COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

MONITORING OF ARTICLE 95 ECSC STEEL AID CASES

SEVENTH REPORT, MAY 1997

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, May 1997

Summary

The Commission presents its Seventh Report on the Monitoring of Article 95 ECSC steel and iron ore aid cases pursuant to its decisions of 4 April 1994[1], 21 December 1994[2] and 29 November 1995[3]. According to these decisions the Commission is obliged to present to the Council by 1 May and 1 November each year its analysis of the implementation of the conditions attached to the authorization of aid.

1. C.S.I., Spain

Following the rebuilding of blast furnace No. 6 at Gijón (completed in October 1996) and In order to respect the required pig iron capacity reduction of 2.3 million tons, one blast furnace (800,000 tons of capacity) was closed at Avilès at the end of 1996, as scheduled. Balance of the pig iron capacity to be closed at Avilès as required by the decision will occur at the end of 1997 when the rebuilding of blast furnace No. 5 will be completed.

Other investments are proceeding on schedule and so does the reduction of the workforce.

The restructured CSI-CS group had again positive results in 1996 even if much lower than the ones of 1995 (31.9% less). However, thanks to the important positive cash flow, CSI was able to reduce considerably the level of its debts.

The privatisation of the entire CSI-CS group has been decided by the Spanish government in June 1996. Banco Central Hispano has been designated to organanize this process that, according to the Spanish authorities, will be conducted with all the necessary publicity, transparence and respect of the competion rules.

Beside the amount already paid in the first half of 1996, no further aid payment has been made to AHV-Ensidesa Capital, the liquidating company.

ACB started operations in October 1996 testing and adjusting the new equipment. Up to the end of 31.12.96, total investments were 41,502 million ptas. For 1997, further 17,000 million ptas. are foreseen to be invested. No additional loans have been obtained during the second half of 1996.

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1 Decisions No 94/257-261/ECSC (O.J. No L 112, 3.5.1994, p. 52, 58, 64, 71, 77)

2 Decision No 94/1075/ECSC (O.J. No L 386, 31.12.1994, p. 18)

3 Decision No 96/269/ECSC (O.J. No l 94, 16.4.1996, p. 17)

2. SIDENOR, Spain

Sidenor concluded its first full year as a private company with a record positive result of 2.87 billion ptas. in spite of the depressed market conditions.
All foreseen investments, capacity reduction and workforce reduction have been achieved on schedule.
All aid approved under art. 95 and under protocol 10 covering capital injection, loss compensation and debts write off has been paid within 1995. Aid paid during 1996 was 22.6 billion ptas.to cover social costs either falling under art. 95 ECSC, art. 4.1 SAC, art. 56.2b ECSC or general social measures.
Acenor SA, the liquidating company, continues its activities now essentially limited to the payment of the social benefits to the dismissed people. Only remaining aid to be paid is 9.7 billion ptas as social aid under the mentioned measures.

3. ILVA, Italy

All capacity reductions imposed by the decision have been completed. As in all the other art. 95 ECSC steel aid cases, concerning capacity reduction, only remains to be monitored the respect of the five years freeze on capacity for crude steel and hot rolled finished products.
Workforce reductions are continuing as scheduled.
Both ILP and AST have continued to show profits during 1996 even if at a reduced rate compared with 1995.
The International Chamber of Commerce in Paris, that was called to arbitrate the dispute between Riva and IRI on the price paid, has not yet given its judgement. It should be coming in the next few months.
Liquidation activities at Ilva in Liquidazione continue regularly. After the privatization of Dalmine in the first quarter of 1996, only few small subsidiaries or shareholdings remain to be liquidated or sold.
The aid paid by IRI, net of the amount already cashed in for the sales of ILP and AST, amounts to 4030 billion lit., or 273 billion lit. less than the approved aid. Final aid needed is forecasted to be even lower at the end of the liquidation process.

4. IRISH STEEL, Ireland

At Irish Ispat Ltd., as it is now called the former Irish Steel Ltd., investments are carried out according to schedule and more than half of the planned ones are already completed.
Reported production and sales for the first six months of the financial year 1996/97 (from July 1996 to June 1997), are within the imposed limitations. Commission services visited Irish Ispat on 14/3/97 and obtained internal plant records confirming the reported figures.
All aid has been already paid before 30.5.96, date when Irish Steel was privatized.
Interim results for the period from July to December 1996, show a loss for 2.2 million IR£.

During this period Irish Ispat Ltd. obtained a loan for about 10.0 million IR£ from its new shareholder in order to lower its indebtedness with financial insititutions.

5. SIDERURGIA NACIONAL, Portugal

After the privatization of *SN Longos* and *SN Planos* (now *Lusosider*) and the required closure of the section mills in Seixal by the end of 1995 the monitoring now concentrates on the restructuring efforts and the steps necessary to finally close the remaining public parts of the former Siderurgia Nacional.

SN Longos is due to install a new electric arc furnace to replace the crude steel production in the blast furnace still operated by *SN Servicos*. After having accepted the postponement of the investment until after privatization the Commission insists that the new private shareholders would do the necessary to have the new crude steel production of *SN Longos* entering into operation by the end of 1998 at the latest.

The reduction of workforce of *SN Servicos* is still behind the plan. The remaining 1200 workers are scheduled to be made redundant during 1997/98. The Portugese authorities continue their efforts to render the necessary lay-offs possible and socially acceptable.

SN SGPS, the holding company created to administer the privatization of the long and the flat products branch, served its purpose. The Portugese authorities therefore decided to liquidate that company. The accounts of the company would presumably close with a deficiency of 8.65 billion Esc to the detriment of the treasury based on a guarantee covering an investment ECSC loan.

The aid authorized under Article 95 of the ECSC Treaty was fully paid in 1994/95. The authorization of aid under Art 2 and 3 of the Fifth Steel Aid Code is used by 30%.

6. EKO Stahl, Germany

EKO Stahl GmbH was privatized (60%) by the beginning of 1995. The capacity reductions required were achieved by the end of February 1995. The investment plan is impemented in line with the plan. The new hot-rolling mill will see first trial rollings in July 1997. The new blast furnace would enter into operation in the first semester of 1997.

