

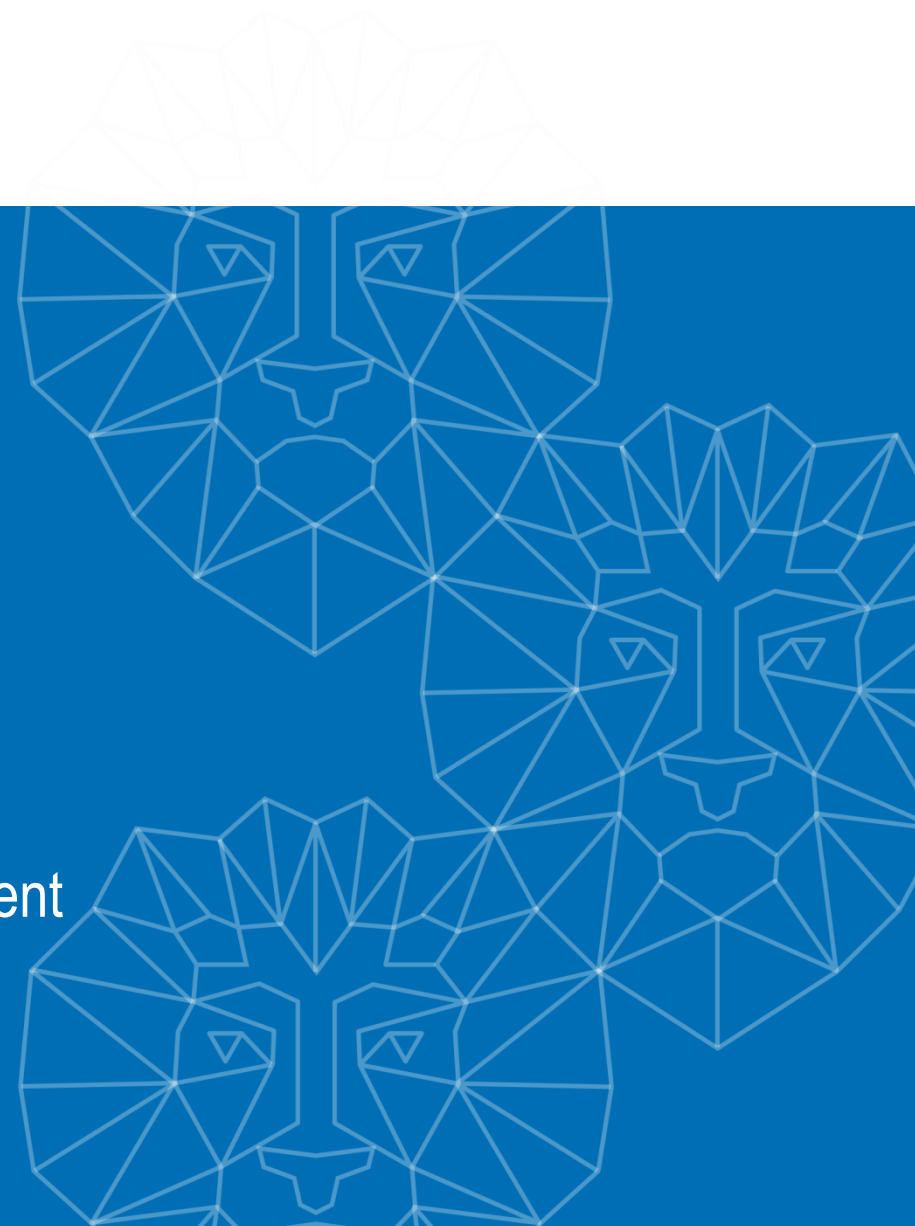


REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

Governance of Estonian State-Owned Enterprises

State ownership policy and public procurement department

Riga, November 26, 2024



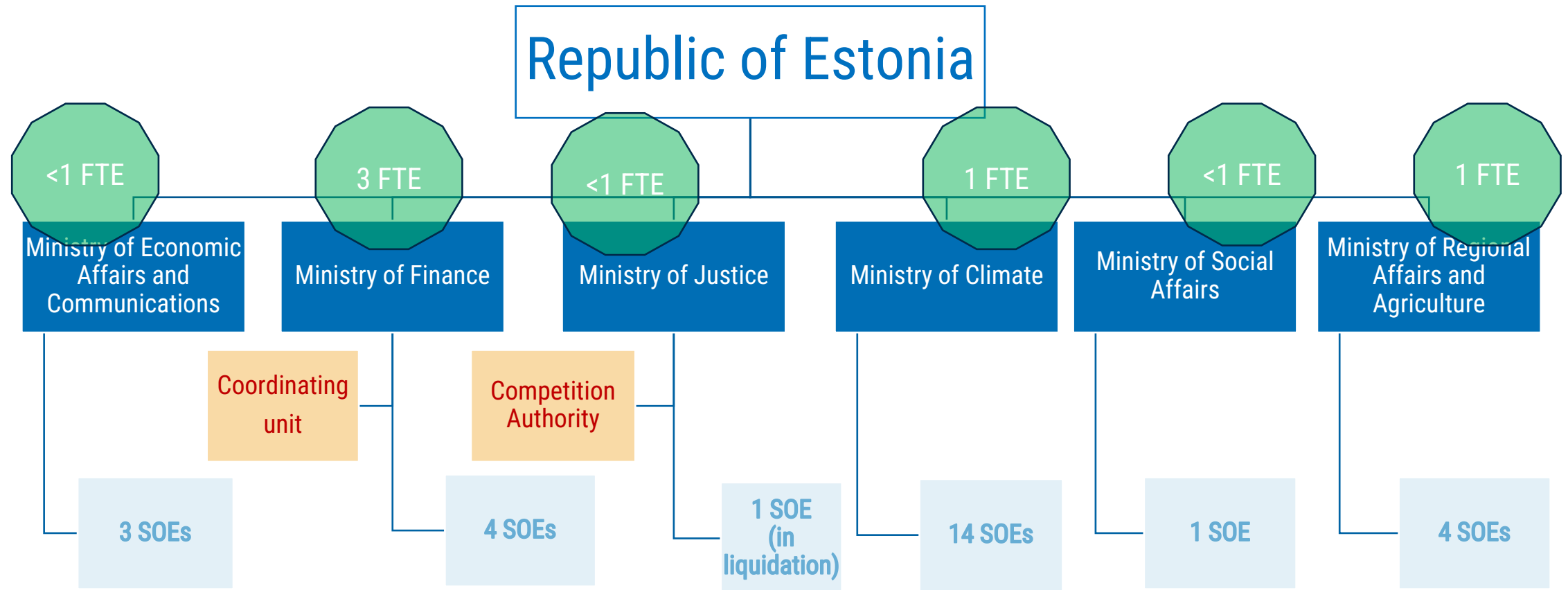
SOE governance reforms

- 2017 – Nomination Committee/transparency of the supervisory board members election
- 2020 – Ownership policy – explains and gives the rationale WHY, WHAT and WHO in connection with SOEs
- 2014/2022 – owners expectations setting strategic and financial goals

SOE governance challenges

- State objectives – owners' expectations and their interpretation and fulfillment – balance between commercial objectives and wider public interests
- Supervisory board members – challenges for Nomination Committee to find competent private sector representatives; conflict of interests and PEP status
- Privatization perspective – in 2024 analysis and proposals to privatize non-strategic SOEs; how to define strategic importance; full or partial privatization; private sale or IPO

