COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

Monitoring of Article 95 ECSC steel aid cases
Third Report, May 1995

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C.S.I., Spain

I. Introduction

The Commission decided on 12 April 1994 (Commission Decision 94/255/ECSC) to approve aids totalling 437.8 billions ptas. under Article 95 ECSC, serving the following purposes :

- Capital injection of 276.7 billions ptas.
- Social aid up to 54.519 billions ptas.
- Up to 35.5 billions ptas.in the form of a capital conversion of an INI credit to Ensidesa.
- Up to 9.4 billions ptas.to cover contingencies.
- Loss compensation of up to 61.654 billions ptas.to cover additional operating losses and financial charges in 1992 and 1993 and reduced turnover arising from bringing forward the Ansio closure.

Social aids totalling up to maximum of 47.35 billions ptas. had previously been authorized as compatible with article 4.1 of the Steel Aid Code.

II. Outstanding questions from the previous monitoring report

Main outstanding issues after the second monitoring report have been investigated by the Commission with the help of information provided by the Spanish authorities in answering requests and in meetings with the Commission and companies representatives.

Conclusions on the major points are reported here as follows, other points arising from the second monitoring report will be addressed in the relevant sections of this report.

1. Capitalization of past approved credits

As recalled in the last report in February 1994 both Ensidesa and AHV proceeded with capitalisation operation, approved by the Council, for which provision had been made in their 1993 balance sheets.
Since the approved credits were expressed in pesetas at 1.1.92 value, while the capitalisations were made only in 1994, the company revaluated the amounts in order to take into account the inflation for the lapse of time from 1992 and 1994 so to translate the nominal pesetas into current ones.

The position of the Commission remains that approved aids have to be considered at their nominal value and that the realized capitalisations can be accepted to the extent that the amounts paid will remain within the envelope of aids authorised by the Commission decision and approved by the Council.

The Spanish Government, although maintaining its position on the principle, has advised the Commission that the aid paid will remain under the envelope of the aids approved by the Council under the art. 95 ECSC decision.

2. Private nature of A.C.B.

Decision 94/258 ECSC under art. 95 specifically required that the genuine private nature of the new Sestao project (now Aceria Compacta de Bizkaia - A.C.B.) be undisputably demonstrated. In order to comply with the decision's requirements, the Commission has asked further information to the Spanish authorities and sent members of the steel monitoring task force to performe visits to all shareholders of A.C.B.. These visits took place between March 6 and March 17, 1995.

From the collected information the Commission services were able to draw the following conclusions :

All shareholders are confident of a good return on their investment. Each of them, regardless of their nature (eg bank, supplier of equipment or potential customer) has demonstrated that it have genuine economic motivations to participate in it, such as :

1. the possibilty of covering a part of the credit and banking activities of A.C.B., for the banks,
2. the acquisition of a good portfolio image by participating in a new ,technologically advanced project, for the suppliers of equipment,
3. the possibility of having easier commercial relations, for the possible customers.

Furthermore, a major factor behind their participation is the presence of Mr Imaz as president of A.C.B. All the shareholder expressed complete confidence in him and great respect for his management capabilities.

The structure of the ownership of A.C.B. and the represantation on the board of directors is as follows :

SHAREHOLDER	%	SUBCRIBED CAPITAL (mill. ptas.)	NATURE OF THE SHAREHOLDER
C.S.I.	30	2400	Public (3 members on the board)
Socade	10	800	Public (1 member on the board)
B.C.H.	7	560	Private (1 member on the board)
B.E.X.	7	560	* (1 member on the board)
B.B.K.	7	560	Private (1 member on the board)
B.B.V.	7	560	Private (1 member on the board)
Bo. Urquijo	5	400	Private
G. Esp. Estampac.	5	400	Private
Tubo Consult.	5	400	Private
Fª Iribecampo	5	400	Private
Cosimet S.L.	2,5	200	Private
C.A.N.	2,86	228.8	Private
Cosim S.A.	1	80	Private
Ferroatlántica	1	80	Private
Prom.AC.Comp	1,14	91.2	Private
Cial. Laminados	0,5	40	Private
D.Javier Imaz	0,5	40	Private (president of the board)
Ingelectric S.A.	1	80	Private
Bac. Atlántico	1,5	120	Private
	100	**8000**	

*nature still under examination

The private majority of the ownership of A.C.B. can be confirmed as at least 53 % of the subscribed capital and shares are in hand of private entities.

Concerning the composition of the board of directors of A.C.B., it is comprised of 9 members: 4 between CSI and the Basque Regional Government, 5 from the private shareholders including one for the bank BEX. These members are appointed by the general assembly of the company and globally represent all shareholders.
The key point is whether BEX has to be considered a private or a public entity.
BEX is owned by more than 70 % by Argentaria which in turn is owned by 51 % by the Spanish state. By Spanish law, BEX is considered private, it is member of the private banking association and it is not submitted to the reporting obligations that public companies have to undergo. Its management states that its behavior on the market is guided purely by private rules. No reports indicate the contrary and apparently very often their terms are considered more tougher than other banks.
It also has to be borne in mind that Argentaria is the process of being privatized (this process started in 1993 and should be completed in 1995) .The private or public nature of BEX and

its behaviour will continue to be examined.

III. The new monitoring report

The third monitoring report was received from the Spanish authorities on the 15th of March 1995, in compliance with the requirements of the decision under art. 95.

1. Capacity reductions

The capacity reduction programme started in March 1994 is continuing on schedule. During the second half of 1994 the dismantling of the coke batteries at Sestao was completed.
In September 1994 the Commission services received from C.S.I. the notification of the foreseen closure of the Ansio hot rolling mill scheduled, as required by the decision, for the end of 1995.

2. Investments

During the second half of 1994, the investments related to the upgrading and enlarging of the coking batteries and blast furnaces at Gijón have been approved by C.S.I. management. These investments are in line with the approved restructuring plan and their cost is estimated at 47.2 billions ptas. (vs. 48.0 billions ptas. in the plan).Their financing will be exclusively done with C.S.I. own resources.

Due to the delay in the approval of the plan, the investment plan has not been implemented according to the initial schedule. In the second monitoring report the question was raised if this delay could jeopardize the viability of the restructuring plan itself. According to the management of C.S.I. since the implementation of the plan was delayed, also the starting of the investments, which are part of the plan, had to be delayed in order to allow the three new operating units (see below " Creation of a new "V" company), to carry them out. The Spanish authorities underline that this delay does not put into danger the viability of the restructuring plan itself. This point, however, will be object of continued examination by the Commission services.

3. Reduction of Workforce

The reduction of the workforce is proceeding ahead of schedule. During 1994, 1136 additional workers left the company bringing the total workforce reductions since 1991 to 6879 people vs. 5509 foreseen in the plan (i.e. 1370 reductions more).

Total costs for 1994 reductions were 38199 millions ptas. of which 12750 millions ptas. related to payments to workers affected by previous restructuring.
Total amount of social costs paid by the company during the elapsed restructuring period was 57.9 billions ptas. out of which 35.7 billions ptas. is expected to be covered by the State under art. 56 ECSC either for people affected by previous restructuring or the current one. The balance

22.2 billions ptas.at charge of the company will be covered by state aids approved under art. 4.1 SAC and art. 95 ECSC in equal parts.

In the second monitoring report the question was raised on the impact on the financial performance of the company due to the delay in payments of the aids. About this question, the Spanish authorities answered that it was true that, for this reason, the company had to bear additional financial costs, but that the latter was confident that the better than expected operating results would cover these additional costs so that the viability of the plan would not be compromised.
The Commission services will continue to scrutinize this point seeking more information and more will be reported in the next report.

4. Production

Production for the year 1994 and comparison with previous years can be summarized as follows:
(in thousands tonnes)

Actual Production	1992	1993	1994	1993/1992 % change	1994/1993 % change
Liquid Steel	4657	5329	5361	14.43	0.60
H. R Coils	3479	3739	3762	7.47	0.62
Heavy Plates	506	522	589	3.16	12.84
Wire Rods	363	385	415	6.06	7.79
H. Sections	290	289	223	(0.34)	(22.84)

1994 production figures are generally ahead of plan except in the long products as shown below :

(in thousand tonnes)

Planned Production	1994	Actual vs. Planned (% changes)
Liquid Steel	5150	4.10
Hot Rolled Coils	3450	9.04
Heavy Plates	550	7.09
Long Products	700	(8.86)

5. Sales

Sales of finished products during 1994, totalled 5.42 millions tons, 6.6 % above 1993 sales and 12.4 % above plan.

Breakdown of sales by market shows an increase in the share of domestic sales compared to 1993 specially in the second part of 1994, as shown in the following table :

(in % share of sales)

Markets	1992	1993	1994	1st. H. 1994	2nd. H. 1994
Domestic	69.15	63.56	65.80	62.39	69.08
Other EC	16.03	15.73	17.40	18.27	16.57
O. Countries	14.82	20.72	16.80	19.34	14.35

This trend can be explained by two reasons : a) in the present tight market situation, foreign producers have less material available for export, b) due to the devaluation of the pesetas, imports are more expensive for the Spanish consumer.

The Spanish authorities have also provided average prices charged by C.S.I during 1994. When compared to 1993 average prices, double digits increases can be seen in almost all products. The Commission services have examined this information and concluded that the prices charged are within the normal range.

6. Financial Performance

As it has been stated in the previous monitoring report, until the new company sucessor of Ensidesa and AHV has not been created, it is impossible to compare directly the actual figures with those forecasted under the plan. Since the new company (see below "creation of the new "V" company) will only be operational in 1995, for the period covered by this monitoring report the situation is alike the one described in the last report. Therefore we will limit ourselves to a comparison of the aggregated Ensidesa and AHV results for 1994 as provided by the Spanish authorities.