The aid authorized under Article 95 of the ECSC Treaty and Article 5 of the Fifth Steel Aid Code was paid by the end of 1994. The use of the aid in line with the decision is monitored.

In 1996, the company suffered losses of 125 Mio DM, more than covered by authorized aid for operating losses during the restructuring period. The exceeding amount of 25 Mio DM is to be borne by the equity of the company.

7. SEW Freital, Germany

After the privatization of the company in 1994 and the required capacity closures in 1995, the monitoring now concentrates on the restructuring efforts of the private management. The new

combined merchant bar / wire rod mill poses some technical difficulties which are to be solved as soon as possible in order to overcome the continued restrictions in product range. The new electric arc furnace with a capacity of 200 kt/y is ordered and paid. It is scheduled to enter into operation by the end of 1997 to replace the remaining old furnace with a capacity of 145 kt/y.
The net operating result is again negative after a break even in 1995. This development is caused by a decrease of demand in speciality steels and the restrictions in productivity related to the prolonged introductory period of the new hot-rolling mill.
The aid to cover old debts authorized under Article 95 was completely paid until the end of 1996. The final amount is 0.6% lower than authorized by the Commission. Only a small portion (2.87 Mio DM) of aid for workforce reduction may still be paid.

8. VOEST ALPINE ERZBERG, Austria

Voest Alpine Erzberg is a public open pit iron ore mining company scheduled to cease production gradually up until 2002. The Commission authorized operating aid and aid for closing activities to allow a socially and environmentally acceptable closure. The iron ore produced is sold to Voest Alpine Stahl, privatized in 1995. In order to avoid a spill-over of aid from Voest Alpine Erzberg to Voest Alpine Stahl the Commission monitors the prices charged to be in line with normal market conditions.
The phasing-out operations of Voest Alpine Erzberg are implemented in line with the plan. The aid paid for operating losses and closing activities in 1995 and 1996 are below the plan. In 1996, the Austrian State paid 40 Mio ÖS for operating losses and 8 million ÖS for closing costs.

STEEL MONITORING REPORT No 7, May 1997, SUMMARY

Monitoring of Article 95 ECSC steel aid cases
Siderurgia Nacional, EKO Stahl, SEW Freital, Voest Alpine Erzberg

Overview

company	aid Article 95 ECSC		aid Steel Aid Code		capacity reduction				redundancies		remarks
					required		achieved				
	authorized	granted	authorized	granted	kt/y	date	kt/y	date	plan	achieved	
SN	60.12 bn Esc = 306 MECU	100 %	5.925 bn Esc	1.77 bn Esc	140	31.12.95	100%	31.12.95	1798	972 = 54 %	redundancies behind plan, new electric furnace to enter into operation 1998
EKO	900.62 Mio DM = 461 MECU	100%	385 Mio DM	100%	361	31.1.95	100%	28.2.95	8800	8629	investments in line with plan, losses exceed the amount covered by authorized operating aid, 49 new trainees in 2. sem 96
SEW	274 Mio DM = 140 MECU	269.89 Mio DM = 98.5 %	60.62 Mio DM	100%	160	31.12.96	31.12.96.				difficulties with new hot-rolling mill, new electric furnace to enter into operation by 1997
VAEG	408 Mio ÖS= 29.7 MECU	95 Mio ÖS = 23 %	-	-	-	-	-	-	286	0	pricing in line with decision, first redundancies planned in 1998

STEEL MONITORING REPORT No 7, May 1997, SUMMARY

Monitoring of Article 95 ECSC steel aid cases
CSI, Sidenor, Ilva
overview

company	aid Article 95 ECSC		aid Steel Aids Code and Art 56 ECSC contribution of the State		capacity reduction				redundancies		remarks
					required		achieved				
	authorized	granted	authorized	granted	kt/y	date	kt/y	date	plan	achieved	
CSI of which Social Aid	437.8 bn Pta (2715MECU) 54.4 bn Pta (341.7 MECU)	256.5 bn Pta (1590.3 MECU)	47.4 bn Pta (294 MECU)	-	2300* pig ir. 1423* liq.st. 2300 H.R.	12.96 12.96 12.95	100% 100% 100%	12.95 12.95 07.96	10347by 1998	8995 by 1996	* net reductions
SIDENOR of which Social Aid	80 bn Pta (496 MECU) 7.79 bn Pta (48.9 MECU)	80 bn Pta (496 MECU) 7.79 bn pta (48.9MECU)	24.2 bn Pta (150 MECU)	14.9 bn Pta (92.38 MECU)	505 liq.st. S.S. plant 379 H.R.	6.94 6.94 6.94	100 % 100 % 100 %	6.94 7.94 6.94	2593 by 1995	2593 by 1995	additional 18.3 bn pta. (115 MECU) were paid during 94/95 as balance of aid approved under protocol 10 of Treaty of Accession.
ILVA	4790 bn Lit (2302 MECU)	4680 bn Lit (2249 MECU)	163 bn Lit (78 MECU)	-	1500 H.R. 500 H.R.	6.94 9.95	100 % 100 %	6.94 3.96	11500 by 1996	11278 by 1996	aids paid are net of incomes already received from sales of ILP and AST and cashed-in directly by IRI.
IRISH STEEL	38.298 M.IR£ (47.7 MECU)	38.298 M.IR£ (47.7 MECU)							205 by 1996	209 by 1996	

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, March 1997

C.S.I. Spain

A. Introduction

The Commission decided on 12 April 1994 (Commission Decision 94/258/ECSC) to approve aid totalling 437.8 billion ptas. under Article 95 ECSC, serving the following purposes :

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

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

Payments of the approved aid described above are reported under section C. II 4 ("Aid payments") of this report.