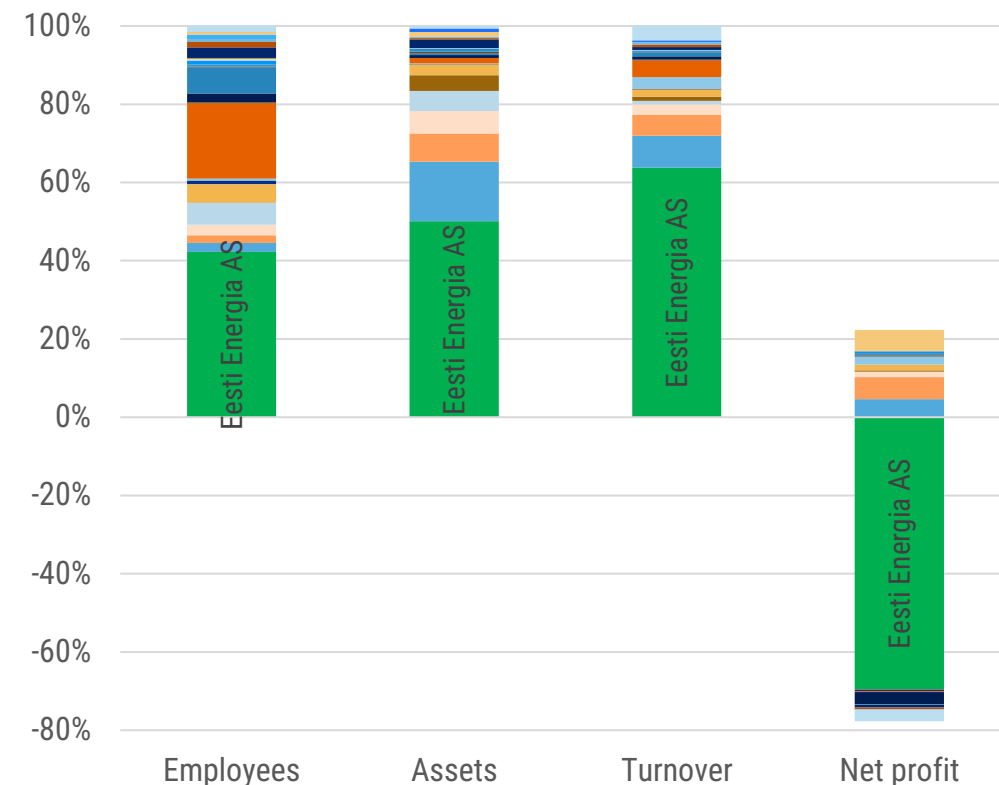
Landscape of state participation in SOEs



In addition, there are 62 foundations (hospitals, museums, theaters etc.), which are not considered as SOEs although some are quasi-companies (e.g. hospitals).

State ownership in SOEs

- As of 30.09.2024, the state has ownership in 26 active companies, 21 of them are fully owned by the state.
- 2023 aggregated financial data:
 - Total assets of EUR 9.7 bn (-6%)
 - Total liabilities of EUR 5.1 bn (+9%)
 - Total net sales of EUR 3.0 bn (-13%)
 - Net profit of EUR -339 m (-193%); excluding Eesti Energia, aggregate net profit was € 83 mil (-45%)



Assets

Company (EUR th)	Assets 31.12.2023	% of total assets	Assets 31.12.2022	Growth
Eesti Energia AS (electricity)	4 822 900	50,06%	5 506 200	-12,4%
Elering AS (transmission)	1 467 766	15,23%	1 460 943	0,5%
Riigi Kinnisvara AS (real estate)	695 927	7,22%	658 097	5,7%
AS Tallinna Sadam (port)	555 225	5,76%	621 229	-10,6%
AS Eesti Raudtee (railway)	489 824	5,08%	417 380	17,4%
AS Eesti Varude Keskus (strategic reserves)	392 155	4,07%	323 119	21,4%
AS Tallinna Lennujaam (airport)	264 380	2,74%	258 333	2,3%
Others	934 849	9,66%	1 008 836	-7,3%
Total assets	9 673 964		10 254 137	-5,7%

- In 2022, SOE assets formed ca 8,5% of all corporate assets in Estonia

Net sales

Company (EUR th)	Sales 2023	% of total sales	Sales 2022	Growth
Eesti Energia AS (electricity)	1 905 500	63,06%	2 218 200	-14,1%
Elering AS (transmission)	244 748	8,10%	386 975	-36,8%
Riigi Kinnisvara AS (real estate)	158 532	5,25%	155 962	1,6%
AS Eesti Post (postal service)	131 718	4,36%	122 918	7,2%
AS Tallinna Sadam (port)	116 646	3,86%	121 703	-4,2%
AS Nordic Aviation Group (airline)	110 297	3,65%	90 587	21,8%
AS Eesti Loto (lottery)	88 077	2,91%	86 570	1,7%
Other	266 356	8,81%	281 182	-5,3%
Total sales	3 021 874		3 464 097	-12,8%