Main economic and financial results are reported as follows :

(in millions of ptas.) (per cent changes)

Ensidesa & AHV	1993	1994	94/93	I H. 94/ I H. 93
Turnover	266274	312109	17.21	20.38
Cost of Sales	277351	282009	1.68	(1.36)
Depreciation	21983	21319	(3.02)	(2.85)
Net Operating Result	(34587)	6746	119.5	89.20
Financial Charges	45073	31405	(30.32)	(28.49)
Net Results	(98274)	(51692)	47.4	48.39
L/T & S/T Debts	517089	414658	(19.81)	(2.56)

As it can be seen from these figures, total results for the year 1994 have confirmed the trend already present in the first half and definite improvements have been done in both operating and net results. The financial charges have also decreased substancially but they are still about 10 % of the turnover (down from 17 % in 1993).

Total debts were down almost 20 %, but remain at a very high level.

Having received complete figures for the year 1994, the Commission services are able to update the exercise already done in the previous report, that is to compare the actual results with the performance forecasted in the restructuring plan. In order to do that, since the income from the sale of these two companies to the new company "V" have not been received as planned by the "dormant" AHV and Ensidesa companies, and since the forecast aid has not been paid yet to the same companies in order to balance their accounts, these amounts have to be deducted from the plan in order to make the figures comparable.

The following table summarize these operations for the year 1994 as well as the similar operation made for the years 1992 and 1993 and reported in annex 1 of the previous report.

(in millions ptas.)

Planned	"dormant" AHV	"dormant" ENSIDESA	new company "V"	TOTAL
1992-1993 net results	(2085)	(49927)	(10408)	(62420)
1994 Net Results	0	0	(2718)	(2718)
Actual	AHV	ENSIDESA	new company "V"	TOTAL
1992-1993 net results	(60967)	(137226)	0	(198213)
1994 Net Results	(16638)	(35054)	0	(51692)
Actual vs. Forecast				
1992-1993				(137793)
1994				(48974)

1992 to 1994 actual results fell short of the planned ones by 186,767 millions ptas. However this difference can be easily explained when we take into account that in the plan the "dormant" companies were already receiving since 1993 payments for the shares transferred to the new company as well as payments of aids. Also a compensation for additional losses in 1992-1993 was also foreseen by the decision. Taking into account these elements, a complete reconciliation of the actual and plan figures can be done, as follows :

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(in millions ptas.)

Amounts to be added to actual results in order to compare them with the plan	AHV	ENSIDESA	TOTAL
1992-1993			
Incomes from sale of shares expected to be received	7783	23352	31135
Expected payment of aids	38704	14046	52750
Additional loss compensation			53153
total			137038
1994			
Incomes from sale of shares expected to be received	6746	20238	26984
Expected payment of aids	8872	14839	23711
total			50695
Final Reconciliation	1992-1993	1994	TOTAL
Actual vs. Plan	(135793)	(48974)	(184767)
Amounts to be added	137038	50695	187733
Total	1245	1721	2966

Having done this exercise, it can be concluded that, assuming these payments of foreseen aids, C.S.I. actual results are in line with the financial performance forecasted under the restructuring plan.

7. Creation of the new "V" company

The new company "V" which under the plan was supposed to be created at the beginning of 1993, was formally created in October 1994. The transfer of the assets from the old Ensidesa and AHV companies will be performed during the first quarter 1995.
The new group consists of four companies :

CSI Corporación Siderurgica, S.A.
This company will act as the holding of the group

CSI Productos Planos, S.A.
This company will operate the Gijón blast furnaces, the Avilés steel plant and the hot and cold rolling mill at Avilés and Echévarri.

CSI Productos Largos, S.A.

This company will concentrate on the production of long steel products and will operate the steel plant at Gijón as well as the rolling mills for wire rods, profiles and quarto plates.

CSI Trasformados, S.A.

This company will include the old subsidiaries of AHV and ENSIDESA in Navarra (Laminaciones de Lesaca, S.A.) and in Asturias (Perfrisa) and will manage the distribution of all the transformed products.

8. Privatisation

As anticipated in the second monitoring report, the new "Aceria Compacta de Bizkaia" was created and registered on 27.7.94. The structure and nature of the ownership of this company is has described and discussed under paragrah II. 2 of this report. In this section the analysis is limited to its financing, the ordering of the equipment and the schedule of its realisation. It has to be underlined that, although facts about this company are in the monitoring reports under the C.S.I. heading, this is a completely separated company in which C.S.I. only has a partecipation.

a) Financing

To carry out its investments the A.C.B. will need 50 billions ptas. (amount estimated in the plan was 62.5 billions ptas.). The start up capital paid by the shareholder was 8 billions ptas., but an increase in capital is already foreseen to bring the company own resources to the level of 35 % of the investment needs. All shareholders will participate to this capital increase on a pro-rata basis.

The rest of the financing for the company will be found in the market with the help of a financial adviser who will create a consortium of lending banks. These loans will be at market conditions without state guarantees. The final level of these loans should be around 30 billions ptas., expected to be available during the third quarter of 1995.

b) Ordering of the Equipment

Over 90 % of the required equipment has been already ordered and the first installation works have started.

The realisation of the plant will be done as a "turn key" contract made with a grouping of private companies. According to the contract each part of the project can be subcontracted. This contract cover the realisation of the following equipment :

- Electrical furnaces
- Compact Unit
- Civil works
- Subsidiary equipment

Another contract cover the realisation of the electrical substation and the high-tension power line.

c) **Foreseen schedule**

Construction works started between 29.12.94 and 15.2.95. At the present time the most advanced ones are the construction of the electrical substation and the foundations for the steel plant.

The foreseen construction programme is as follows :

- End of the assembly of the electric furnaces	before March 1996
- End of the assembly of the compact unit	before september 1996
- Start up of the plant and of production operations	17.9.96
- Provisional delivery of the plant by the contractors[1]	March/September 1997
- Final delivery of the plant by the contractors	one year later

A possible contract for the sale of all or part of the A.C.B. production to CSI is still under negotiation. If concluded, the negotiated price will have to be in line with market prices.

9. Aid Payments

Up to 31.12.94 the only aid used by C.S.I. are the capitalised amounts mentioned in the second monitoring report, as follows :

- For AHV: a total of 41.024 billions ptas which remained from 91.1 billions ptas. of credits authorized to be converted into capital under Protocol 10 of Spain Treaty of Accession. This completes the aids paid under this Protocol.
- For Ensidesa: 56.4 billions out of the global 437.8 billions of aids authorized under the art. 95 decision.

Beside these 56.4 billions ptas. for capitalisation operations no other aid was paid by the Spanish Government during the period .

10. Terms and Conditions of new loans

During the course of the second half 1994, C.S.I. has obtained loans totalling 59.5 billions ptas., supported by state guarantee. Of this amount, 50 billions were obtained in two tranches (37,050 and 12,950 millions respectively) by two groupings of Spanish and foreign banks both led by the

[1] The contract guarantee foresee two periods. After the first six months of operation and within an year, there is a preliminary delivery of the plant. The final delivery will take place one year after the preliminary one.

Spanish private bank BBV. As in previous cases, the premium for the guarantee was 0.125% per annum.
From the examination of the terms and conditions of these facilities and the associated state guarantees, it appears that no state aid elements were involved since these facilities were at market rates.

Finally, the Commission services have questioned how funds had been provided for CSI's partecipation in A.C.B.'s capital. Company officials have stated the funds came from the company cash flow, but from the data provided so far, it is not possible to confirm this. Further details have been requested to the Spanish authorities to clarify this point.

Monitoring of Article 95 ECSC steel cases
Third Report, May 1995

SIDENOR, Spain

I. Introduction

On 12 April 1994 (Commission Decision 94/261/ECSC) the Commission authorised aids under Article 95 ECSC totalling 80.052 billion pesetas, made up as follows:

- up to 26.3 billion pesetas for debt write-offs;
- up to 7.79 billion pesetas social aids;
- up to 20.2 billion pesetas in the form of new paid-in capital; and
- up to 25.762 billion pesetas in the form of loss compensation to cover additional operating losses and financial charges in 1992 and 1993.

Previously the Commission had also approved social aids totalling up to a maximm of 7.79 billion pesetas as being compatible with Article 4.1 of the Steel Aids Code.

II. Outstanding questions from the previous monitoring report

1. Implementation of the restructuring plan

The restructuring plan for Sidenor foresaw the acquisition of the activities of both Acenor and Foarsa by Sidenor itself. As also mentioned in previous reports, this acquisition was delayed and will take place only in the beginning of 1995, therefore the comparison of the combined results of Acenor and Foarsa with the plan is not very meaningful.

The Spanish authorities have now informed the Commission that on 30.12.94 Acenor and Foarsa transferred their steel activities to Sidenor and will remain as "dormant" companies only carrying out operations linked to their liquidation.

The new Sidenor company is operative from 1.1.95 having assumed all the assets of Acenor and Foarsa and their respective liabilities.

The configuration of the new group is as follows :

- <u>three operating units</u> : Basauri, Vitoria, Reinosa (Hernani and Llodio having been closed and Larrondo sold).
- <u>one operative subsidiary</u> (Fovisa) for forging and stamping.
- <u>one distribution subsidiary</u> (C.A. Heva).
- <u>various service and distribution companies.</u>

The workforce will be 2100 people, or 32 less than planned.

Once the accounts have been finalized and transmitted to the Commission services, an analysis can be made in order to verify their compliance with the restructuring plan and the

art. 95 ECSC decision.
This exercise will be a matter to be covered in the next monitoring report.

Finally, the Spanish authorities have informed the Commission that the shareholders of Sidenor (INI and ICO) have contracted a consulting company to advise them as regards the possible privatisation of the company.
According to press reports many companies inside and outside of Europe have demonstrated their interest in acquiring Sidenor.

2. Impact of the sale of Larrondo on the plan

Under the art. 95 ECSC decision, the Larrondo plant was to be closed or sold off.As reported in the second monitoring report, the plant was finally sold. The Commission asked the Spanish authorities to provide information on the impact on the plan of this development with particular reference to the social costs to be borne by Sidenor.

The Spanish authorities in their answer demonstrated that in fact the sale rather than the closure of Larrondo had a positive net impact on the company accounts of about 1140 millions ptas. As regards the impact on the social aids approved under art. 95 ECSC, these should be 487 millions ptas. less than in the case of closure.

