 has been disclosed in the 'Cash on bank accounts' line of the Annual Accounts.

## Note 4. Receivables and advances (in EUR)

	31.12.2015	31.12.2014	Note No.
Trade receivables	10,840,445	10,717,660	5
Accounts receivable	10,847,888	10,758,890	5
Doubtful receivables	-7,433	-41,230	5
Prepaid taxes and refunds	23,793	8,359	6
Other receivables	13,108,002	13,010,671	
Interest receivables	18,237	0	
Accrued income	13,089,765	13,010,671	24
Prepayments	275,249	212,042	
Deferred expenses	275,249	212,042	
<b>Total receivables and advances</b>	<b>24,247,489</b>	<b>23,948,732</b>	



The receivables disclosed in the Annual Accounts are short-term. For further information on accruals, please refer to Note 24.

#### Note 5. Trade receivables (in EUR)

	31.12.2015	31.12.2014	Note No.
Accounts receivable	10,847,888	10,758,890	4
Doubtful receivables	-7,433	-41,230	4
<b>Total trade receivables</b>	<b>10,840,445</b>	<b>10,717,660</b>	
Doubtful receivables at the beginning of period	-41,202	-8,072	
Receivables declared as doubtful	12,086	-41,202	
Uncollectible receivables	21,683	8,044	
Doubtful receivables at the end of period	-7,433	-41,230	4

#### Note 6. Prepaid taxes and tax arrears (in EUR)

Type of tax	31.12.2015		31.12.2014	
	Prepaid	Payable	Prepaid	Payable
Value added tax	0	46,489	0	66,657
Personal income tax	0	911,728	0	787,172
Social tax	0	1,748,972	0	17,881
Income tax on fringe benefits	0	21,699	0	1,458,973
Unemployment insurance premium	0	116,213	0	73,254
Mandatory funded pension	0	88,850	0	121,253
Other prepaid taxes and tax arrears	0	1,528	0	994
Prepayment account balance	23,793	0	8,359	0
<b>Total prepaid taxes and tax arrears</b>	<b>23,793</b>	<b>2,935,479</b>	<b>8,359</b>	<b>2,526,184</b>

Please refer to Notes 4 and 13.

#### Note 7. Inventories (in EUR)

	31.12.2015	31.12.2014
Strategic reserves	58,140	57,155
Medicines	1,412,694	1,258,826
Food products and merchandise to the donors of BC	8,615	13,100
Stocks	20,192	18,309
Technical Service	34,809	6,055
Medicinal materials	456,090	463,947
Linen	2,560	4,057
Stock of prostheses	1,242,151	1,354,797
Stock of food products	29,954	22,521
Stock of Blood Center	55,030	78,612
Finished goods	212,109	216,342
Discount of inventory	-282,320	-226,622
<b>Total inventories</b>	<b>3,250,024</b>	<b>3,267,099</b>