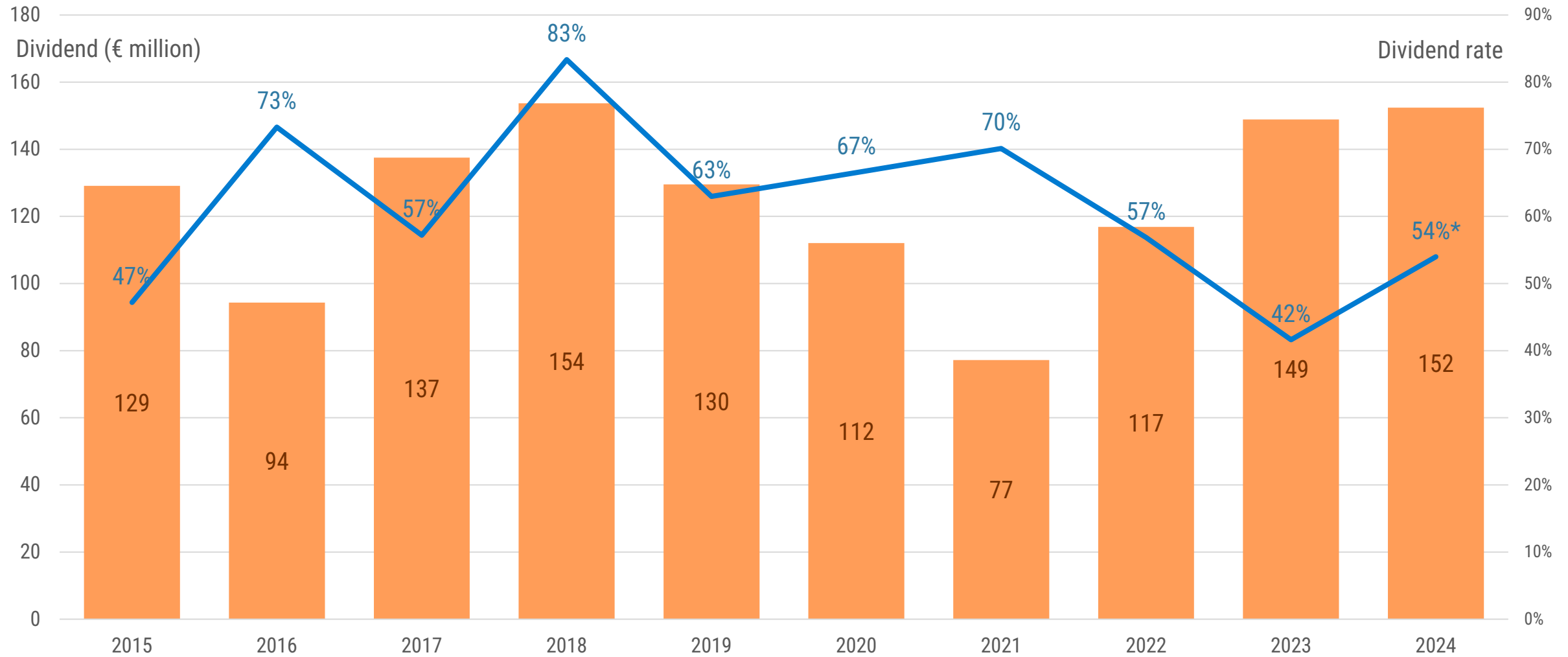
- In 2022, turnover of SOEs formed ca 3,0% of all corporate sales in Estonia

Positive net profit

Company (EUR th)	Net Profit 2023	% of total net profit	Net Profit 2022
Riigi Kinnisvara AS (real estate)	34 342	25,41%	32 118
OÜ Rail Baltic Estonia (railway)	32 337	23,93%	28 459
Elering AS (transmission)	28 037	20,74%	17 414
AS Tallinna Sadam (port)	15 882	11,11%	25 592
AS Eesti Loto (lottery)	12 431	8,69%	14 311
AS Tallinna Lennujaam (airport)	8 483	5,93%	8 688
AS Metrosert (calibration of measuring devices)	3 926	2,75%	802
Others	7 545	5,28%	266 888
Total net profit	142 983		394 273

- In 2022, positive net profits of SOEs formed 1,5% of all corporate profits in Estonia

State revenue from dividends



* Profit adjusted with exceptional write-off

State ownership policy

- Approved by the government in January 2020 (currently under revision), serving as a basis for upcoming amendments to the State Assets Act.
- Defines the governance principles that support reaching the targets and sustainable use of resources.
- Addresses issues such as the reasons and scope of participation, setting the targets and defining owner's expectations, strategic organization of corporate governance in state owned companies, sustainability and transparency, etc.