Other points pending after the second monitoring report will be addressed in the relevant parts of this report.

III. The new monitoring report

This third monitoring report on Sidenor is based on information contained in the fifth quarterly report by the Spanish authorities, submitted on 15th March 1995 in accordance with Commission decision 94/261/ECSC. The following analysis also draws on the data provided by the Spanish authorities in their fourth quarterly report of 15.12.94, as required by the decision.

1. Capacity reductions

With the sale of the Larrondo plant, all the foreseen reduction of capacity at Sidenor can be considered concluded in accordance with decision 94/261/ECSC.

2. Investments

About 93 % of the investments foreseen under the plan had been performed by the end of year 1994. Details are as follows :

(in millions ptas)

Area of investments	Amount of investment
Rationalisation of the Basauri steel plant	680 millions ptas.
Remodelling of the Basauri rolling mill	876 millions ptas.
Rationalisation of the Reinosa steel plant	944 millions ptas.
Modifications to the forging and foundry at Reinosa	1499 millions ptas.
Investments for environmental protection	900 Millions ptas.

The types of investments and amounts are in line with the approved plan. Their financing was covered by loans (for conditions see below "Terms and conditions of new loans"). Completion of the planned investments is foreseen for June 1995.

3. Workforce reductions

The active workforce of Sidenor at the end of 1994 was 2332 people and the number of people laid off during the year was 546, bringing to 2393 the number laid off since the beginning of the restructuring. Since the total workforce reductions required by the plan were 2593 (including 413 for Larrondo - not included in the calculation in the second monitoring report), 200 more people will have to be laid off during 1995 to comply with the plan.

4. Production

Production for the year 1994 and comparison with previous years can be summarized as follows :

(in thousands tonnes)

Actual Production	1992	1993	1994	1993/1992 % change	1994/1993 % change
Liquid Steel	544.0	524.4	640.4	(3.6)	22.1
Special Steels	461.0	416.4	534.2	(9.7)	28.3
Stainless Steel	19.4	21.6	15.2	11.4	(29.8)
Forge&Foundry	26.6	31.5	39.5	18.4	25.2

Since the Sidenor plan does not provide details on planned production year by year, a comparison of actual vs. planned figures is impossible.

5. Sales

Total sales of Sidenor during 1994 were 491.8 thousand tons, 22.3 % higher than 1993, but 10.6 % below plan.

Their breakdown by market shows an increase in the share of sales in the domestic market and a decrease in the other markets, a trend to be considered normal due to the tight market conditions and the devaluation of the peseta, making imports more expensive for the consumer.

Details of the sales breakdown are as follows :

(in per cent share of total sales)

Markets	1993	1994	1st. H. 1994
Domestic	53.9	52.0	57.3
Other EC	40.7	38.7	35.3
O. Countries	5.5	9.3	7.3

The Spanish authorities have also provided average prices charged by Sidenor during 1994. The Commission services have examined these data and concluded that prices charged are within the normal range.

6. Financial Performance

The Spanish authorities have provided data,separately, for the two companies : Acenor and Foarsa. Their results, when combined, give the following figures (plan figures are reported as a reference) :

(in millions of ptas.)

	1994	1993	1994 plan
Turnover	43913	31514	43953
Losses	23444	22379	1871
Net Op. Result.	(6438)	(11667)	1430
Finan. Charges	9969	8523	2951
Finan Debts	69953	48301	21719

Even if the combined turnover is in line with the plan and the operating results show clear improvements, the financial situation of the two companies has deteriorated.

For the reasons we have stated above in section II.1 and in the previous monitoring report, it is difficult to compare the actual with the planned results. Nethertheless, it should not be forgotten that in the plan a capital injection of 20.2 billions ptas. was foreseen before 1995 (out of which only 8.2 billions ptas. was injected in late 1993). This plus the aid foreseen for compensation of the 1992-1993 losses, which has not been paid yet, for 25.8 billions ptas. could explain to a large extent the differences between the actual and planned results and level of indebtedness.

Only when the data about the new Sidenor company are available (which will be during the first quarter 1995 and will be reported in the next quarterly monitoring report), the Commission services will be in the position to make a proper comparison of the financial performance of Sidenor and the requirements of the art. 95 ECSC decision.

7. Terms and conditions of new loans

In the previous monitoring report the need for further investigations on a loan carrying a state guarantee was noted. According to the information provided by the Spanish authorities an additional premium of 0.125 % was paid on the guarantee for this loan so that the terms and conditions were in line with what was previously paid and with the rate prevailing on the market.

During the second half of 1994 new loans for 19.7 billions ptas. have been obtained of which 10.9 billions ptas.were with state guarantees. The conditions appear to be at normal market rates, but the Commission services will continue to investigate whether or not these facilities contain any element of aid.

8. Aid payment

No aids were paid in the period covered by this report.

Monitoring of Article 95 ECSC steel cases

Third Report

ILVA, Italy

I. Introduction

On 12 April 1994 (Commission Decision 94/259/ECSC) the Commission authorised aids under Article 95 ECSC totalling 4790 billions lit. in the following forms :

- write-off of residual debt up to a maximum of 2943 billions lit. after sale of assets
- coverage by IRI of restructuring and liquidation expenditures of up to a maximum of 1197 billions lit.
- capital injection by IRI of 650 billions lit.

II. Outstanding questions from the previous monitoring report

The main outstanding issues after the second monitoring report have been investigated by the Commission with the help of information provided by the Italian authorities in answering requests and in meetings between the Commission and company representatives.

Conclusions or development on the major points are reported here as follows, other points arising from the second monitoring report will be addressed in the relevant sections of this report.

1. Capacity reductions

The Commission services on 8.2.95 visited the installations at Bagnoli and Taranto that were subject of capacity reductions in accordance with the art. 95 ECSC decision.
The conclusions of these inspections were that at Taranto, the two reheating furnaces have been dismantled and their essential parts removed while the rolling mill at Bagnoli has been made non-operational, but it has not yet been dismantled since there are negotiations with parties outside the EEC for its sale.
Therefore, the Commission considers that the requirements set in the art. 95 ECSC decision have been satisfied. It will, however, continue to follow the developments at Bagnoli

2. Workforce reductions

As anticipated in the second monitoring report, the Italian authorities issued on 7.12.94 new legislation to regulate the preretirement of workers in the public and private steel industry. Waiting for this new legislation the companies have delayed the bulk of the dismissals foreseen by the plan. Natural dismissals occurring during 1994 in each company will be reported in the relevant sections of this report.
In early 1995, the Commission received additional information on the schedule of the workforce reductions for the old Ilva group that will take place during the course of this year. The Commission services will analyse these data and their conclusions will be a matter for the next monitoring report. The reductions due to closures notified to the Commission in January 1994 will also be subject to the new legisation and will be part of the same analysis by the Commission services. Social aid for workforce reductions due to closures and not covered by aids under art. 56 ECSC, is to be covered by aids under art. 4(1) of the Steel Aid Code and under the art. 95 Decision.

II. The new monitoring report

This third monitoring report on ILVA is based on the information submitted by the Italian authorities on 15th March 1995 in accordance with Commission decision 94/259/ECSC.

Since as of the 1.1.94 the group Ilva was split in three distinct companies (ILP, AST and Ilva in Liquidazione) and the privatisation of some of them is completed or under way, the Commission has decided to treat their analysis separately.

ILP

1. Capacity reductions

Besides the capacity reductions performed at Taranto already reported in the previous report and in the chapter above, the future buyer of ILP, according to the art. 95 ECSC decision, will have to close an additional 500,000 tons of hot rolling capacity at mill n° 2 in Taranto or at an other Italian plant situated elsewhere within six months from the date of the privatisation of ILP. This point will be also covered under the sector "Privatisation" of this report.

2. Investments

The investments started during the first half of 1994 have been concluded according to schedule. They mainly concerned the refurbishing of a blast furnace at Taranto and other maintenance works at Taranto, Novi and other controlled companies.
Total costs were 397 billions lit. vs. a budgeted amount of 571 billions lit., all covered by the company's own resources.

3. Workforce reductions

During the course of 1994, reported data show a net workforce reduction of 744 people. Total active workforce of ILP at the end of 1994 was 17457 people, 940 more than plan due to the above-mentioned delays in the new legislation.

4. Production

Production for the year 1994 and comparison with previous years can be summarized as follows :

(in thousands tonnes)

Actual Production	1992	1993	1994	1993/1992 % change	1994/1993 % change
Pig Iron	7808	8203	8208	5.1	0.1
Liquid Steel	7843	8252	8457	5.2	2.5
H. R. Coils	6361	5916	6500	(7.0)	9.9
Plates	1074	1020	1155	(5.0)	13.2

1994 production figures are in all cases ahead of plan as follows :

(in thousands tonnes)

Planned Production	1994	Actual vs. Planned (% changes)
Pig Iron	7880	4.2
Liquid Steel	7865	7.5
Hot Rolled Coils	6400	1.6
Plates	1005	14.9

5. Sales

Sales of finished products during 1994 totalled 7.47 millions tons, 9.5 % above 1993 sales and 9.9 % above plan.
Breakdown of sales by market shows an increase in the share of domestic sales and other EC markets compared with 1993 figures a specially in the second half of 1994, as shown in the following table :

(in % share of sales)

Markets	1992	1993	1994	1st. H. 1994	2nd. H. 1994
Domestic	71.8	67.9	68.9	66.7	69.4
Other EC	13 9	12.7	15.1	12.5	14.9
O. Countries	14.3	19.4	16.0	20.8	15.7

This trend can be considered as normal due to the tight market situation and the devaluation of the lira which makes imports more expensive for the Italian consumer.

The Italian authorities have also provided averages prices charged by ILP during 1994. The Commission services have examined these data and concluded that prices charged are within the normal range.

6. Financial Performance

The financial performance of ILP during 1994 has been better than expected in the plan as it can be seen from the following table :

(in billions of lit.)