## Note 8. Tangible fixed assets (in EUR)

			Means of transport	Computers	Other Machinery and equipment	Machinery and equipment	Other tangible fixed assets			Projects in progress and prepayments	Total
	Land	Buildings						Projects in progress	Prepayments		
<b>31.12.2013</b>											
Acquisition cost	7,838,886	102,656,652	418,985	970,201	49,613,871	51,003,057	967,586	24,722,523	3,113,548	27,836,071	190,302,252
Accumulated depreciation	0	-24,385,681	-377,459	-648,992	-37,417,428	-38,443,879	-822,214	0	0	0	-63,651,774
<b>Carrying amount</b>	<b>7,838,886</b>	<b>78,270,971</b>	<b>41,526</b>	<b>321,209</b>	<b>12,196,443</b>	<b>12,559,178</b>	<b>145,372</b>	<b>24,722,523</b>	<b>3,113,548</b>	<b>27,836,071</b>	<b>126,650,478</b>
Purchases and improvements	0	33,588	101,227	276,480	7,271,472	7,649,179	245,401	13,799,475	133,106	13,932,581	21,860,749
Depreciation charges	0	-4,196,599	-44,987	-156,239	-4774,420	-4,975,646	-75,202	0	0	0	-9,247,447
Sales	0	-15,071	0	0	0	0	0	0	0	0	-15,071
Reclassifications	0	2,885,796	0	0	0	0	0	-473,109	-2,412,687	-2,885,796	0
<b>31.12.2014</b>											
Acquisition cost	7,838,886	105,551,430	520,212	787,746	54,235,945	55,543,903	1,014,851	38,048,889	833,967	38,882,856	208,831,926
Accumulated depreciation	0	-28,572,745	-422,446	-346,296	-39,542,450	-40,311,192	-699,280	0	0	0	-69,583,217
<b>Carrying amount</b>	<b>7,838,886</b>	<b>76,978,685</b>	<b>97,766</b>	<b>441,450</b>	<b>14,693,495</b>	<b>15,232,711</b>	<b>315,571</b>	<b>38,048,889</b>	<b>833,967</b>	<b>38,882,856</b>	<b>139,248,709</b>
Purchases and improvements	0	0	3,500	102,350	2093,966	2,199,816	88,283	15,927,423	175,247	16,102,670	18,390,769
Non-monetary contribution	63,541	5,872,928	7,183	1,708	439,367	448,258	75,846	900	0	0	6,461,473
Depreciation charges	0	-4,269,816	-33,538	-153,744	-4677,861	-4,865,143	-99,813	0	0	0	-9,234,7723
Sales	0	,0	0	0	0	0	0	0	0	0	0
Reclassifications	0	2,618,181	0	53,443	0	53,443	0	-1,790,632	-880,992	-2,671,624	0
<b>31.12.2015</b>											
Acquisition cost	7,902,427	114,966,380	822,250	900,654	57,300,529	59,023,433	1,015,882	52,186,580	128,222	52,314,802	235,222,924

Accumulated depreciation	0	-33,766,403	-747,339	-508,890	-44,698,118	-45,954,347	-635,995	0	0	0	-80,356,745
<b>Carrying amount</b>	<b>7,902,427</b>	<b>81,199,977</b>	<b>74,911</b>	<b>391,764</b>	<b>12,602,411</b>	<b>13,069,086</b>	<b>379,887</b>	<b>52,186,580</b>	<b>128,222</b>	<b>52,314,802</b>	<b>154,866,179</b>

**Tangible fixed assets sold at sale price**

	<b>2015</b>	<b>2014</b>
Buildings	<b>0</b>	29,244
Total	<b>0</b>	29,244

As of 31 December 2015, projects in progress and prepayments comprise the construction work of the annex to the hospital performed in 2015.

As of 31 December 2015, the construction of the 3<sup>rd</sup> stage of the C block has been completed and the permit for use has been obtained, the entire project is scheduled to be completed in spring 2016.

Non-monetary contribution comprises the residual value of the fixed assets of the subsidiary hospital upon networking.

## Note 9. Intangible fixed assets (in EUR)

	Computer software	Concessions, patents, licenses, trademarks	Projects in progress and prepayments	Total
<b>31.12.2013</b>				
Acquisition cost	1,565,571	69,119	687,870	2,322,560
Accumulated depreciation	-836,341	-31,936	0	-868,277
<b>Carrying amount</b>	<b>729,230</b>	<b>37183</b>	<b>687,870</b>	<b>1,454,283</b>
Purchases and improvements	28,437	0	533,904	562,341
Depreciation	-249,772	-14,521	0	-264,023
<b>31.12.2014</b>				
Acquisition cost	1,594,008	69,119	1,221,774	2,884,901
Accumulated depreciation	-1,086,113	-46,187	0	-1,132,300
<b>Carrying amount</b>	<b>507,895</b>	<b>22,932</b>	<b>1,221,774</b>	<b>1,752,601</b>
Purchases and improvements	178,256	16,920	533,517	728,693
Non-monetary contribution	12,151	0	0	12,151
Depreciation charges	-255,246	-9,634	0	-264,880
<b>31.12.2015</b>				
Acquisition cost	1,682,237	83,034	1,755,291	3,520,562
Accumulated depreciation	-1,327,048	-52,815	0	-1,379,863
<b>Carrying amount</b>	<b>355,189</b>	<b>30,219</b>	<b>1,755,291</b>	<b>2,140,699</b>

## Note 10. Operational lease (in EUR)

	2015	2014
Operational lease revenue	618,799	851,394
Operational lease revenue for future periods under agreements that cannot be terminated		
	2015	2014
within 12 months	633,600	850,000
within 1-5 years	3,168,000	3,400,000