Granting of the above mentioned aid was submitted to the following conditions :

- Closure of 2,400,000 tons of pig iron production capacity at Avilés (800,000 tons closed by end 1994, 800,000 tons closed by end 1996 and an additional balance of 800,000 tons to be closed by end 1997)
- Closure of 1,980,000 tons of pig iron production capacity at Sestao (**achieved** since end 1995 see sixth monitoring report)
- Closure of 950,000 tons of crude steel production capacity at Gijón (**achieved** since end of 1995-revised since last monitoring report)
- Closure of 2,200,000 tons of crude steel capacity at Sestao (**achieved** since end of June 1996-revised since last monitoring report)
- Closure of 2,300,000 tons of hot rolling capacity at Ansio (**achieved** 12.7.96 see sixth monitoring report)

Closure of Ansio had to be completed by 31.12.95 while all the others had to be made according to the restructuring plan, but not later than 1997. Original plan schedule for closure of these plants was end of 1995, but since the implementation of the plan was delayed the new schedule foresaw these closures by the end of 1996.

Furthermore, the following additional conditions were also attached to the granting of the aid :

- a five year capacity freeze, except for productivity improvements, starting from the date of the last closure.
- a level of net financial charges at the outset of the new company of at least 3.5 % of annual turnover. (**achieved** see fourth monitoring report)
- a genuine private majority in the participation of the Sestao project (ACB), to be delinked from the restructuring plan. (**achieved** see third and sixth monitoring reports).

B. The new monitoring report

The seventh monitoring report was received from the Spanish authorities on the 15th of March 1997, in compliance with the requirements of the above mentioned decision.

The main new features since the last monitoring exercise covered by this report are :

- capacity reduction : closure of additional 800,000 tons of pig iron capacity at Avilès,

- Workforce reduction : dismissal of additional 546 workers; an additional reduction of 1352 people is needed before the end of 1998 to achieve the plan,
- privatisation of CSI : selection of institution to organize and launch privatisation process,
- ACB : start up of the new plant.

Of the above listed conditions, still remain to be fulfilled and/or monitored :

- completion of capacity and workforce reductions,
- remaining aid payments,
- viability and privatisation of CSI,
- respect of the five years production capacity freeze (up to end of June 2001 for crude steel and up to mid July 2001 for hot rolled finished products).

I. C.S.I. - Corporación Siderurgica

1. Capacity reductions

No asset that the new group has taken over with the restructuring of the old CSI, had to be closed down. The installations bound for closure that the new group operates on behalf of the old companies left into Capital SA will be reported in the relevant section of this report under A.H.V. - Ensidesa Capital S.A..

2. Investments

As reported in the last monitoring report, CSI-CS has engaged investments for 109.1 billion ptas. vs. a plan of 107 billion ptas. In addition to the 48 billion ptas spent up to June 1996, 12.6 billion ptas. were spent in the second half of the year, for a total of 60.6 billion ptas.. Most of the remaining planned investments will be done in 1997.

3. Reduction of Workforce

The workforce to be dismissed according to the plan was left in the old Ensidesa and A.H.V. companies. Its evolution is reported in the relevant section of this report.
In the CSI - CS group no reduction of workforce is foreseen.

4. Production

Production of the group from 1993 to 1996 and comparison between the last two years, are summarized as follows:

(thousands tonnes)

CSI Production	1993	1994	1995	1996	1996/1995 % change
Liquid Steel	5329	5361	5158	4204	(18.50)
H. R. Coils	3739	3762	3775	2801	(25.80)
Heavy Plates	522	589	601	529	(11.98)
Wire Rods	385	415	456	395	(13.38)
H. Sections	289	223	277	249	(10.11)

Unfortunately the downward trend already experienced during the second half of the previous year and the first half of this year, has continued all throughout 1996. Last year production, therefore, was below plan even more than anticipated in the sixth monitoring report.

(thousands tonnes)

CSI Production	1996 Planned	1996 Actual	Actual vs. Planned (per cent change)
Liquid Steel	4870	4204	(13.68)
Hot Rolled Coils	3200	2801	(12.47)
Heavy Plates	550	529	(3.82)
Long Products	700	644	(8.0)

5. Sales

Sales of finished products had also started to decline during the second half of 1995. First half of 1996 sales were still 15% below the ones of the 1995 corresponding period, but in the second half of 1996 sales were above the corresponding 1995 ones by 13.3%. Finally, total sales for the year 1996 were 3.2% lower than the ones of 1995, but 3.3% above plan.

Breakdown of sales by market during the first and second halves of the year slightly correct each other between domestic sales and sales to other countries (see table below).

(in % share of sales)

Markets	1992	1993	1994	1995	1st H. 1996	2nd H. 1996	1996
Domestic	69.15	63.56	65.80	73.84	67.55	70.65	69.06
Other E.C.	16.03	15.73	17.40	18.05	18.15	17.89	18.03
O. Countries	14.82	20.72	16.80	8.11	14.30	11.46	12.92

The Spanish authorities have also provided average prices charged by C.S.I during the year 1996. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

Due to the deterioration of market conditions, the financial performance of C.S.I. - C.S. during the year 1996 shows worsened economic results compared with the ones of 1995 when the market was booming. Net results are anyway still positive mainly thanks to the continued positive cash flow which has allowed the company not to call on loans engaged for its investment needs thus reducing the financial charges. Furthermore, during 1996, the average interst rates having decreased by about 2% and due to the strengthening of some currencies (£stlg. and Lit.), the company enjoyed profits on exchange rates for over a billion ptas. Result of these facts was a positive financial charges figure for 838 million ptas. as shown in the following table :

(millions ptas.)

C.S.I. - C.S.			
	1995	1996 prelim.	1996 vs. 1995
Turnover	348012	306238	(12.0)
Cost of Sales	272309	270822	(0.5)
of which :Depreciation	24355	27003	10.9
Net Operating Result	61650	16038	(74.0)
Financial Charges	10755	(838)	(107.8)
Net Results (before taxes)	29621	16900	(32.8)
L/T & S/T Debts	149079	123037	(17.47)

Comparison with the 1996 plan figures gives the following results :

(millions ptas.)

	1996 planned	1996 Actual	Actual vs. Plan
Turnover	303171	306238	1.0
Cost of Sales	280348	270822	(3.4)
of which.:Depreciation	31626	27003	(14.6)
Net Operating Result	22824	16038	(29.7)
Financial Charges	12865	(838)	(106.5)
Net Results (before taxes)	6970	16900	142.5
L/T & S/T Debts	144424	123037	(14.8)

As it can be seen, thanks to the improved financial structure of the company, the restructured CSI will have net results better than the planned ones.