	1994	1994 PLANNED	% change over plan
Turnover	9052.6	6807	33.0
Gr. operative margin	1155.2	776	48.9
Depreciation	374.6	245	52.9
Operating results	904.1	531	70.3
Net fin. charges	146.0	173	(15.6)
Net results	700.0	160	337.5
Net Financial Debts	1408.8	1608	(12.4)

Since ILP did not existed as a separate entity in 1993, comparisons with that year are not possible except for few items : turnover in 1994 was 14.6 % more than the estimated one for 1993 and the financial charges have been cut in half versus the 1993 ones. The ratio finanacial charges/turnover that at the outset of the company at the beginning of 1994 was 3.47 %, it was 2.5 % after the first six months and 1.61 % at the end of the year.
Other financial indexes are also better than planned : Operating results are 10 % of turnover vs. the 8 % planned, the return on the investment is at about 25 % vs. the planned one of about 16% and the debt/equity ratio is 0.63 (0.94 in the plan).

7. Terms and condition of new loans

During 1994 ILP has not contracted any loans since they were able to their needs with their own resources.

8. Privatisations

According to the art. 95 ECSC decision, ILP had to be privatized by the end of 1994. Since at the end of the open bid procedure which lasted for about six months from the end of 1993, no bids qualified according to the rules of the bidding process, IRI, the only ILP shareholder, proceeded with bilateral negotiations. In September 1994, the Commission asked the Italian authorities for more information on the status of the privatisation of ILP. The Italian authorities answered that on 10.12.94 the negotiations resulted in IRI receiving two firm offers, but that due to the political changes underway a choice could only be possible by the 10th of January 1995.
On that date the Italian authorities announced that the group Riva it had been chosen as the only partner in the negotiations for the ILP privatisation and that a time limit of six weeks was set for their conclusion.
At the end of this period, on March 2, 1995, IRI communicated to the Commission that they had accepted the offer of the Riva Group. On 14.3.95, the Italian authorities officially approved the sale of 100 % of ILP to the group Riva. After the final authorisation of the European Commission of this operation[1], the transfer of the shares will take place and details on the operation itself will be officially known. They will be reported in the next monitoring report.

When the acquisition of ILP is finalized, the Group Riva will proceed in a capacity reduction of 500,000 tons of hot rolling capacity, in accordance with the requirements of the art. 95 ECSC decision, within six months from the date of acquisition.

AST

It has to be pointed out that with the transfer of the shares from IRI to the new owner on 23.12.94 (see below "Privatisations"), AST it is now a fully private company.

1. Capacity reductions

In accordance with the approved restructuring plan, no capacity reductions have been performed during 1994.

2. Investments

The investments foreseen during 1994 have been completed. They were mainly related to the liquid steel and stainless steel production lines in Terni and Torino. Thes investments did not modify the production capacity of the company.
Total costs of these investments were 48.8 billions lit. vs. the 46.8 planned. The small

[1]This final approval was provided on 3.4.95

inscrease versus the budgeted amount is essentially due to the carry forward of some investments scheduled in next year budget.

3. Workforce reductions

At the end of 1994, AST had an active workforce of 4454 people versus a planned one of 4108 (346 people more).
As mentioned before in par. II.1 and also about ILP, the late issueing of the new legislation on the preretirement is the cause of the delay of the reductions this should be made up during 1995 and will be matter of attention for the next monitoring report.

4. Production

Production for the year 1994 and comparison with previous years can be summarized as follows :

(in thousands tonnes)

Actual Production	1992	1993	1994	1993/1992 % change	1994/1993 % change
Liquid Steel	775	811	954	4.6	17.6
H. Rolled Coils	1042	860	970	(17.5)	12.8
Cold R. Sheets	448	467	527	4.2	12.8
Stainless Steel	341	356	399	4.4	12.1
S.S. Hot Rolled	53	68	60	28.3	(11.8)
S.S. Cold Rolled	288	288	339	0.0	17.7

1994 production figures are in most cases ahead of plan as follows :

(in thousands tonnes)

Planned Production	1994	Actual vs. Planned (% changes)
Liquid Steel	917	4.0
Hot Rolled Coils	846	14.7
Cold Rolled Sheets	477	10.5
Stainless Steel	375	6.4
S.S. Hot Rolled	65	(7.7)
S.S. Cold Rolled	310	9.4

5. Sales

Sales of finished products during 1994 totalled 822 thousands tons, 20.3 % above 1993 sales. Cold rolled stainless steel sales were 347.6 thousands tons, 23.4% above 1993 and 8.6 % above plan.
Breakdown of sales by market shows an increase in the share of domestic sales, stabilityin the one for other EC markets and a decrease in the share of sales to other countries compared with 1993 figures , as shown in the following table :

(in % share of sales)

Markets	1993	1994	1st. H. 1994	2nd. H. 1994
Domestic	60.8	64.7	64.7	64.7
Other EC	15.8	15.2	14.6	15.8
O. Countries	23.4	20.2	20.7	19.5

This trend can be considered as normal due to the tight market situation and the devaluation of the lira that makes imports more expensive for the Italian consumer.

The Italian authorities have also provided averages prices charged by AST during 1994. The Commission services have examined these data and concluded that prices charged are within the normal range.

6. Financial Performance

Since that at 15.3.95 final approved accounts were not yet available, and since on the results of year 1994 has to be based the price adjustment due from the buyer of AST (see below "Privatisations"), the new owners of the company did not wanted to disclose preliminary figures.
As soon as they will be made available to the Commission, the Council will be informed.

7. Privatisations

The Commission approved the sale of AST to the KAI consortium (Krupp-Thyssen,Riva,Falck,Tedfin) on 23.12.94 and on the same date the transfer of the share to the new owner was effected.

The price for this sale has been agreed at 600 billions lit. (200 billions more than planned) on the basis of the balance sheets at 31.12.93. An additional compensation in order to take into account the results of the company from 31.12.93 until the effective sale (practically all of 1994) was also included in the sale contract. This compensation is going to be based on the results at 31.12.94. This additional amount will be known as soon as the financial and economic accounts for 1994 will be finalized and approved; this should happen during April 1995.

The price will be paid in four equal installments of which the first was paid on the transfer of the shares, while the others will be paid after 12, 24 and 60 months respectively after that date. Interest at an estabilished market rates will be paid on the 2nd, 3rd and 4th installments. The additional compensation will be paid within 15 days from the approval of the 1994 balance sheets with interest at prime rate.

AST has been sold with all its assets and debts at the moment of the transfer of the shares. As regards to the extent to which the debts transferred to diminish the debt situation of Ilva, the debts transferred to AST at its outset (31.12.93) have to be considered. They were 536 billions against the 474 billions in the plan.

ILVA in Liquidazione

1. Capacity reductions

Beside what already stated about the Bagnoli plant, Ilva in Liquidazione has not performed any other capacity reduction. This is in accordance with the approved restructuring plan.

2. Investments

Also in accordance with the restructuring plan, no investments have been made during the monitored period.

3. Workforce reductions

For the reasons already stated in par. II.2 of this report and in occasion of ILP and AST, the workforce reduction programme has been delayed. The Commission will maintain a close check on the developments of this situation and they will be reported in the next monitoring report.
Nethertheless, during the second half of 1994 the workforce of Ilva in Liquidazione has been reduced by 1460 people of which 980 due to the sale of some producing units to ILP.

4. Production & Sales

Since the companies left in Ilva in Liquidazione are either operating in sectors others than steel, or, if in steel, they produce non ECSC products, the Commission services do not think it is appropriate to report here data about their production or sales.

5. Financial Performance

As already stated in the second monitoring report, the structure of the company having signifincantly changed since the spinning off of the other two companies (ILP and AST), it is not possible to make a meaningfull comparaison between the results of 1994 and the ones of the previous years.

The analysis therefore will be only on few relevant indicators and for the greater part on the level of indebtedness and its expected coverage by the incomes deriving from the privatisation process.

Turnover for 1994 was 2755 billions lit. 4 % higher than forecasted at the end of the first half 1994 and over 25 % the comparable figure for 1993.
Losses at the end of 1994 were 1281 billions lit. mainly due to provisions for liquidation expenditure up to the end of the liquidation process foreseen at the end of 1997. No comparable figures exist for 1993.
Financial charges for the all of 1994 were 450 billions lit. 18 billions better than expected six months ago and represented 16.3 % of the turnover.

Indebtedness for the consolidated Ilva in Liquidazione group as reported by the Italian authorities for the year 1994, amounts to 7870 billions lit.
However, due to the changes in the structure of the group (spinning off of ILP and AST, sales of other subsidiaries and transfers of debts), this level of indebtedness it is not directly comparable to the one existing at the moment of the approval of the plan.

After,

1. having made all necessary calculations to make them comparable;

2. keeping in mind that by its decision taken on 23.12.93, the Commission approved aid of 4790 billions lit. for the liquidation and restructuring of Ilva, consisting of an injection of 650 billions lit. - already granted by IRI in 1992 - and of 4140 billions lit., which was the forecasted final balance of the debts to be taken over by IRI at the end of Ilva's liquidation, reduced by the income arising from the sale of ILP, AST and some other subsidiaries and the debts transferred along with their sale;

3. the Commission services being able, after the second monitoring report, to deepen

their analysis on the coverage of the Ilva in Liquidazione indebtedness on the basis of the official results at the end of 1994;

it is possible to give a preliminary estimation of the coverage of Ilva indbtedness until the end of the liquidation process based on the preliminary results at the end of 1994 provided by the Italian authorities. It has to be stressed that the figures shown in the following table do not take into account, yet, neither the final actual income from the sale of ILP to the Riva Group, nor the additional compensation for the sale of AST.

(in billions lit.)