### Carrying amount of assets leased or rented

Other assets	959,228	988,895
<b>Total</b>	<b>959,228</b>	<b>988,895</b>

### Reporting entity as lessee

	2015	2014
Operational lease expenses	440,618	246,718
Operational lease expenses for future periods under agreements that cannot be terminated		
	2015	2014
within 12 months	836,951	349,197
within 1-5 years	1,452,330	901,955

## Note 11. Financial lease (in EUR)

### Reporting entity as lessee

	31.12.2015	Division by remaining term		
		within 12 months	within 1-5 years	Over 5 years
Swedbank Leasing 01170922L	5,961	5,961	0	0
Swedbank Leasing 01170923L	12,332	11,372	960	0
Swedbank Leasing 01170925L	12,332	11,372	960	0
Danske Bank 340916 LH	38,757	20,990	17,767	0
Swedbank Leasing 01171337L	17,336	6,101	11,235	0
<b>Total finance lease liabilities</b>	<b>86,718</b>	<b>55,796</b>	<b>30,922</b>	<b>0</b>

	31.12.2014	Division by remaining term		
		within 12 months	within 1-5 years	Over 5 years
Swedbank Leasing 01170922L	20,031	14,071	5,960	0
Swedbank Leasing 01170923L	23,440	11,108	12,332	0
Swedbank Leasing 01170925L	23,440	11,108	12,332	0
<b>Total finance lease liabilities</b>	<b>66,911</b>	<b>36,287</b>	<b>30,624</b>	<b>0</b>

## Note 12. Loan commitments (in EUR)

	31.12.2015	Division by remaining term			Interest rate	Underlying currency	Maturity
		within 12 months	within 1-5 years	Over 5 years			
Short-term loans							
NIB	2,064,516	2,064,516	0	0	EURIBOR + 0.22%	Euro	2016
EIB	161,290	161,290	0	0	EURIBOR + 0.574%	Euro	2016
Swedbank 11-066378JI 15.11.12	65,714	65,714	0	0	EURIBOR + 1.29%	Euro	2016
Swedbank 13-041769JI 15.10.13	20,870	20,870	0	0	EURIBOR + 1.8%	Euro	2016
Swedbank	45,396	45,396	0	0	EURIBOR + 1.38%	Euro	2016
Swedbank	10,615	10,615	0	0	EURIBOR + 1.38%	Euro	2016
Swedbank	6,462	6,462	0	0	EURIBOR + 3.28%	Euro	2016
<b>Total short-term loans</b>	<b>2,374,863</b>	<b>2,374,863</b>	<b>0</b>	<b>0</b>			
<b>Short term finance lease payables</b>	<b>55,796</b>	<b>55,796</b>	<b>0</b>	<b>0</b>			
<b>Total short-term loan commitments</b>	<b>2,430,659</b>	<b>2,430,659</b>	<b>0</b>	<b>0</b>			
Long-term loans							
NIB	23,322,581	0	10,322,580	13,000,001	EURIBOR + 0.22%	Euro	2027-2029
EIB	43,338,710	0	806,450	42,532,260	EURIBOR +	Euro	2033

					0.574%		
Swedbank 11-066378JI 15.11.12	988,150	0	988,150	0	EURIBOR + 1.29%	Euro	2021
Swedbank 13-041769JI 15.10.13	183,913	0	104,349	79,564	EURIBOR + 1.8%	Euro	2023
Swedbank	22,938	0	22,938	0	EURIBOR + 1.38%	Euro	2017
Swedbank	7,077	0	7,077	0	EURIBOR + 1.38%	Euro	2017
<b>Total long-term loans</b>	<b>67,863,369</b>	<b>0</b>	<b>12,251,544</b>	<b>55,611,825</b>			
<b>Total long-term finance lease payables</b>	<b>30,922</b>	<b>0</b>	<b>30,922</b>	<b>0</b>			
<b>Total long-term loan commitments</b>	<b>67,894,291</b>	<b>0</b>	<b>12,282,466</b>	<b>55,611,825</b>			
<b>Total loan commitments</b>	<b>70,324,950</b>	<b>2,430,659</b>	<b>12,282,466</b>	<b>55,611,825</b>			