According to the approved restructuring plan, CSI had to achieve viability by the end of 1996. The Spanish authorities have provided information supporting the fulfillment of such requirement. On the basis of such data viability seems to have been restored, but only upon receipt of the final 1996 account figures can this be confirmed. This matter will be fully reported in the next monitoring report.

7. Terms and Conditions of new loans

During the balance of the year no new loans were obtained in addition to the ones obtained in the first half of 1996 and reported in the sixth monitoring report.

8. Aid Payments

As already stated in the previous monitoring reports, the Spanish government has engaged itself to provide aid for the capitalization of the C.S.I. - C.S. group for 225

billion ptas. Technically the new group has received this amount from the old Ensidesa, A.H.V. and C.S.I. companies in the form of assets and liabilities. However, the actual payment of this amount by the state to the old companies Ensidesa and A.H.V. have not yet taken place in full (see section "aid payments" under the A.H.V. - Ensidesa Capital S.A. portion of this report).
The amounts of aid paid for capitalizations will be shown in the relevant section of the report on the old Ensidesa and A.H.V. companies.

9. Privatisation

During the month of June 1996, the Spanish government adopted a program for the modernisation of the public industrial sector. Its objective is to increase the efficiancy and the competitiviness of the Spanish economy.
In agreement with this general objective, privatisation processes will be launched and, according to the Spanish authorities, they will respect the principles of publicity, transparency and free competition.
The privatisation process of CSI-CS is still in a preliminary phase. In February 1997 the Banco Central Hispano was appointed as responsable for the preparation and launching of the CSI privatisation process. Commission services are following this issue very closely to assure the absence of elements of aid from this process.

II. A.H.V. - Ensidesa Capital S.A.

Under this denomination are gathered all the assets and the workforce not incorporated in the new group and that are going to be closed, sold, dismantled, liquidated or dismissed. These assets and workforce remain the propertiy and in the books of the two old Ensidesa and A.H.V. companies whose activities, as companies in process of liquidation, will be limited to the utilisation of the approved state aids for the payment of the remaining financial and social obligations.

1. Capacity reductions

New developments since the situation explained in the sixth monitoring report include :

a. the completion of the rebuilding of blast furnace No. 6 at Gijón as foreseen by the restructuring plan. Work for the rebuilding of the blast furnace No. 5, always at Gijón, should start in the first quarter of 1997.

b. the shut down of one blast furnace at Avilès for 800,000 tons of production capacity.
This capacity was supposed to be shut down at the end of 1995, but it was delayed due the late start of the rebuilding work at the blast furnace at Gijón. However, during the shut down of the Gijón furnace the required capacity reduction of 2.3 million tons in pig iron was respected. With the start up of the rebuilt furnace and the consequent shut down at Avilès the condition of the decision is still respected.

Details on the status of these closures are shown in Table I attached to this report.

2. Reduction of Workforce

In addition to the 512 people that left the companies in the first half of 1996, additional 546 workers were laid off bringing the total workforce reduction for that year to 1058 people.
Total workforce reduction since the beginning of the restructuring is now 8995 people. In order to accomplish the reduction foreseen by the plan (10347) 1352 people more will have to be dismissed up to the end of 1998.

Total cost for the reductions during 1996 was 38,364 million ptas. plus 8,765 million ptas. related to payments to workers affected by previous restructuring.
According to Spanish regulations, companies are advancing to dismissed or retired workers all social benefits even the ones at charge of the state.
Total amount of social costs paid by the companies during the elapsed restructuring period was 146,409 billion ptas. of which :

- 80,1 billion ptas. is expected to be covered by the state under general measures and the E.C. budget under art. 56 2b ECSC, either for people affected by previous restructuring or by the current one.
- 66.3 billion ptas. at the charge of the company will be covered by state aid approved under art. 4.1 SAC and art. 95 ECSC.

So far no aid payment to cover the amounts advanced on behalf of the state has been made yet.
No changes need to be made to the evaluation of the social payments made and to be done until the end of the restructuring period which was reported in the sixth monitoring report.

3. Financial Performance

After the constitution of the new group on 31.12.94, the old Ensidesa and A.H.V. companies do not have any operating activity anymore, therefore their financial performance is limited to the liquidation of the remaining assets and liabilities.
The evolutions of their balance sheets since the constitution of the new group are shown in the following tables :

(billions ptas.)

ENSIDESA	Situation at 1.1.95	Situation at 31.12.95	Situation at 30.6.96	Situation at 31.12.96
Fixed assets	8.0	6.9	6.7	7.0
Current Assets	19.5	13.8	14.4	15.9
Credit with new group	182.4	144.6	120.5	120.5
Total Assets	209.9	165.4	141.6	143.4
Equity	(97.3)	(27.8)	(16.2)	(24.7)
Funds		13.4	11.7	9.4
Debts	307.2	179.8	146.1	158.7
Total Liabilities	209.9	165.4	141.6	143.4

(billions ptas.)

A.H.V.	Situation at 1.1.95	Situation at 31.12.95	Situation at 30.6.96	Situation at 31.12.96
Fixed assets	79.0	6.8	4.9	5.9
Current Assets	44.9	39.5	26.3	3.0
Credit with new group	23.6	18.9	15.8	15.6
Total Assets	147.5	65.1	47.0	24.5
Equity	9.8	(53.7)	(5.0)	(15.0)
Funds	0.3	2.9	2.3	1.4
Debts	137.4	115.9	49.7	38.1
Total Liabilities	147.5	65.1	47.0	24.5

The analysis of the balance sheets from which these summary tables are derived, proved that the variations in these items are due to the amounts of aid paid and the incomes from the liquidation.
The item "Credits with new group" represent the value of the assets transferred to the new CSI-CS group for which the state refunds the old companies over a period of years.
Diminution of debts are mainly due to aids to cover debts with public institutions.