	PLAN	at 31.12.93	at the end of liquid. based on results at 30.6.94	at the end of liquid. based on prelim. results at 31.12.94
Total comparable Ilva indebtednss	(10067)	(10889)	(11353)	(11756)
Incomes from the sales of ILP,AST,Sofin.	2806	2760	2960	2960
Debts transf. to ILP,AST,Sofin.	1897	2546	2546	2546
Other debts to be transferred	1061	923	1013	1013
Other incomes from sales of companies	1425	1425	1400	1400
Incomes from the liquidation process	448	448	1253	1253
Disboursements during the liquidation	(645)	(654)	(996)	(617)
Liquidation costs	(1065)	(1065)	(895)	(640)
Total residual Indebtedness	(4140)	(4506)	(4072)	(3841)
Var. from plan		366	(68)	(299)

As it can be seen, based on the preliminary figures available, the level of indebtedness at the end of 1994 was not exceeding the amount of approved aid. When the actual results of the privatisation in process will be incorporated in this table (ILP sale price - possibly 2500 billions lit. against the 1300 billions lit. included in the table - and additional compensation for AST sale price), the situation should further improve.

The Commission services will continue to update these figures as soon as final 1994 figures will be available, in order to make sure that the total final indebtedness remain in line with the approved aid.

6. Terms and conditions of Ilva in Liquidazione's financing

In the second monitoring report it was said that the Commission was investigating on the terms and conditions of the financing of Ilva in Liquidazione. The results of such investigation can be summarized as follows :

a) At the end of 1993, time at which the liquidation started, Ilva in Liquidazione accounts showed a debts towards IRI for 1538 billions lit (included in the total Ilva indebtedness to be covered by IRI according to the plan), which could be considered as a first tranche of aid already grated under the art. 95 ECSC decision, since IRI will never ask for its repayment.

b) Also during 1994, IRI has provided funds to Ilva in Liquidazione for 2159 billions lit. which, togheter with the 1538 billions lit present at the beginnig of the liquidation, bring the total of the aid already paid by IRI to 3697 billions lit at the end of 1994, as it will be shown in Ilva in liquidazione's books once finalized.

c) Under the liquidation procedure, Ilva has financed its cash flow needs with funds coming from financial institutions for 2153 billions lit. The interest rate on these stand by credit lines with banks have been provided and seems to be in line with the ones charged in the market. According to their financial restructuring plan half of these loans will be paid back by June 1995 and the rest by the end of 1996.

d) All the above amounts are included in the total 11756 billions lit. indebtedness that it will be ultimately covered by IRI less the amounts proceeding from the privatisation process as well as from the liquidation of Ilva.
As already stated, the present estimated figure for less aid of 299 billions lit., will improve further when the finalprices for the privatisation of ILP and AST will be known and taken into account.

7. Privatisations

Up to now, Ilva in Liquidazione has sold the ownership or its partecipation in the following companies (this list do not includes ILP and AST which were owned and sold directly by IRI):

(in billions lit.)

Companies	Buyer	Price	Debts transferred (applies only to companies fully owned)
Cogne Acc. Speciali*	Marzorati Group	7	75
ICMI	ILP	105	89.7
TDI	ILP	30	50.3
ISE	Edison-EDF, ILP	420	4.4
ICE	Valle d'Aosta Region	86	(0.3)
Sidermar di Navig.	Coe&Clerici	60.8	
Sidermar Serv. Acc.	ILP	0.6	
Lovere Sidermecc.*	Lucchini Group	25	
Verres *	Finaosta	1.8	
TOTAL		736.2	219.1

* Companies for which price payments have already been received received during 1994

This compares with planned expected incomes for the same companies of 955 billions lit. and expected transfers of debts for 479 billions lit. Additional sales of partecipations not foreseen in the plan should, according to the Italian authorities, make up for the differences so that the total estimated income or debts transferred for these operations of 1425 billions lit. and 1061 billions lit respectively, should be met.

The only major companies left to be sold are Dalmine and Dalmine Resine for whom negotiations are under way.

Other small companies mentioned in the last monitoring report, like Saster (water systems designing) or Ilvanetwork (data transmission network) will be sold either to a water distribution company for a nominal price, or be split and sold among the interested companies of the old Ilva group.

Monitoring of Article 95 ECSC steel aid cases
Third Report, May 1995

Siderurgia Nacional, Portugal

I. Introduction

The Commission decided on 12 April 1994 to approve aids totalling 60.12 bn Esc (309.6 MECU) under Article 95 ECSC Treaty[1] of which 38 bn Esc (191.5 MECU) are earmarked for a capital injection and 22.12 bn Esc (113.9 MECU) for debt write-off. The Commission approved in September 1994 social and environmental aids of 5.925 bn Esc (30.51 MECU) under the Steel Aids Code[2].

The present report covers some outstanding questions from the second monitoring report that had been discussed with the Portugese Government in the meantime and the information provided by the Portugese Government in its third monitoring report, which was submitted on 10 March 1995.

II. Outstanding questions from the second monitoring report

In the second monitoring report, the Commission identified two issues of concern: the financial performance of the company and the question whether the *Carti de Conforto* were replaced by other aid.

The question of financial performance, related also to the question of redundancies, has been discussed intensively with the Portugese authorities. They provided a range of explanations and figures in so far which are being reported under III. 3 and III. 7.. It may be summarized that, according to the Portugese Government, the main reasons for the deviation between the plan and the result were higher prices for coils and other materials and the fact that a new evaluation led to a higher depreciation. The Portugese authorities stressed that of *SN Longos* and *SN Planos* would be privatized in mid 1995, so that it may be expected that a new private management would proceed to further financial restructuring measures rather soon. It further pointed out that 17% of the aid approved under Article 95 ECSC have not been granted so far so that there is still a certain margin to cover unexpected costs, such as due to the delay in reduction of workforce.

[1] COM (94) 420 final, O J. No. L 112 of 3 May 1994, p. 52

[2] State Aid No. N 533/93, not yet published in the O.J.

III. The new monitoring report

The Portugese Government presented a full range of information in line with the request of the Commission.

1. Capacity reductions

The production of the light section mill and the continuous casting installations (Seixal) had been stopped by 31 October 1993. During a visit of a representative of the Commission in December 1994 it had been verified that the mill has been physically separated from the plant and that it was out of operation. These measures provided the first part (60 kt/y) of the total capacity reduction required (140 kt/y). Negotiations to sell the installations to a third country are still not completed.

It is intended, in line with the Commission's decision and the restructuring plan, to close down the medium section mill (Seixal) by 31 December 1995. This measure would lead to a further capacity reduction by 80 kt/y thus completing the total capacity reduction required.

The intended closure of the blast furnace, the converter and the coking plant may be carried out after the installation of the electric arc furnace, which will be chosen by the new owner of SN Longos after privatization.

2. Investments

The investment programme as presented in the second monitoring report remains unchanged. The management of the company decided not to carry out major investments until after privatization in order not to jeopardize the industrial plans of the new owner. The possible impact of the 6 months delay of the entering into operation of the continuous casting installation in *Maia* compared to the business plan may only be established after the final investment plan of the future owner would be available. This question will therefore be discussed during the second half of 1995, given the privatization takes place as announced by the Portugese Government.

During 1994, the company spend 386 mio Esc in small and regular investments.

3. Reduction of workforce

Redundancies

	1993	1994	1995*	1996*	1997*
early retirement	138	111	146	126	
releases	28	114	317	258	
other	27	20	0		
TOTAL reduction	193	245	463	384	
entries	0	7			
TOTAL net reduction	193	238	463	384	520
previously reported	193	380	635	590	-

* forecast

Forecast of evolution of workforce

	1992	1993	1994	1995	1996	1997
long products, of which in *Seixal*	2070	2056	437	430	430	580
in *Maia*	478	429	400	380	380	380
TOTAL long products	2548	2485	837	810	810	960
flat products	660	530	474	440	440	440
TOTAL	3208	3015	1311	1250	1250	1400
SN Services	-	-	1431	1029	645	-
SN SGPS	-	-	35	35	35	10
TOTAL SN	3208	3015	2777	2314	1930	1410
Reduction per year		193	238	463	384	520
Total planned before	3208	2925	2380	1682	1410	1410
Deviation from previous plan	-	+ 90	+ 397	+ 635	+ 520	+/- 0
Deviation from plan as reported in previous monitoring report	-	+ 90	+ 255	+ 318	+/- 0	+/- 0

It shall be noted that the current forecast for the evolution of workforce deviates remarkably from the previous business plan (PERG) submitted by the Portugese Government. The retention of 397 employees more in 1994, 635 employees more in 1995 and 520 employees more in 1996 would cause costs that were not expected when the business plan was drafted. The new plan covering the evolution of workforce shows an even more costly picture than the plan presented in the last monitoring report.

The Commission has discussed its concerns as regards the possible negative impact of the delay in the reduction of workforce with the Portugese authorities.

The Portugese authorities explained that the reasons for the delay are the fact that the Commission adopted its decision concerning the Article 95 ECSC later than expected, that the budget necessary to finance the redundancies were made available by the responsible Portugese administrations later than expected and that the difficult situation on the labour market in Portugal and in particular on the peninsula of *Setubal* turned it more difficult than expected to achieve redundancies in mutual agreements.

As regards the possible negative impact on viability the Portugese authorities explained that:

- the total costs to be borne by the company under the revised plan would be approx. 23% lower (calculated in prices of 1993) than under the initial plan (PERG);

- the total additional costs caused by the delay would amount to 3.728 bn Esc (19.2 MECU);

- the company has decided to reinforce its efforts to reduce workforce by several measures, such as charging a special outplacement consultant, offering assistance to find professional alternatives for the former workers of SN, and certain measures in the framework of the RESIDER I and II programmes.

The workers being retained in deviation from the initial plan PERG were assigned to *SN Serviços* so that the two companies to be privatized would not have to carry the related burden. The additional costs to be borne by *SN Serviços* are expected to be covered by the income from privatization of the two companies *SN Longos* and *SN Planos*. In addition, the Portugese authorities only granted 50 bn Esc of 60.12 bn Esc authorized by the Commission under Article 95 ECSC. If necessary, the difference of 10.12 bn Esc may also be used to cover additional costs of *SN Serviços* due to the delay in reduction of workforce.