	31.12.2014	Division by remaining term			Interest rate	Underlying currency	Maturity
		within 12 months	within 1-5 years	Over 5 years			
Short-term loans							
NIB	2,064,518	2,064,518	0	0	EURIBOR + 0.517%	Euro	2015
<b>Total short-term loans</b>	<b>2,064,518</b>	<b>2,064,518</b>	<b>0</b>	<b>0</b>		<b>Euro</b>	<b>2015</b>
Long-term loans							
NIB	25,387,096	0	10,322,580	15,064,516	EURIBOR + 0.22%	Euro	2027-2029
EIB	35,000,000	0	0	35,000,000	EURIBOR + 0.574%	Euro	2033
<b>Total long-term loans</b>	<b>60,387,096</b>	<b>0</b>	<b>10,322,580</b>	<b>50,064,516</b>			
<b>Total finance lease payables</b>	<b>66,911</b>	<b>36,287</b>	<b>30,624</b>	<b>0</b>			
<b>Total loan commitments</b>	<b>62,518,525</b>	<b>2,100,805</b>	<b>10,353,204</b>	<b>50,064,516</b>			

(Residual) book value of collateral assets		
	31.12.2015	31.12.2014
Buildings	5,729,965	36,621,311
Land	63,540	0
<b>Total</b>	<b>5,793,505</b>	<b>36,621,311</b>

It is possible to use the overdraft facility with the State Treasury in the amount of EUR 7,000,000. In 2015, the overdraft was not used.

### Note 13. Payables and prepayments (in EUR)

	31.12.2015	31.12.2014	Note No.
Trade creditors	11,130,766	14,029,317	
Employee-related payables	8,068,786	6,719,794	
Tax payables	2,935,479	2,526,184	6
Other short-term payables	44,062	179,754	
Interest payable	43,896	179,754	
Other accrued expenses	166	0	
Other prepayments received	970,420	1,527,323	
<b>Total payables and prepayments</b>	<b>23,149,513</b>	<b>24,982,372</b>	

The payables disclosed in the Annual Accounts are short-term.

Other prepayments received include EUR 800,000, which was received from the Ministry of Social Affairs in accordance with the agreement No. 3-4/7184 for the use of the provision as a contribution into the additional foundation capital of subsidiary hospitals. The sum was paid out to subsidiaries by the North Estonia Medical Centre Foundation on 26 February 2016 pursuant to the Management Board resolution of 8 February 2015 No.2016/1-6.1/65-1.

#### Note 14. Employee-related payables (in EUR)

	31.12.2015	31.12.2014
Salaries and wages payable	4,003,052	3,279,144
Holiday pay liability	1,354,010	1,174,771
Undeclared taxes	2,694,304	2,230,215
Expenditure payable	17,420	35,664
<b>Total employee-related payables</b>	<b>8,068,786</b>	<b>6,719,794</b>

#### Note 15. Provisions (in EUR)

	31.12.2013	Setting up/ adjustment	Use	31.12.2014
Bonuses for the previous financial year	433,095	648,191	-465,605	615,681
<b>Total provisions</b>	<b>433,095</b>	<b>648,191</b>	<b>-465,605</b>	<b>615,681</b>

	31.12.2014	Setting up/ adjustment	Use	31.12.2015
Bonuses for the previous financial year	615,681	615,393	-551,310	679,764
Matching of revenue and expenses	0	-57,352	0	-57,352
<b>Total provisions</b>	<b>615,681</b>	<b>558,001</b>	<b>-551,310</b>	<b>622,412</b>

#### Note 16. Targeted financing, donations and grants (in EUR)

	31.12.2013	Received	Returned	Revenue amortisation	31.12.2014
European Regional Development Fund project for the extension and reconstruction of the North Estonia Medical Centre Foundation	0	5,223,589	0	-5,223,589	0
Ministry of Social Affairs	0	2,297,237	-23,487	-2,216,540	57,210
Science Foundation, the Environmental Investment Centre	0	7,327	0	-2,172	5,155
Targeted financing from abroad	9,612	71,380	0	-80,992	0
Other (grants)	0	198,719	0	-198,719	0
<b>Total targeted financing, donations and grants</b>	<b>9,612</b>	<b>7,798,252</b>	<b>-23,487</b>	<b>-7,722,012</b>	<b>62,365</b>