Participation motives

- State participation in companies is generally justified only in the case of public interest or strategic objectives:
 - market failure (natural monopoly operates in an under-regulated legal area and / or insufficient capacity of the national supervisory authority);
 - public functions and / or strategic interests (strategically important services that the private sector is not ready to provide);
 - performance of public functions arising from, for example, resource policy (use of more important / valuable natural resources, etc.), obligations under international agreements or security considerations (security of supply, vital infrastructure or service provision, etc.).

Governance principles of state participation

- Decentralized ownership – SOEs do play a role in achieving field-specific strategic goals:
 - SOEs – 6 ministries, each SOE has owner's expectations set up;
 - Foundations – 10 ministries and The Office of the President.
- Ministry of Finance commences coordinating functions:
 - developing the ownership policy and governance principles (State Assets Act);
 - aggregated reports (incl. calculation of cost of equity and optimal capital structure for each SOE);
 - coordination of Government's decisions in relation to governance of SOEs;
 - ownership of minority holdings (less than 1/3).
- Ownership and regulatory functions are separated into independent offices and/or departments

Governance and supervision

- Supervisory boards:
 - Nomination Committee – consisting of 4 private sector experts and 2 public sector experts (Secretary Generals) – established in January 2017
 - Boards consisting of private sector and state representatives (officials and other experts) – all with necessary qualification and experience;
 - Supervisory board members can't have conflicts of interests or criminal record.
- Internal control/Audit committee:
 - Supervisory boards are obliged to ensure the functioning of internal control systems;
 - Depending on the size, SOEs are obliged to form audit committee and create the position of an internal auditor or to procure the internal audit service.

Supervisory Boards of SOEs (31.12.2023)

- In total 114 board positions filled by 106 different persons (some persons are on several boards)
- Average board has 4,07 members and average term 2,94 years
- Women: 25% of all members (incl. 15% of chairmen)
- Private sector: 60% of all members (incl. 93% of chairmen)

Annual General Meeting

- Most of the SOEs are solely owned by the state – AGM consists of the line minister only
- AGM is convened by the management board
- MoF is not participating or coordinating the AGMs under other ministries
- All decisions made by AGM (or shareholder in general) must be forwarded to MoF and published

Reporting arrangements

- Company/foundation
 - Quarterly financial statements on SOE website and in MoF accounting system (open for public to view);
 - Audited annual reports of SOEs published within 4 months, foundations 3 months;
 - Bigger SOEs are more in line with public disclosure rules of stock market .
- Shareholder
 - Annual assessment of fulfilling the owner's expectations.
- Ministry of Finance
 - Annual aggregated state ownership report, which is presented to the Government, Parliament and State Audit Office
 - If systematic shortcomings are detected, proposes to amend the State Ownership Policy

Fiscal planning and monitoring

- State budget strategy (running + next 4 years) – July-August
 - detailed financial prognosis (central government entities)
 - dividend proposals from line ministries (market actors)
 - future dividend capabilities and need for additional equity are evaluated
- State budget – August
 - Detailed dividends and capital injection expectations for the next fiscal year (MoF proposal, government decision)
- Dividend order – April (next year)
 - Based on actual results of previous fiscal year, Government approves dividends for all SOEs for the current budget year. Sums may differ from the state budget as actual annual results may differ from the prognosis (or investment plans may have been changed)
- Capital increase analysis and execution (*ad hoc*)
 - Capital increases must follow **state aid rules** – in general, aid is not allowed and must be repaid immediately with interest
 - financial analysis – profitability of the investment
 - optimal capital structure – evaluated using calculations based on max loan capability using EBITDA variability and max PD=5%
 - cost of equity – evaluated in the annual aggregated report for each SOE based on country risk and stock market data

State aid

- All public funding, for investments or expenses, must go through state aid analysis
- Common rule – state aid is not allowed. Exceptions possible but must be allowed by European Commission
- All state aid funds are accounted separately in annual accounts under government support
- Capital injections to SOEs are not aid if done on market terms (no benefit to the recipient is given i.e. reasonable return is expected)



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Thank you!

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