4. Aid Payments

No additional aid payments have been done after the 109.6 billion ptas. paid in the first half of the year (see sixth monitoring report).
Total aid paid is therefore still 256.5 billion ptas. These payments have covered capital injections previouly made and, in part, the capitalisation of the new group.

As in previous monitoring reports, The Commission services keep track of aid needed up to the end of the liquidation process. However, no new events have occurred to change the situation since the last report and the conclusions reached then still hold.

For memory, the following table summarize the aid payments up to the end of 1996 :

(billions ptas.)

	approved aid	approved aid reclassified	aid payments at 30.6.96
under art. 95 :			
Capital injection new group	276.7	225.0	89.0
Capital injection old companies	35.5	75.1	75.1
Loss compensations	61.7	59.8	34.5
Total capital injections/loss comp.	373.9	359.9	198.6
Contingency aid	9.4	9.4	0.0
Social aid	54.5	68.5	11.1
Total under art. 95	437.8	437.8	209.7
Social aid under art. 56 ECSC, art. 4.1 SAC and general social measures	196.1	196.1	46.8
Total	633.9	633.9	256.5

III. Aceria Compacta de Bizkaia

1. Investments

Up to the end of 1996, the realized investments amounted to 41,502 million ptas.. According to the planned schedule, additional investments for 17,000 million ptas. are foreseen for 1997.

The new plant started operations in October 1996 testing the new equipment. Test production, in the order of 30,000 tons, was mainly scrapped.

2. Financing

No additional financing to the amount reported in the sixth monitoring report was obtained by ACB during the second part of 1996.

3. Commercial contracts

A contract for the commercialization of the production of ACB by CSI has been finalised and signed. The Commission services have declared it in conformity with art. 66 ECSC and will continue to monitor its application in order to make sure that the contract is undertaken under fully competitive basis.

STEEL MONITORING REPORT No. 7, March 1997, CSI

SCHEDULE OF CAPACITY CHANGES (thousand tonnes) Location/Installation	Capacity	1993	1994 (status at end 1996)	1995	1996	1997	1998	Capacity Reduction at 31.12.96	at 31.12.97
Coke Batteries									
Aviles	1325	1325	1325	1325	1325	1325	0	0	1325
Gijon	1050	1050	1050	1050	1050	1050	1050	0	0
Sestao	1210	1210	1210	0	0	0	0	1210	1210
Total Coke Batteries	3585	3585	3585	2375	2375	2375	1050	1210	2535
Sinter									
Aviles	2450	2450	2450	2450	2450	2450	0	0	2450
Gijon	2925	2925	2925	2925	2925	2925	2925	0	0
Sestao	3300	3300	3300	3300	0	0	0	3300	3300
Total Sinter	8675	8675	8675	8675	5375	5375	2925	3300	5750
Pig Iron									
Aviles	2400	2400	2400	1600	1600	800 (1)	0	1600	2400
Gijon	2220	2220	2220	2200	2200 (2)	3235 (3)	4270	-1015	-2050
Sestao	1980	1980	1393	1100	600 (5)	0	0	1980	1980
Total Pig Iron	6600	6600	6013	4900	4400	4035	4270	2565	2330
Liquid Steel									
Aviles	2573	2573	2573	3300	3300	3300	3300	-727	-727
Gijon	2200	2200	2200	2200	1250	1250	1250	950	950
Sestao	2200	2200	2200	2200	0	0	0	2200	2200
Total Liquid Steel	6973	6973	6973	7700	4550	4550	4550	2423	2423 (4)
Hot Rolling									
Aviles	2365	2365	2365	2365	2365	2365	2365	0	0
Ansio	2300	2300	2300	2300	0	0	0	2300	2300
Total Hot Rolling	4665	4665	4665	4665	2365	2365	2365	2300	2300

(1) only one blast furnace in operation
(2) reconstruction of blast furnace n° 6 during 7,5 months
(3) reconstruction of blast furnace n° 5 during 6 months
(4) not including increase at ACB for 1.0 million tonnes
(5) production only up to June

Monitoring of Article 95 ECSC steel cases
Seventh Report, March 1997

SIDENOR, Spain

A. Introduction

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

- up to 26.3 billion ptas. for debt write-offs;
- up to 7.79 billion ptas. social aid;
- up to 20.2 billion ptas. in the form of new paid-in capital; and
 up to 25.762 billion ptas. 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 aid totalling up to a maximm of 7.79 billion pesetas as being compatible with Article 4.1 of the Steel Aids Code.

Granting of the above mention aid was subject to the following conditions :

- Closure of liquid steel capacity for 505,000 tonnes at the Hernani and Llodio plants (**achieved** by end of 1993, see first monitoring report)
- Closure of hot rolling capacity for 379,000 tonnes at the same plants. (**achieved** by end of 1993, see first monitoring report)
- Larrondo plant must be closed or sold by 30/6/94. (**achieved** in july 1994, see second monitoring report)
- Five year capacity freeze, except for productivity improvements, starting from the date of last closure (that is end of 1993).

Furthermore, the following additional conditions were also attached to the granting of the aid :

- a level of net financial charges at the outset of the new company of at least 3.5 % of annual turnover. (**achieved** see 4th monitoring report).

B. The new monitoring report

This seventh monitoring report on Sidenor is based on information submitted on 15th of March 1997 in accordance with Commission decision 94/261/ECSC. It covers the period up to 31.12.96.

Sidenor's restructuring plan has been completed and all the restructuring aid paid (see sixth monitoring report).Out of the conditions attached to the granting of the aid, only the following aspects remain to be monitored :

- payment of the balance of social aid (9,699 billion ptas.),
- respect of the five years production capacity freeze (up to end of 1998).

I. SIDENOR

1. Capacity reductions

All required capacity reductions had been already completed before the privatisation of the new Sidenor company. No further reductions are required.

Concerning this matter, the only remaining aspect to be monitored is the respect of the five years freeze put on production capacity for crude steel and hot-rolled finished products starting from the date of last closure. Since in the case of Sidenor the last closure took place at the end of 1993, the capacity freeze will last until the end of 1998.

2. Investments

All the investments foreseen under the plan had been performed by the end of June 1995 as reported in the fourth monitoring report.