	31.12.2014	Received	Returned	Revenue amortisation	31.12.2015
European Regional Development Fund project for the extension and reconstruction of the North Estonia Medical Centre Foundation	0	10,825,087	0	-10,825,087	0
Ministry of Social Affairs	57,210	161,935	-1,203	-212,694	5,248
Science Foundation, the Environmental Investment Centre	5,155	600	0	-3,667	2,088
The Ministry of Foreign Affairs	0	63,000	0	0	63,000
Targeted financing from abroad	0	209,355	0	-209,355	0
Other (grants)	0	2,552,932	0	-2,554,008	-1,076
<b>Total targeted financing, donations and grants</b>	<b>62,365</b>	<b>12,055,891</b>	<b>-1,203</b>	<b>-13,804,811</b>	<b>69,260</b>

<b>Direct expenses related to targeted financing</b>	<b>2015</b>	<b>2014</b>
Office expenses	10,186	9,952
Training expenses	25,486	28,122
Labour costs	3,203,881	58,066
European Regional Development Fund project for the extension and reconstruction of the North Estonia Medical Centre Foundation	10,825,087	5,223,589
Other expenses	79,050	56,945
<b>Total expenses</b>	<b>14,143,690</b>	<b>5,376,674</b>

**Note 17. Revenue from business activities (in EUR)**

	<b>2015</b>	<b>2014</b>
Revenue from healthcare	161,795,465	144,731,710
Revenue from economic activities	1,202,523	1,183,780
Revenue from social welfare activities	235,579	0
Revenue from educational activities	307,700	266,214
<b>Total revenue from business activities</b>	<b>163,541,267</b>	<b>146,181,704</b>

**Note 18. Miscellaneous operating expenses (in EUR)**

	<b>2015</b>	<b>2014</b>
Lease and rent	198,103	179,682
Power	2,706,636	2,717,233
Electric power	1,672,399	1,607,244
Heat	1,034,237	1,109,989
Other office expenses	883,319	761,946
Research and development expenses	12,875	12,278
Training expenses	766,087	572,528
Purchased medicinal services and goods	46,844,294	43,278,298
Production costs of Blood Centre	84,120	83,422
Catering costs	861,840	1,409,710
Costs related to work clothes	939,885	795,180
Maintenance of immovable plots	2,918,757	4,170,733
Transport expenses	1,265,537	1,212,643
Maintenance and operational lease of assets	3,312,858	1,370,117
IT expenses	1,357,713	1,252,131
Other	141,289	45,681
<b>Total miscellaneous operating expenses</b>	<b>62,293,313</b>	<b>57,861,582</b>

**Note 19. Labour costs (in EUR)**

	<b>2015</b>	<b>2014</b>
Salaries and wages	58,205,060	48,367,943
Social taxes	19,368,975	16,140,094
Fringe benefits, incl. taxes	311,306	419,371
<b>Total labour costs</b>	<b>77,885,342</b>	<b>64,927,408</b>
of this recognised as direct expenses of projects funded from targeted financing	3,203,811	58,066
<b>Average number of employees reduced to full-time</b>	<b>3,804</b>	<b>3,313</b>

**Note 20. Other expenses (in EUR)**

	<b>2015</b>	<b>2014</b>
Fines, default interest and compensation	13,869	-50,630
Currency rate differences	3,753	333
Doubtful receivables	-12,114	41,206
Discount of inventory	55,698	-26,792



Expensed VAT	11,900,240	12,383,543
Other	210,415	158,314
<b>Total other expenses</b>	<b>12,171,861</b>	<b>12,505,974</b>

### Note 21. Other financial income and expenses (in EUR)

	<b>2015</b>	<b>2014</b>
Interest income on deposits	28,160	219
Interest expenses from loans and bonds	-466,031	-868,890
Other financial income and expenses	-63,933	-52,077
<b>Total other financial income and expenses</b>	<b>-501,804</b>	<b>-920,748</b>

### Note 22. Related parties (in EUR)

<b>Number of members as of the end of the financial year</b>		
	<b>31.12.2015</b>	<b>31.12.2014</b>
Number of members who are legal persons	6	1