Financing of redundancies 1993 and 1994

year	nature	no of workers	56 ECSC	State (Art. 56 ECSC)	company *	TOTAL
1993	early ret.	138	52.8	52.8	-	105.6
	releases	28	17.1	17.1	8.3	42.5
	others	27	-	-	-	-
	TOTAL	193	69.9	69.9	8.3	148.1
1994	early ret.	111	43.6	43.6	0	87.2
	releases	114	67.3	67.3	245.0	379.6
	others	20	0	0	0	0
	TOTAL	245	110.9	110.9	245.0	466.8
TOTAL		438	180.8	180.8	253.3	614.9

costs in mio Esc

* to which the States contributes up to 50% under Article 4.1 Steel Aids Code

4. Production

Product	1993	1994
Crude steel	745.3	722.7
long products	709.9	700.9
flat products	209.7	229.3
Total finished products	919.6	930.2

in kt

Evolution of monthly production in 2. half of 1994

product	month						TOTAL 1994
	JUL	AUG	SEP	OCT	NOV	DEC	
crude steel	73.3	66.5	70.7	68.7	64.5	69.5	413.2
long products	68.3	64.8	62.0	64.4	64.3	58.2	382.0
flat products	21.1	14.8	19.7	22.7	20.9	23.6	122.8
Total finished products	89.4	79.6	81.7	87.1	85.2	81.8	504.8

in kt

5. Sales

Evolution of sales and markets

	1993		1994	
	kt	%	kt	%
Portugal	653	70	667.7	72.3
EU 11	112	12	159.8	17.3
3rd Countries	168	18	96.1	10.4
TOTAL	933	100	923.6	100

Sales in 1994 per product category

	Portugal	EU 11	3rd Countries	TOTAL
long products	511.3	118.3	67.0	696.6
flat products	156.4	41.5	29.1	227.0
TOTAL	667.7	159.8	96.1	923.6

Comparison of sales 1994 with plan

	1994		plan 1994	
	kt	mio esc	kt	mio Esc
Portugal	667.7	40515	712	41800
long	511.3	27583	559	29307
flat	156.4	12932	153	12493
other markets	255.9	15658	267	16541
long	185.3	9436	180	9437
flat	70.6	6222	87	7101
TOTAL	923.6	56173	979*	58341

* this figure show the plan fgure minus 27 kt light profiles because the light section mill was closed down by end Oct 1993

The comparison between the sales reported and the forecasts of the business plan show a deviation of 6 % in quantities and 3.66 % income achieved. The Portugese authorities also provided figures leading to the conclusion that a comparison between the sales of the second half of 1993 and the second half of 1994 shows an increase by 16% in quantities.

On the basis of the information shown above it may be concluded that the development of the second half of 1994 allowed the company to catch up with the remarkable deviation compared to the business plan to be observed in the second monitoring report.

The Portugese Government also provided detailed information concerning pricing. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

The detailed figures concerning the financial performance of Siderurgia Nacional submitted by the Portugese authorities show a remarkable improvement in the second half of 1994 compared to the first half of 1994 as well as during the entire year 1994 compared to 1993.

The comparison of the main financial data show an increase in turnover between 1993 and 1994 of 17% and between the first half and the second half of 1994 of 27%. The total costs decreased between 1993 and 1994 by 9.7%. The operating result increased between 1993 and 1994 by 59%, the gross margin increased by 56%.

The company, however, still falls behind the forecasts of the business plan. The plan (PERG) expected a small positive operating result for 1994 of 47 mio Esc, while the achieved operating result in 1994 amounts to minus 10947 mio Esc. The turnover expected in the business plan was slightly lower than achieved but the total costs were some 19% higher than expected.

The Portugese authorities explain in the monitoring report a number of reasons for these deviations:

• the costs for the purchase of coils and other material were higher than expected in the plan	5100 mio Esc	51.7%
• the technical breakdown in Maia led to lower sales than expected	860 mio Esc	8.7%
• the delay in reduction of workforce	555 mio Esc	5.6%
• the plan used lower evaluations for assets than finally established by an independent expert for the purpose of creating the initial balance sheets for the companies of the group so that the depreciation was higher than expected	3351 mio Esc	34%
TOTAL	9866 mio Esc	100%

Taking these explanations into account, the deviation between the total costs estimated in the plan and the actual costs borne in 1994 amount to approx. 1200 mio Esc (6.18 MECU). The deviation in costs would amount to + 2.05 % between the plan and the actual figures of 1994 when taking the explanations into account.

However, this deviation has to be covered. According to the Portugese authorities this would be the case if privatization takes place as intended. If the announced privatization would not be carried out by mid 1995 the deviation has to be discussed with a view to a possible requirement of appropriate measures to be taken to reinforce the restructuring measures.

7. Privatization

Regarding privatization, the Portugese Government informed the Commission that the creation of the new corporate structure (*SN SGPS, Longos, Planos, Serviços*) has been completed by 31 March 1994, that the formal decision to privatize SN Longos and SN Planos has been adopted in August 1994 and that the formal invitation for tender has been published in December 1994. It is expected to finally privatize both companies in June 1995. The Portugese authorities stressed that the Government has decided to accelerate the privatization of *SN Longos* in order to reinforce the credibility of the financial restructuring of the company.

The time table for the privatization provides for the evaluation of the industrial proposals received by beginning of March 1995 until 20 April 1995. The final purchase offers are expected to be received by 11 May 1995 and will be analysed until 5 June 1995. The final decision of the Council of Ministers of Portugal to privatize the companies is expected for mid June 1995.

8. Aid

The Commission approved aids of up to 38 bn Esc (191.5 MECU) for capital injection and 22.12 bn Esc (111 MECU) for debt write-off under Article 95 ECSC. The Portugese Government informed the Commission that SN received until end of 1994 50 bn Esc for its financial restructuring. This represents 83% of the aid approved by the Commission under Article 95 ECSC.

The approved aid under Article 3 of the Steel Aid Code (environmental aid) has not been paid so far. The use of the approved aid under Article 4 (1) of the Steel Aid Code is being explained above under III.3..

As regards the *Carti de Conforto* the Commission has examined whether they have been replaced by other aid after their termination. The Portugese authorities informed the Commission that all *Carti de Conforto* have been terminated together with the related loan contracts except three covering ECSC loans totalling 21.9 bn Esc. They were, according to the Portugese authorities, not replaced by other guarantees.

9. Minimum net financial charges

In its decision to authorise State aid in favour of *Siderurgia Nacional* the Commission included, similar to the other Article 95 ECSC decisions, the provision that the "level of net financial charges of the new company at the outset will be set at least at 3.5% of annual turnover.

The Portuguese authorities understood the "new company" to be *SN SGPS* as the successor of *Siderurgia Nacional S.A.* and reported the net financial charges of the entire new structure of enterprises with *SN SGPS* (holding) and *SN Longos, SN Planos* and *SN Serviços* as to be at around 16% of turnover.

During discussions concerning details of the privatisation of *SN Longos* and *SN Planos* it has been discovered that the net financial charges of these two operating companies were at the outset in April 1994 set at only ± 1% of annual turnover.

In the Commissions' view, since the sense of the provision is to avoid an undue advantage of the aided companies at the production level compared to its competition, the fulfilment of this provision shall not only cover the holding/group (which is formally covered by the decision itself) but also the single operating companies that are active on the market.

The Portugese authorites argued that the net financial charges of the two operating companies earmarked for privatization are kept low with a view to the necessary investments to be carried out under the restructuring plan after privatization. With the beginning of the first investments the financial charges would reach the level of 3.5 % of turnover rather soon, without any additional aid.

The argumentation of the Portugese authorities appears similar to those of the German Government concerning the condition of minimum net financial charges in the case of *SEW Freital*. In this case the implementation of the necessary investments to implement the industrial restructuring were a contractual obligation of the purchaser and were compared to a financial burden similar to financial charges which may, however, not appear in the accounting of the company.

A similar approach in the present case would lead to the necessity of including strict contractual obligations to carry out certain investments necessary to implement the industrial restructuring within a certain time limit in the privatization contracts to be concluded by the Portugese Government covering the sale of *SN Longos* and *SN Planos*.

This question will be discussed with the Portugese authorities during the coming months.

Monitoring of Article 95 ECSC steel aid cases
Third Report, May 1995

EKO Stahl GmbH, Germany

I. Introduction

The Commission approved in April 1994 up to DM 813 million (ECU 444 million) aid to back the privatization and restructuring plan for *EKO Stahl AG* under participation of the Italian *Riva* group[1]. In May 1994, the *Riva* group withdrew from the privatization contract.

On 6 July 1994, the Commission decided to initiate a procedure pursuant to Article 6 (4) of the Steel Aids Code[2] with regard to the continuous loss financing in favour of *EKO Stahl GmbH* [3] by the public holding *Treuhandanstalt* (hereinafter referred to as 'the THA') and an investment loan granted by a public bank. It held that these transfers of financial ressources from public entities to the steel undertaking may represent State aid incompatible with the Steel Aids Code.

On 27 July 1994, the Commission decided to initiate an second procedure under Article 6 (4) of the Steel Aids Code[4] with regard to a notification of the German authorities received on 29 June 1994 covering investment aid under general regional investment aid schemes of up to DM 300 million (ECU 164 million). The Commission was of the opinion that such aid, although it may in general be deemed compatible with the common market under Article 5 indent 3 of the Steel Aids Code, would not serve towards the aims of the Treaty if it would not be accompanied by a restructuring plan providing for the proper financing of the entire industrial restructuring of the company in question.

