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**Subject:** Statistical treatment of the capital injection into AS Tallinna Lennujaam

(Tallinn Airport (TA))

**References:** Your letter No 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

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 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:

- i) the capital injection was to be carried out to maintain the long term financial stability of the company;
- ii) the State had a valid expectation of receiving a sufficient rate of return;
- iii) TA had a large degree of freedom to use the funds provided;
- iv) 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;
- v) 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);
- vi) TA operates in competitive markets by providing infrastructure for air cargo and aircraft maintenance partners;

- vii) based on the information received from the Ministry of Economic Affairs and Communications, there were no plans to privatize TA; and, that
- viii) TA was not a newly created company nor was the capital injection funding a new activity.

The question that SE raised was whether Eurostat concurred with SE's analysis that the capital injection by the State in TA is to be treated as a financial transaction (F.5) without impact on the government net lending / borrowing (B.9).

When determining the classification of a transaction, it is essential to consider the role of the government in the transaction and to determine its underlying economic substance.

Among other, in the context of capital injections, it needs to be assessed whether there was earmarking of the capital injection for gross fixed capital formation purposes. In such case the capital injection should be treated as investment grant impacting government B.9.

The increase of TA's share capital would enable the company to finance around half of the investments and to improve its equity ratio and the creditworthiness in order to enable access to bank financing for the remaining part of the investments.

Taking the above into account, Eurostat assesses that the purpose of the increase of the share capital by 20 million EUR was to finance the investment projects as foreseen and explicitly mentioned in the business plan of the TA. Therefore, Eurostat does not share the view of SE that capital injection by the State in TA is to be treated as a financial transaction (F.5) without impact on the government deficit. Instead it should be recorded as an investment grant with impact on government net lending/borrowing. The reasoning of Eurostat is that the capital injection was explicitly aimed to finance part of the costs of acquiring fixed assets so it meets ESA2010 4.152 definition of an investment grant<sup>1</sup>.

## 3. CONCLUSION

Eurostat concludes that the capital injection of 20 million EUR, undertaken in December 2021, by the State to the TA for the first stage of the development of the southern area of the Tallinn Airport has the nature of an investment grant (D.92) of the general government sector (S.13) in accordance with ESA 2010 paragraph 4.152 and is to be recorded as a government expenditure impacting its 2021 net lending/borrowing (B.9).

#### 4. Procedure

This view of Eurostat is based on the information provided by the Estonian Statistical authorities. If this information turns out to be incomplete, or the implementation of the

<sup>&</sup>lt;sup>1</sup> Investment grants (D.92) consist of capital transfers in cash or in kind made by governments or by the rest of the world to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets.

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