3. Workforce reductions

The reduction of workforce of the old Sidenor group was concluded before the privatisation of Sidenor (see fifth monitoring report).

The costs related to the reductions of the workforce are competence of Acenor SA, therefore they are reported in section C.II.1 of this report.

4. Production

Production of Sidenor for the year 1996 and comparison with 1995 is summarized as follows :

(thousands tonnes)

Actual Production	1992	1993	1994	1995	1996	1996 vs. 1995 % change
Liquid Steel	498.6	480.7	587.0	725.4	675.3	(6.9)
Special Steels	422.6	381.7	489.7	592.4	517.9	(12.6)
Stainless Steel	17.8	19.8	13.9	0.0	0.0	0.0
Forge&Foundry	24.4	28.9	36.2	47.2	59.8	26.7

Production during the second half of 1996 confirmed the drop already seen during the first half when compared with the 1995 high production level. Forge and foundry products, on the contrary, continue the good performance already started in the first semester of 1996.

5. Sales

Total sales of Sidenor during 1996 were 572.5 thousand tons, 3.5 % lower than 1995.

The sales breakdown by market areas is shown in the following table.

(in per cent share of total sales)

Markets	1992	1993	1994	1995	1996
Domestic	53.9	52.0	57.3	57.4	56.9
Other EC	40.7	38.7	35.3	38.7	38.0
O. Countries	5.5	9.3	7.3	3.9	5.2

The breakdown by market shows is quite stable, with a slight increase in the share of sales to other countries.

The Spanish authorities have also provided average prices charged by Sidenor during 1996. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

Only preliminary data for 1996 are available. They are reported in the following table compared with the ones of 1995. The plan did not provided figures for 1996 since it ended in 1995.

(millions ptas.)

	1995 final	1996 preliminary	1996 vs1995 (% change)
Turnover	56946	54847	(3.7)
Cost of sales	55258	51372	(7.0)
of which : Depreciation	2558	2845	11.2
Net Operating Result	3153	3816	21.0
Finan. Charges	3862	1643	(57.5)
Net Result	2103	2876	36.8
Financial Debts	15811	15803	(0.1)

In spite of the reduction in turnover, Sidenor's net results have still increased during 1996 after the already high level of 1995, mainly thanks to reduced cost of sales and financial charges.

The balance sheet at the end of 1996 compares as follows with previous years:

(billions ptas)

	Situation at 31.12.94	Situation at 31.12.95	Situation at 31.12.96	variance 96 vs. 95
Credits with shareholders	34.5	0	0	0
Fixed assets	33.1	33.4	41.8	+8.4
Current assets	37.8	27.7	24.0	-3.7
Total assetes	105.3	61.1	65.8	+4.7
Equity	(2.1)	15.2	25.7	+10.5
Funds	2.0	0.2	0.4	+0.2
L/T and S/T debts	105.4	45.7	39.7	-6.0
Total Liabilities	105.3	61.1	65.8	+4.7

The balance sheet at 31.12.95 took into account the aid paid during 1995 as capital injections (14.0 billion ptas) and the capital injection of 1.4 billion ptas made by the new owner of Sidenor (see fifth monitoring report). Part of the aid received in 1995 was already shown at the end of 1994 as credits with the shareholders. 1996 balance sheet figures do not contain any aid element.

7. Terms and conditions of new loans

The loans obtained by Sidenor from INI before 1995 and subsequently taken over by a Japanese bank at the time of the privatisation, were diminuished, during 1996, by the scheduled yearly quota of 469 million ptas.; total amount of these loans is now of 5.1 billion ptas.

8. **Aid payment**

As explained in the sixth monitoring report, with the payments for 48.362 billion ptas. made by the Spanish state to Sidenor as capital injections under the approved restructuring plan during 1995 before its privatisation, the capital increases foreseen by the plan have been completed. No other aid is scheduled for Sidenor.

A complete summary of all the aids paid up to 31.12.96 is given under the section C.II.4 of this report.

II. **ACENOR**

The new Acenor company was created at the end of 1995 and includes all the assets and liabilities left in the old Acenor, Foarsa and other subsidiaries, after the privatisation of Sidenor, with the purpose to liquidate or to sell them.
Acenor SA is owned by the recently created "Agencia Industrial del Estado" (A.I.E.) where all the activities of the Spanish State in the fields of Defense, Mining, Shipbuilding and Steel have been grouped.

The assets of Acenor do not include any operating plant.

The liabilities are essentially the debts incurred to keep the engagements towards the workers that have been dismissed or put into retirement. The payments against these engagements (basically the severance pay and the pensions) are advanced every year from Acenor. Aid payments, made by the State to the company at the beginning of each following year according to a schedule agreed in advance, are used to exstinguish these debts.

Under these circumstances, Acenor will not procede to any capacity reduction or investment since all these activities, required by the restructuring plan, have been already achieved.

Furthermore, Acenor will not have any production or sale activity, therefore the monitoring report will cover only the developments of the liquidation process and the payment of the corresponding aids.

1. **Workforce reductions**

The workforce reduction programme approved under the restructuring plan has been concluded on 30.11.95 before the privatisation of Sidenor. Only very few (4) employees are left in Acenor to take care of the liquidation activities which consists essentially in the payment of social benefits to dismissed people as explained above.

Up to the 30.11.95, the total payments made by Acenor/Foarsa on behalf of the state amounted to 14.38 billion ptas. all covered by loans. Since that date, additional 6.38 billion ptas. have been advanced on behalf of the state.
Total social payments advanced by Acenor up to 31.12.96 are therefore 20.76 billion ptas.
See below section C.II.4 for full details on aid paid by Spanish state.

2. **Financial Performance**

Final 1995 figures provided by the Spanish authorities confirm the preliminary ones previously available. The balance sheet of Acenor S.A. is reported in the following table and compared with previous situations.

(billions ptas.)