On 10 October 1994, the German authorities notified a new privatization and restructuring plan, providing for the sale of 60% of the shares to the Belgian *Cockerill Sambre S.A.*. On 8 December 1994 the Council gave its unanimous assent to State aid connected to this plan[5]. On 21 December 1994, the Commission adopted its final decision[6] authorizing State aid of up to DM 900.62 million (ECU 492 million), of which DM 362.2 million (ECU 198.1 million) to cover losses accumulated until the end of 1994, up to DM 220 million (ECU 120.2 million) to cover losses during the restructuring period 1995 - 1997, up to DM 314 million (ECU 171.6 million) to cover costs of investments and repairs and a guarantee of the public THA representing an aid element of up to DM 4.02 million (ECU 2.2 million). Since *EKO Stahl GmbH* has no own hot-rolling capacities, the Commission accepted the closure of a hot-rolling mill of *Hennigsdorfer Elektrostahlwerke GmbH* (Brandenburg) with a capacity of 320 kt/y and of another hot-rolling mill with a capacity of 41 kt/y of *Walzwerke Burg GmbH* (Brandenburg) as sufficient to reduce the

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(1) see Commission decision of 12.4.1994, O.J. No L 112 of 3.5.1994, p. 48
(2) State aid No C 29/94 ex NN 52/94, see O.J. No C 274 of 1.10.1994, p. 3
(3) On 17.6.1994 the corporate form of *EKO Stahl* has been changed from *Aktiengesellschaft* (AG) into *Gesellschaft mit beschränkter Haftung* (GmbH)
(4) State aid No C 35/94 ex N 397/94, see O.J. No C 303 of 29.10.1994, p. 4
(5) see O.J. No C 360 of 17.12.1994, p. 12
(6) not published in the O.J. so far, see IP (94) 1275

distortive effect of the aid approved. The creation of a new hot-rolling mill with a capacity of 900 kt/y (limited at this capacity for a period of five years) by *EKO Stahl GmbH* shall be balanced by capacity reductions in hot-rolled finished products elsewhere in the territory of the former GDR.

The Commission introduced the same provisions as in its Decision of April 1994 concerning the monitoring of the implementation of its Decision.

Also on 21 December, the Commission authorized investment aid in favour of *EKO Stahl GmbH* of up to DM 385 million (ECU 210.4 million) under general regional investment aid schemes, applying Article 5 indent 3 of the Steel Aids Code[7]. The procedure initiated on 27 July 1994 has been closed [8].

II. The first monitoring report covering the situation as by the end of 1994

On 10 March 1995, the German authorities submitted the first report in the monitoring procedure covering the new restructruing and privatization plan under participation of *Cockerill Sambre S.A.*.

The purpose of this report is to draw a picture of the companies situation at the end of 1994, i.e. immediately before its 60% privatization, and to explain the first measures taken by the German authorities on the basis of the Commission's decision of 21 December 1994.

1. Capacity reduction

The Commission decided that a hot-rolling mill of *Hennigsdorfer Elektrostahlwerke GmbH* with a capacity of 320 kt/y and a hot-rolling mill of *Walzwerke Burg GmbH* shall be closed down by 31 January 1995 to reduce the distortive effect of the aid authorized under Article 95 of the ECSC Treaty. In the report dated 8 March 1995, the German authorities informed the Commission that the closure of both installations had been implemented by the end of January.

2. Investments

Until the end of 1994, *EKO Stahl GmbH* carried out investments in the modernization of the cold-rolling mill totalling DM 200 million (ECU 109.3 million) which were financed by an investment loan granted by a banks consortium. The consortium terminated its

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(7) State aid No N 728/94, not published in the O.J. so far, see IP (94) 1275

(8) In 1995, the Commission adopted a final decision concerning *EKO Stahl GmbH*: On 1.3.1995 it decided to terminate the Article 6 (4) Steel Aids Code procedure, State aid No C 29/94 ex NN 52/94. It concluded that the shareholders' loans of THA were partly covered by the Article 95 ECSC decision. The remaining part of 90 DM (49.2 ECU) would be granted as a new loan under market conditions. The Commission further concluded that the investment loan , granted not only by a public bank but by a consortium including private banks, did not represent State aid (not published in the O.J. so far, see IP (95) 194).

financing by the beginning of 1995 and the loan is now being granted by a private bank (Dresdenr Bank) under market conditions. 30 % of this loan (DM 60 million, ECU 32 .8 million) are being covered by a guarantee of THA/BVS[9], in line with Article 1 of the Commission's decision under Article4 95 ECSC of 21 December 1994.

The investment plan for the coming years in shown in the following table:

(in Mio DM)	1995	1996	1997	TOTAL
modernizationof sinter facilities	1	27	11	39
constructionof blast furnace	28	141	113	282
new hot-rollingmill	70	275	326	671
modernizationcold-rollingmill (remainingworks)	51	57	0	181
TOTAL	150	500	450	1100

3. Reduction of workforce

On 1 January 1995 *EKO Stahl GmbH* had 2933 employees, some 100 less than at the beginning of 1994.

4. Production, sales per product, turnover

1994

Finishedproduct	**productionin kt**	**sales in kt**	**turnoverin Mio DM**
pig iron	1071.4	2.7	0.9
slabs	1211.7	749.4	285.2
cold strip	49.2	53.4	32.4
fine plates cold-rolled	602.4	603.6	439.2
magneticsteel sheets	27.6	26.4	20.4
fine plate galvanized	223.2	236.4	196.8
fine plate coated	72.0	75.6	85.2
Subtotal finished products	**974.4**	**995.4**	**774.0**
TOTAL	**3257.5**	**1747.5**	**1060.1***

* The total turnover of DM 1092 million includes miscellaneousincome of DM 32.1 million.

(9) THA has formally been closed by the end of 1994. The new body acting as a holding for the shares in *EKO Stahl GmbH* is the *Beteiligungs-Management-Gesellschaft Berlin mbH* (BMGB) controlled by the Federal Republic of Germany. The new body being responsible for the financial contributions agreed by THA and for the supervision of the implementation of the contract is *Bundesanstalt für vereinigungsbedingte Sonderaufgaben* (BVS).

5. Sales and markets

Finished products 1994

in Mio DM	I. quarter	II. quarter	III. quarter	IV. quarter	1994 total
Germany	113	135	144	143	535
- EU	37.8	55.5	58.4	65.4	217.1
- CIS	1.5	0.7	0	0	2.2
- Eastern Eur.	1.6	2.8	3.6	3.7	11.7
- other countr.	2.7	1.4	2.3	1.6	8.0
Export total	43.6	60.4	64.3	70.7	239.0
TOTAL	**156.6**	**195.4**	**208.3**	**213.7**	**774**

Comparison 1994 - 1993 including non-finished products

in Mio DM	1993	1994	1994 compared to 1993 in %
Germany	641.2	707 02	+ 10.26 %
Export*	370.4	353.08	- 4.67 %
TOTAL	**1011.6**	**1060.1**	**+ 4.79 %**

* slabs only exported to the USA (40%), the remainder sold in Germany.

The average prices of the product groups were given in the monitoring report. The Commission compared these prices with the average market prices achieved and considers them to be within the normal range.

6. Financial Performance

Compared to 1993 *EKO Stahl GmbH* reduced its losses in 1994 by 53% down to DM 86 million (ECU 47 million) net and increased its turnover by 8% up to DM 1092 million (ECU 597 million). A certain part of this positive development may be due to the general recovery of the European steel market during the last months of 1994. However, this development of the market also caused higher costs for *EKO Stahl GmbH* to purchase coils or to charge other producer for hire-rolling.

7. Privatization

The privatization contract between *Cockerill Sambre S.A.* and THA has been concluded on 22 December 1994. The German Government provided a copy of the contract. The contract, providing for the sale of 60% of the shares of *EKO Stahl GmbH* to the Belgian steel company, will enter into force retroactive once all conditions are met. At the time of drafting of this report, only one condition, the agreement of the Belgian Conseil de Concurrence was outstanding.

8. Aid

a) Aid in line with decision Art 95 ECSC

The Commission authorized the following aids in its Article 95 decision of 21 December 1994:

- compensation of losses accumulated since 1 July 1990 until the privatization of the company of DM 362.6 million,
- compensation of future losses during the restructuring phase until the end of 1997 of DM 220 million maximum,
- investment aid (beyond of what may already be deemed compatible with the common market according to Article 5 indent 3 of Decision No 3855/91/ECSC) of DM 275 million,
- contribution to cover costs of repairs of DM 39 million,
- a guarantee granted by the Treuhandanstalt covering a DM 60 million investment loan granted by a consortium of private and public banks, representing an aid element of DM 4.02 million maximum.

The German Government informed the Commission that

- the THA has waived DM 362.6 million debts based on loans granted before privatization,

- the THA has paid DM 220 million on an account of *EKO Stahl GmbH* on 29 December 1994 to cover future losses during the restructuring period,

- the THA has paid DM 275 million on an account of *EKO Stahl GmbH* on 29 December 1994 for investments to be carried out under the plan,

- the THA has paid DM 39 million on an account of *EKO Stahl GmbH* on 29 December 1994 for repairs and maintenance,

- that THA has granted a guarantee covering DM 60 million of a DM 200 million investment loan granted by a single private bank (see above II.2.).

THA charged an independent chartered accountant to supervise the use of the contributions in line with the contractual obligations. The obligations under the Decision of the Commission were made part of the contract.

It may therefore be concluded that the aid authorized by the Commission has been paid before the end of 1994.

b) Aid in line with the Commission decision to allow investment aid under general regional investment aid schemes

On 21 December 1994 the Commission decided to authorize up to DM 385 million investment aid under general regional investment aid schemes, applying Article 5 indent 3 of the Steel Aids Code (see above I.). The German authorities informed the Commission that the Land Brandenburg has paid DM 380 million on an account at Investment Bank of Brandenburg for *EKO Stahl GmbH*. The remainder of DM 5 million is being granted in form of a tax reduction which became effective by the end of 1994. It may be concluded that the regional aid has been paid by the end of 1994.

c) No further aid

EKO Stahl GmbH has received a DM 90 million (ECU 49.2 million) loan from THA/BVS in line with the privatization contract. This loan is being granted for a period of maximum three years but will be terminated if *Cockerill Sambre S.A.* takes over the remaining 40% share earlier than by the end of 1997. 30% of this loan are being covered by a bank guarantee provided by *Cockerill Sambre S.A.*. The interest rate charged for this loan is 7.7%. It is to be assessed whether this interest rate meets normal market conditions. The private *Dresdner Bank* granted a DM 200 million investment loan for the same interest rate and for the same period, of which 30% are covered by a 30% guarantee of THA/BVS. Therefore, it may be concluded that the conditions of the loan granted by the public THA/BVS correspond to the conditions of the loan granted by a private bank.