### Balances with related parties by groups

	<b>31.12.2015</b>		<b>31.12.2014</b>	
	<b>Receivables</b>	<b>Liabilities</b>	<b>Receivables</b>	<b>Liabilities</b>
Executive and senior management and major shareholders who are private persons and companies under their dominant or significant influence	4,429	27,474	11,371	42,430

<b>2015</b>	<b>Purchases</b>	<b>Sales</b>
Executive and senior management and major shareholders who are private persons and companies under their dominant or significant influence	277,392	55,040
<b>2014</b>	<b>Purchases</b>	<b>Sales</b>
Executive and senior management and major shareholders who are private persons and companies under their dominant or significant influence	76,111	43,687

### Other essential benefits granted to executive and senior management

	<b>2015</b>	<b>2014</b>
Calculated remuneration	397,557	230,555
Car allowance	5,699	29,147

### Note 23. Subsequent events

On 29 February 2016, Rapla rural municipality government submitted an application to the Supervisory Council for the constitution of a right of superficies to the immovable registered under No. 2424950 subject to the following conditions:

the right of superficies shall be constituted for the benefit of Rapla rural municipality free of charge and for 99 years;

the buildings on the built-up area shall be transferred to Rapla rural municipality no later than on 1 April 2017; and the owner of the immovable, i.e. Rapla County Hospital Foundation shall grant Rapla rural municipality permission to dismantle the buildings after its transfer.

### Note 24. Accruals (in EUR)

	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>Note No.</b>
Outstanding targeted financing	7,618,823	7,863,590	
Unfinished health files	5,464,053	4,968,474	
VAT on prepaid fixed assets	263	171,097	
Security deposits paid	6,626	7,510	
<b>Total accruals</b>	<b>13,089,765</b>	<b>13,010,671</b>	<b>4</b>

As of 31 December 2015, the balance of outstanding targeted financing comprises the expenses incurred by the North Estonia Medical Centre Foundation in connection with the construction of an annex to the hospital, which is being financed by the state.

**Note 25. Unconsolidated balance sheet of the parent company (in EUR)**

	31.12.2015	31.12.2014
<b>ASSETS</b>		
Current assets		
Cash	21,215,480	13,314,047
Receivables and prepayments	23,666,123	23,948,732
Inventories	3,144,984	3,267,099
<b>TOTAL CURRENT ASSETS</b>	<b>48,026,587</b>	<b>40,529,878</b>
<b>FIXED ASSETS</b>		
Financial investments	3,195	3,195
Tangible fixed assets	148,402,919	139,248,709
Intangible fixed assets	2,244,102	1,752,601
<b>TOTAL FIXED ASSETS</b>	<b>150,650,216</b>	<b>141,004,505</b>
<b>TOTAL ASSETS</b>	<b>198,676,803</b>	<b>181,534,383</b>
Liabilities and net assets		
Liabilities		
Short-term liabilities		
Loan commitments	2,254,510	2,100,805
Payables and prepayments	22,023,677	24,982,372
Provisions	622,411	615,681
Targeted financing, donations, grants	68,234	81,179
<b>TOTAL SHORT-TERM LIABILITIES</b>	<b>24,968,832</b>	<b>27,780,037</b>
Long-term liabilities		
Loan commitments	66,663,210	60,417,720
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>66,663,210</b>	<b>60,417,720</b>
<b>TOTAL LIABILITIES</b>	<b>91,632,042</b>	<b>88,197,757</b>
Net assets		
Foundation capital/share capital at nominal value	34,243,357	34,243,357
Accumulated profit for previous periods	59,093,269	50,999,635
Net surplus for the financial year	13,708,135	8,093,634
<b>TOTAL NET ASSETS</b>	<b>107,044,761</b>	<b>93,336,626</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>198,676,803</b>	<b>181,534,383</b>

**Note 26. Unconsolidated statement of financial performance of the parent company (in EUR)**

	2015	2014
Revenue		
Donations and grants	12,010,951	7,798,252
Revenue from business activities	156,422,704	146,181,704
Other income	351,114	14,890
<b>TOTAL REVENUE</b>	<b>168,784,769</b>	<b>153,994,846</b>
Expenses		
Direct expenses of projects funded from targeted financing	-3,317,602	-153,085