	Acenor+Foarsa 31.12.94	Acenor+Foarsa 30.11.95	Acenor 31.12.95	Acenor 31.12.96 preliminary
Fix assets	0.25	0.1	0.64	0.07
Deferred expenses	54.5	54.0	49.2	52.62
Current assets	0.26	1.86	1.15	1.71
Total assets	55.018	55.91	50.98	54.41
Equity	(46.04)	(53.84)	(23.98)	(8.18)
Equity loans	16.15	0.00	0.00	0.0
Funds	41.50	36.98	41.25	45.25
L/T Debts	10.29	25.55	6.51	12.80
S/T Debts	33.11	47.22	27.18	4.54
Total Liabilities	55.01	55.91	50.98	54.41

The variations in the S/T debts during 1996 are due to cancellations of debts with the old shareholder. These debts cancellations are accounted in the total amount of aids paid (see below section C.II.4 of this report).

3. Terms and conditions of new loans

No new loans have been reported for the year 1996.

4. Aid payment

The amount of aid received during the first six months of 1996, as reported in the sixth monitoring, has been corrected by the Spanish authorities from 22,685 million ptas. to 22,570.5 million ptas.. No other aid has been received during the second part of the year.

All the restructuring aid (i.e. excluding the social aid), either under art. 95 or under the Protocol 10 of the Treaty of Accession have been paid as of 31.12.95 as already reported in the fifth monitoring report.

Social aid for 9,699 million ptas. remains to be paid.

The excess of aid paid as new capital or loss compensations when compared to the approved one under the same descriptions, is more than compensated by less aid paid for debts write-offs. The Commission is satisfied by this situation since the aid payments do not exceed the total approved envelope.

Beside the small correction mentioned above, no other changes in the payment of aid has to be made to the following table summarizing the total amounts of aid approved and paid.

Summary of aid payments to SIDENOR		
(In billion ptas.)	aid approved	aid payments at 31.12.96
Aid for restructuring		
Under art. 95 ECSC		
new paid-in capital	20.200	
loss compensation	25.762	
sub total new paid-in capital & loss compensation	45.962	48.462
debts write off	26.300	23.525
sub total art. 95 ECSC	72.262	71.987
Debts write off under prot. 10	18.290	18.290
Total aid for restructuring	90.552	90.277
Social aid		
under art. 95 ECSC	7.790	
under art. 4.1 SAC	7.790	
under art. 56.2b ECSC	3.617	
under general measures	12.798	
total social aid	31.995	22.571
total art. 95 ECSC aid	80.052	
Grand total	122.547	112.848

Monitoring of Article 95 ECSC steel cases
Seventh Report, March 1997

ILVA, Italy

A. Introduction

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

- write-off of residual debt up to a maximum of 2,943 billion lit. after sale of assets
- coverage by IRI of restructuring and liquidation expenditures of up to a maximum of 1197 billion lit.
- capital injection by IRI of 650 billion lit.

Granting of the above mentioned aid was submitted to the following conditions :
- Complete closure of the hot rolling mill at Bagnoli by 30.6.94 (**achieved** on schedule); closure and scrapping or sale outside of Europe of the all Bagnoli plant (in process).
- Reduction by 1,2 million tonnes per year of hot rolling capacity at Taranto by 30.6.94 (**achieved** on schedule).
- Additional reduction by 0,5 million tonnes of the hot rolling capacity at Taranto or at any other Italian plant of the new owner of Taranto within 6 months from privatisation (**achieved** at end of march 1996).
- Privatisation of Ilva Laminati Piani (ILP) and Acciai Speciali Terni (AST) by the end of 1994 (AST privatisation **achieved** on schedule; ILP's **achieved** at end of April 1995).
- Privatisation and /or liquidation of the rest of the group (in process, almost completed; see "Privatisations" of the Ilva in Liquidazione section of this report).

Furthermore, the following additional conditions were also attached to the granting of the aid :
- a five year capacity freeze, except for productivity improvements, for the capacities privatized at ILP and AST starting from the date of the last closure (that is end of March 1996 for ILP and end of 1993 for AST).
- a level of net financial charges at the outset of the two new companies ILP and AST of at least 3.5% and 3.2% of annual turnover respectively (**achieved** see second monitoring report).

B. Outstanding questions from the previous monitoring report

Workforce Reductions

Social costs, relating to preretirements born by the companies of the former Ilva group, were the only outstanding issue from the last monitoring report.
The Italian authorities have requested these data from the companies involved, but the work, due to the multiple privatisations and liquidations, has resulted much more complex than foreseen. Therefore, by 15.3.97 the Italian authorities were not yet able to provide more detailed information on this subject (other than what reported in the sixth monitoring report). The results of this work, presentely underway, should be known soon by the Commission. They will be reported, at latest, in the next monitoring report.

Here is updated the situation of the workforce reduction since the end of June 1996. These are preliminary figures. Final figures will be known when the study on social costs will be completed.

At the end of 1993, the workforce of the Ilva group was 38,559 people and according to the restructuring plan it had to be reduced by 11,500 people by the end of 1996.

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Since the last monitoring report, 1,166 people more were put into preretirement, 1,151 people left the companies in other ways and 313 were hired. Net workforce reduction of the period was 2,004 people.
Added to the reductions of previous years, they bring the total workforce reduction of the former Ilva group at 11,279 compared to the 11,500 foreseen by the plan (221 less). Of this total, 10,088 people left the group under a preriteriment scheme which is now concluded.

The following tables summarize the evolution of the workforce in the three companies of the former Ilva group (preliminary figures).

(In number of people)

ILVA in LIQUIDAZIONE	1994	1995	1st H 1996	2nd H 1996	Total 94-96(1st H)
Workforce at beg.of year	38559	9008	7659	3312	38559
Transfers to ILP	20372	101	0	0	20473
Transfers to AST	4703	16	0	0	4719
Transfers to new owners	1099	466	3962	0	5527
Preretirements	3183	814	278	394	4669
Dismissals	237	224	110	749	1320
Hires	43	272	3	10	328
Workforce at year end	9008	7659	3312	2179	2179

ILP	1994	1995	1st H 1996	2nd H 1996	Total 94-96(1st H)
Workforce at beg.of year	0	19130	17285	16184	0
Transferred from Ilva in L.	20372	101	0	0	20473
Preretirements	988	1812	1149	680	4629
Dismissals	254	134	158	382	928
Hires	0	0	206	303	509
Workforce at year end	19130	17285	16184	15425	15425

AST	1994	1995	1st H 1996	2nd H 1996	Total 94-96(1st H)
Workforce at beg.of year	0	4526	4224	4261	0
Transferred from Ilva in L.	4703	16	0	0	4719
Preretirements	227	456	15	92	790
Dismissals	0	0	0	20	20
Hires	50	138	52	0	240
Workforce at year end	4526	4224	4261	4149	4149

Aid approved to cover social costs is only paid to Ilva in Liquidazione in order to cover its costs and the amounts it had to transfer as severence funds to ILP and AST for the people going into preretirement.