9. Other conditions

In its Decision under Article 95 ECSC the Commission imposed the condition that the level of net financial charges of *EKO Stahl GmbH* will be set at least at 3.5% of annual turnover at the date of its 60% privatization.

In the monitoring report the German authorities explain that the net financial charges at the time of privatization were at a level of 3.82 % of turnover. The turnover is being calculated excluding the sales of slabs which are considered to be irregular for an integrated producer, for which the average of 3.5% minimum financial charges has been calculated. This is the main obstacle for the company's viablility because the necessary hire-rolling or selling of slabs/purchase of coils costs some 100 DM per ton finished flat product. The restructuring plan provides for the filling of this technological gap.

The fact that *EKO Stahl GmbH* does not have own hot-rolling capacities would not influence its turnover if the company would let own slabs exclusively be treated by hire-rolling. This possibility would create costs for the work carried out by another company on goods that would not be sold by *EKO Stahl GmbH* at this stage. It would not create turnover in terms of price received for the selling of goods.

Another possibility, with the same "technical outcome", is to sell slabs and buy coils on the market. This alternative leads to an additional turnover appearing in the books, which may be considered to be "artificial" because it has nothing to do with the real nature of the business carried out. *EKO Stahl*'s intention is not to be a slab supplier but to produce finished products.

The company has not the free choice between the two possibilities because hire-rolling capacities are not available on the market to a sufficient extent. Since the demand for steel increases and producers may use their capacities for own business, the competitors of *EKO Stahl* do not offer sufficient hire-rolling possibilities to cover the entire need of the company.

The German Government is of the opinion that the "artificial" turnover created by the sale of slabs shall not be counted when calculating the net financial charges in percentage of annual turnover. The turnover would normally be calculated on the basis of the income of the company through the sale of its finished products (tonnage times price) plus other income. The sale of slabs in the middle of the production flow creates additional turnover because the income has to be counted for the entire business income of the company. The fact that this income is completely balanced by the costs to buy slabs has no influence on the accounting concerning turnover. This turnover would not be typical for integrated producers so that an equal treatment would call for a correction of the turnover figures in light of the particular situation of *EKO Stahl GmbH*.

Applying this position of the German Government, the annual turnover of *EKO Stahl GmbH* amounts to DM 806 million, the net financial charges as a percentage of this turnover total 3.82%. If the turnover through the sale of slabs would not be excluded from the annual turnover figure, the turnover would amount to DM 1092 million, the level of net financial charges would be 2.82% only.

The Commission is of the opinion that the argumentation of the German Government should be considered by the Council.

Monitoring of Article 95 ECSC steel aid cases
Third Report, May 1995

SEW Freital GmbH, Germany

I. Introduction

The Commission decided on 12 April 1994 to approve aids totalling 274 Mio DM in favour of Sächsische Edelstahlwerke GmbH, Freital/Sachsen under Article 95 ECSC Treaty[1].

The present report covers some outstanding questions from the previous monitoring report which had been made subject of some additional investigations and which were discussed with the German Government in the meantime and the information provided by the German Government in its third monitoring report, which was submitted on 15 March 1995.

II. Outstanding questions from the previous monitoring report

In its monitoring reports covering the period up until mid 1994, the Commission identified two issues of concern regarding *SEW Freital*:

1. Presumed excess aid

In its last monitoring reports the Commission concluded, on the basis of the information provided by the German Government, that *SEW Freital* had received a total amount of DM 200 million loss compensation, while only 189 Mio DM were approved by the Commission.

The German authorities presented a detailed explanation proposing that DM 6.1 million of the loss compensation should not be regarded as part of the DM 189 million loss compensation authorized but as part of the maximum DM 9 Mio guarantee covering the value of the stocks and claims and claiming that the remainder of DM 4.9 million would represent the purchase price for some land sales from the company to TLG, the real estate management body of THA[2]

In February 1995 the Commission carried out an in depth investigation to verify the factual background of the argumentation of the German authorities. During this investigation it was detected that, contrary to the first two reports provided by the German Government, the company did not receive DM 200 million loss compensation. In fact, THA waived DM 53 million claims based on a liquidity loan granted before privatization and covered DM

[1] COM (94) 451 final, O.J. No. L 112/ of 3 May 1994, p. 71

[2] see second monitoring report of 1.11.1994, Annex 7. II.1..

55 million debts vis-a-vis suppliers. Furthermore, it took over claims totalling DM 92 million from banks with the result that THA is now creditor vis-a-vis *SEW Freital*. This claim has not formally been waived so far. As regards a portion of DM 81 million of this claim it may be considered to *de facto* granted as aid because the company may, based on the decision of the Commission, trust that THA would not sue it on the basis of this claim. The remainder of DM 11 million may, however, still be considered to represent a valuable claim of THA/BVS vis-a-vis the company.

As regards the proposal of the German authorities to allow the waiving of DM 6.1 million od these debts as part of the maximum DM 9 million guarantee the investigation of the Commission led to the conclusion that: The company had very little stocks in alloys in November/December 1992 and had to buy important quantities to ensure its further production. Only between 19 November and 18 December 1992, the management (the later purchaser) bought vanadium, chrom and molybden for DM 8.071 million with the result that the value of the stock and the amount of debts increased accordingly. The company disclosed all relevant documents and proved that the purchase price had not been paid at the end of 1992. The difference between the guaranteed value of the stock and the final real value of the stock was thereby limited to DM 2.9 million so that the guarantee covering a maximum difference of DM 9 Mio million was not used for an amount of DM 6.1 million.

It can therefore be concluded that the waivin of DM 6.1 million is equivalent to aid of the same amount that could have been granted under form of the maximum DM 9 million guarantee authorized by the Commission.

As regards the land sales from *SEW Freital* to TLG, the Commission carried out an investigation into the evaluation of the sites in question. TLG charged, in line with its internal rules, idenpendent experts to assess the market value of the land. The expert evaluations have been presented to the representative of the Commission. The market value of all sites subject to te agreement established by the independent experts totals DM 7.7 million, not taking into account certain restitution problems. TLG and the company are currently negotiating to establish the final purchase price. According to the German Goivernment it will not be lower than DM 5 million. Once the purchase price is being finally established, the related claim of the company will be set-off against a part of the DM 92 million claim of BVS referred to above. BVS would thereby pay the price for the real estate.

It may be concluded that the purchase price to be paid through the set-off against claims of BVS would not constitute State aid because it would only represent the market value of real estate being transferred from the company to BVS. The procedure of TLG to charge independent experts to evaluate the sites corresponds to the general policy of the Commission concerning land purchase agreements. The issue will closely be followed by the Commission until the transactions are terminated.

2. Minimum net financial charges

In its first monitoring report the Commission concluded that the company did not comply with the condition that it shall have minimum net financial charges of 3.5% at the time of privatization. The argumentation of the German Government, as reported in the second monitoring report of the Commission[3], was that the company has been privatized before the Commission has adopted its final decision and that the provision has not been expected at that time. It pointed out that the investor is under contractual obligation to carry out investments totalling DM 170 million (of an investment programme totalling DM 250 million) according to a strict time table. It is of the opinion that this obligation may be considered to represent a burden comparable to financial charges although not appearing in the balance sheet of the company. In addition, it pointed out that the company would take in an investment loan by the end of 1994 which would lead to financial charges exceeding the requested level of 3.5% of turnover by far.

In the new monitoring report, the German Government explained that the company did not manage to take in the expected investment loan until the end of 1994. The financial charges borne by *SEW Freital* in 1994 amount to DM 5.822 million, which represent 5.5% of the turnover of that year.

It is expected to take in a first tranch of the investment totalling DM 65 million during the first months of 1995, so that the financial charges of the company would increase remarkably.

III. The new monitoring report

1. Capacity reduction

The company closed and dismantled the medium section mill with a capacity of 170 kt/y by 30 June 1994, as stated in the previous monitoring report. It is intended to close down the remaining light section mill with a capacity of 80 kt/y by the end of 1995. The remaining electric arc furnace will be closed down during the first half of 1996.

[3] see monitoring report of 1.11.1994, Annex 7, II.2.

2. Investments

The following investments have been carried out until the end of 1994:

installation	Mio DM
crude steel facilities (Freital)	15.228
rolling and forging facilities (Freital)	71.542
re-heating and adjusting installations	16.426
environment, infrastructure, administration and marketing (Freital)	19.043
polished steel installations, peeling and abrading installations (Lugau)	12.540
drawn wire installations (Lugau)	2.943
environment, infrastructure, administration and marketing (Lugau)	5.503
TOTAL	143.225
TOTAL planned 1993/94	167.000

3. Reduction of workforce

The company carried out the following redundancies:

	1993	1994	total	planned
no of redundancies	990	45	1035	1060
total costs in thousend DM	8776	468	9244	34000
covered by				
THA	7571	85	7656	
56 ECSC	1164	144	1308	
company	41	239	280	

The Commission approved a maximum of DM 34 million aid of THA to cover costs of redundancies. This amount would have covered the entire costs of lay-offs in case other sources for financing would not have been available. The information shows that the company carried out the reduction of workforce mainly in line with the plan. The total reduction achieved by the end of 1994 is only 2.3% lower than planned and was remarkably cheaper than expected.

4. Production and Sales

1994

product (figures in tons)	production	sales	in Germany	other EU	3rd countries
ingots	37098	10514	10514	0	0
semi-finishedproducts	31357	6542	4121	2181	240
merchant bars, wire rod	12735	10687	6740	3550	379
forged pieces	4398	3665	2460	1085	120
polished steel drawn (Lugau)	7108	5990	4190	1620	180

Compared to 1993 the company increased its sales by 65%.

The average prices of the product groups were given in the monitoring report. The Commission compared these prices with the average market prices achieved and considers them to be within the normal range.

5. Financial Performance

The German Government presented a full range of financial figures and ratios as requested by the Commission. The figures concerning turnover and losses show a remarkable improvement of the situation of the company:

in Mio DM	1993	1. half 1994	1994	compared to 1993 in %
turnover	70.5	42.36	105.68	+ 49.9
losses	11.85	3.57	5.46	- 53.9%
ratio net profit / turnover	- 0.168	0.084	- 0.051	