



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government finance statistics (GFS)
Unit D-3: Excessive deficit procedure (EDP) 2

Luxembourg,
ESTAT/D3/LA/JJ/CBD/af/D(2022)

Mr Ivar Pae
Head of Economic and
Environmental Statistics
Department
Statistics Estonia
Tatari 51
10134 Tallinn
ESTONIA

Subject: Statistical treatment of the capital injection into AS Tallinna Lennujaam (Tallinn Airport (TA))

References: Your letter N° 1.2-3/21/0442 dated 22 November 2021; The Explanatory memorandum to the draft order of the Government of the Republic "Granting of authorization to increase the share capital of the public limited company Tallinn Airport" including its two Annexes (Annex 1 Application for an increase of TA's share capital and Annex 2 TA Group's financial forecast for the period 2021-2025); The Methodological analysis and opinion of Statistics Estonia on the recording of capital injection into AS Tallinna Lennujaam.

Dear Mr Pae,

In your letter of 22 November 2021, you requested, on behalf of the Ministry of Economic Affairs and Communication, an opinion on the statistical treatment of the capital injection into AS Tallinna Lennujaam (Tallinn Airport (TA)).

The current opinion draws on the information listed above submitted by Statistics Estonia (SE).

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

Introduction

The issue to clarify is the appropriate statistical recording of a capital injection of 20 million EUR done in December 2021 by the Ministry of Economic Affairs and Communications into AS Tallinna Lennujaam (Tallinn Airport (TA)).

This increase was done by issuing 2 million new shares with a nominal value of 10 EUR each and was paid with a cash contribution.

Before the capital injection, the share capital of TA was 25.617.280 EUR and, after the share capital increase, it is now 45.617.280 EUR.

Documentation provided by SE

Together with the request for an advice, SE has provided to Eurostat the following documents:

- Explanatory memorandum to the draft order of the Government of the Republic "Granting of authorization to increase the share capital of the public limited company Tallinn Airport." including two Annexes (Annex 1 Application for an increase of TA's share capital and Annex 2 TA Group's financial forecast for the period 2021-2025); and,
- Methodological analysis and opinion of Statistics Estonia on the recording of capital injection into AS Tallinna Lennujaam.

Description of the case

TA is a public sector company considered a market producer and therefore classified in the sector of non-financial corporations (S.11).

TA's core businesses are: the operation and development of airports and the ground handling of aircraft and passengers. It is the operator and developer of the largest airports in Estonia, operating Tallinn, Kärdla, Kuressaare, Tartu and Pärnu airports and Ruhnu and Kihnu aerodromes.

The company is 100% owned by the Republic of Estonia and the shares are held by the Estonian Ministry of Economic Affairs and Communications.

The company has one subsidiary, AS Tallinn Airport GH (Tallinn Airport GH Ltd), of which it owns 100%. The subsidiary offers ground-handling services in Tallinn Airport.

TA is profit-making and the accumulated profit for the years 2016-2019 was 29,9 million EUR. However, in the first half of 2020, the Covid-19 pandemic significantly affected TA by the important travel restrictions in place, leading to a loss in 2020. This situation affected TA's business plan including its ability to finance strategic investments.

Table 1. Distributable profits of TA for the years 2016-2020 in million EUR

Year	2016	2017	2018	2019	2020

Distributable profit	6,2	6,5	7,5	9,7	-2,0
----------------------	-----	-----	-----	-----	------

As described above, the main purpose of the capital injection of 20 million EUR and the linked share capital increase is to enable the company to make the [REDACTED] strategic investments that are considered necessary as well as to significantly improve its solidity by increasing the equity ratio to improve the creditworthiness and enable access to bank financing for the remaining part of the investments (the part not financed by the capital injection).

2. METHODOLOGICAL ANALYSIS AND CLARIFICATION BY EUROSTAT

Applicable accounting rules

- ESA 2010, in particular Chapter 4, Capital transfers – Investment grants (§ 4.152 to § 4.163) and Chapter 20, Capital injections (§ 20.197 to § 20.203).
- The 2019 Manual on Government Deficit and Debt (MGDD), in particular chapter 3.2 on capital injections into public corporations.

Methodological analysis and clarification by Eurostat

Capital injections in TA

Capital transfer vs. acquisition of equity

In its Methodological analysis and opinion submitted to Eurostat on 22 November 2021, before the capital injection was made in December 2021, SE expressed its view on the accounting treatment of the, at that time, planned, capital injection in TA. It argued that the capital injection is a financial transaction (acquisition of equity) because, in its view:

- the capital injection was to be carried out to maintain the long term financial stability of the company;
- the State had a valid expectation of receiving a sufficient rate of return;
- TA had a large degree of freedom to use the funds provided;
- there was no earmarking of the capital injection for gross fixed capital formation purposes but rather the capital injection was intended to be used to implement the business plan;
- the capital injection was not to be made to cover losses since TA's operations were profitable (except for the Covid-19 impact on year 2020);
- TA operates in competitive markets by providing infrastructure for air cargo and aircraft maintenance partners;

operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view. We would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site.

Yours sincerely,

(e-Signed)
Luca Ascoli
Director