Donations and grants delivered	-63,184	-79,011
Other operating expenses	-59,987,617	-57,861,582
Labour costs	-70,130,962	-64,869,342
Depreciation and impairment of fixed assets	-9,213,847	-9,511,470
Other expenses	-11,957,363	-12,505,974
<b>TOTAL EXPENSES</b>	<b>-154,591,524</b>	<b>-144,980,464</b>
<b>NET SURPLUS FROM PRINCIPAL ACTIVITY</b>	<b>14,193,245</b>	<b>9,014,382</b>
Other financial income and expenses	-485,110	-920,748
<b>NET SURPLUS FOR THE FINANCIAL YEAR</b>	<b>13,708,135</b>	<b>8,093,634</b>

**Note 27. Unconsolidated cash flow statement of the parent company (in EUR)**

	2015	2014
Cash flow from principal activities		
Donations and grants received	8,823,504	10,422,167
Revenue from the sale of goods and provision of services	159,851,664	150,734,243
Other revenue from principal activity	167,059	161,342
Payments to suppliers for goods and services	-74,163,112	-72,450,293
Payments to employees	-43,462,709	-37,903,038
Interest received	9,874	3,876
Interest paid	-583,551	-875,129
Other cash flow from principal activity	-29,415,959	-26,824,498
<b>TOTAL CASH FLOW FROM PRINCIPAL ACTIVITY</b>	<b>21,226,770</b>	<b>23,268,670</b>
Cash flow from investing activities		
Paid on acquisition of tangible and intangible fixed assets	-19,760,821	-20,625,662
<b>TOTAL CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-19,760,821</b>	<b>-20,625,662</b>
Cash flow from financing activities		
Loans raised	8,500,000	20,000,000
Repayments of loans raised	-2,064,516	-14,064,516
<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>6,435,484</b>	<b>5,935,484</b>
<b>TOTAL CASH FLOW</b>	<b>7,901,433</b>	<b>8,578,492</b>
Cash and cash equivalents at beginning of period	13,314,047	4,735,555
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>7,901,433</b>	<b>8,578,492</b>
Cash and cash equivalents at end of period	21,215,480	13,314,047

**Note 28. Unconsolidated statement of changes in net assets of the parent company (in EUR)**

			Total net assets
	Foundation capital/share capital at nominal value	Accumulated net surplus	
<b>31.12.2013</b>	34,243,357	50,999,635	85,242,992
Net surplus for the financial year	0	8,093,634	8,093,634
<b>31.12.2014</b>	34,243,357	59,093,269	93,336,626
Net surplus for the financial year	0	13,708,135	13,708,135
<b>31.12.2015</b>	34,243,357	72,801,404	107,044,761

## INDEPENDENT SWORN AUDITOR'S REPORT

To the Supervisory Council of the North Estonia Medical Centre Foundation

We have audited the accompanied Consolidated Annual Accounts of the North Estonia Medical Centre Foundation, which comprise the balance sheet as of 31 December 2015, the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies used for the preparation of the annual accounts and other explanatory information.

### Responsibility of the management for financial statements

The management is responsible for the preparation and fair presentation of the annual accounts in accordance with the accounting principles generally accepted in Estonia and for such internal control as the management determines is necessary to enable the correct preparation and presentation of the annual accounts that are free from any material misstatement, whether due to fraud or error.

### Responsibility of Sworn Auditor

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

An audit involves the application of the audit procedures necessary for the collection of audit evidence about the information and figures disclosed in the annual accounts. The number and content of these procedures depend on the sworn auditor's judgment, including the auditor's assessment of the risks that the annual accounts may contain material misstatements arising from fraud or errors. In assessing these risks, the sworn auditor considers the internal control that the entity has introduced for the preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as the assessment of the overall presentation of the annual accounts.

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

### Opinion

In our opinion, the accompanied Consolidated Annual Accounts give a true and fair view of the financial position of the North Estonia Medical Centre Foundation as of 31 December 2015 in all material respects and of the company's financial results and cash flow for the financial year then ended in accordance with the accounting principles generally accepted in Estonia.

/digitally signed/  
Ivar Kiigemägi  
Sworn auditor number 527  
Ernst & Young Baltic AS  
Audit firm's activity licence number 58  
4 Rävåla Ave., 10143 Tallinn

Tanel Paide  
Sworn auditor number 603

11 April 2016