It is recalled that approved aid to cover social costs were 360 billion lit. (197 under art. 95 and 163 under SAC).

C. The new monitoring report

This seventh monitoring report on ILVA is based on the information submitted by the Italian authorities on 15th March 1997 in accordance with Commission decision 94/259/ECSC.

Main events since the last monitoring report are :

- almost completion of the planned workforce reduction (as explained above),
- cashing in by IRI of the full price for AST and of a further portion of ILP's price,
- payment of an additional tranche of aid to Ilva in Liquidazione.

Main issues remaininig to be monitored are :

- indebtedness of Ilva in Liquidazione and aid payments,
- completion of the workforce reduction and related costs,
- solution to the dispute over ILP final price,
- respect of the five years production capacity freeze (up to up to end of March 2001 for ILP and end of December 1998 for AST).

I. ILP

1. Capacity reductions

As reported in the last monitoring report, all the conditions set by art. 2 (2) and (3) of Commission decision 94/259/ECSC have been fulfilled.

Regarding capacities, the only remaining aspect to be monitored is the respect of the five years freeze put on production capacity for crude steel and hot-rolled finished products starting from the date of last closure. Since in the case of ILP the last closure took place at the end of march 1996, the capacity freeze will last until the end of March 2001.

2. Investments

Including 42 billion lit. invested in the first half of the year, total ILP's 1996 investments reached 111 billion lit.. They were utilized to continue the revamping of one of the blast furnaces and the continuous casting plant at Taranto, but also, and to a greater extent, to refurbish the hot and cold rolling mills. Out of this total, 38 billion lit. were spent for pollution control equipment.
These investments did not modify the production capacity of the company in liquid steel or hot rolled products.
They have been all covered by the company's own resources.

3. Workforce reductions

Total workforce at the end of 1996 was 15425 people, 5048 less than at the outset of the company, but 435 above the planned 14990 people. However, considering that the present ILP group includes companies (ICMI,TDI) not foreseen by the plan and which brought in additional 1673 people, it can be considered that the objective of the restructuring plan in this area has been achieved.

4. Production

The depressed market situation that started in the second part of 1995 continued all throughout 1996. ILP actual production for that year shows a decrease when compared with the one of 1995, as summarized in the following table :

(thousands tonnes)

ILP Production	1994	1995	1996	'94/'93 % change	'95/'94 % change	'96/ '95 % change
Pig Iron	8208	8546	7546	0.1	4.1	(11.7)
Liquid Steel	8457	8783	7731	2.5	3.9	(12.0)
H. R. Coils	6500	6855	6405	9.9	5.5	(6.6)
Plates	1155	1105	1100	13.2	(4.3)	(0.5)

Actual production for 1996 was lower than plan for pig iron and liquid steel, while was just above plan for finished products, as shown here below :

(thousands tonnes)

ILP Production	1996 planned	1996 actual	Actuall.vs Planned (% changes)
Pig Iron	8315	7546	(9.2)
Liquid Steel	8210	7731	(5.8)
Hot Rolled Coils	6365	6405	0.6
Plates	1080	1100	1.9

5. Sales

Sales of finished products also suffered from the depressed market conditions all along the year, totalling 6.85 million tons, a decrease of 7% compared to previous year's sales. However, in the second part of the year, they kept themselves on the same level as during the same period in 1995. In particular, sales of coated steels had almost a 20 % increase vs. 1995 sales. Total 1996 sales were 2.3% below plan.

Breakdown of sales by market shows a significant drop in the per cent of domestic sales when compared to the percentage of the first half and of 1995 (almost 18 per cent points less) mainly due to sales of coils. Sales outside of the European community, on the contrary, show the highest increase either versus the first half of 1996 or total year 1995 (more than 10 per cent points), as shown in the following table :

(in % share of sales)

Markets	1992	1993	1994	1995	1st H 1996	1996
Domestic	71.8	67.9	68.9	73.1	62.6	55.5
Other EC	13.9	12.7	15.1	12.4	15.8	19.7
O. Countries	14.3	19.4	16.0	14.5	21.6	24.9

The Italian authorities have also provided averages prices charged by ILP during the year 1996. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

Data reported in the following table refers to ILP S.p.A., the major company of the former ILP group, since from June 1996, as explained in the last monitoring report, all the Riva's activities have been consolidated into the same group. As indicated, data for 1996 are still preliminary; final 1996 data will be available only with the next monitoring report.

(billions Lit.)

	1994	1995	1996 preliminary	1996/1995 % change
Turnover	5395	6415	5760	(10.2)
Gr. operative margin	952	1793	853	(52.4)
Depreciation	275	337	360	6.5
Operating results	791	1388	485	(65.1)
Net fin. charges	29	88	49	(44.5)
Net results (before taxes)	681	790	436	(10.5)
Net Financial Debts	188	207	438	111.1

Major item to highlight is the 1996 gross operating margin that , when compared to the comparable figure for 1995 shows a decrease of over 50%, while the reduction of turnover is only in the order of 10 %. Net 1996 results compare well to the ones of 1995 since in that year they had been reduced by an extraordinary provision to cover potential additional costs due to the dispute with IRI over the accounting of the 1994 profit (see below "Privatisations").

For the reasons indicated above, these figures are not comparable with the plan.

7. Terms and condition of new loans

During 1996, new loans for 200 billion have been obtained by ILP at market rates.

8. Privatisations

The controversy between IRI and the Riva group on the amount of 1994/95 profit to be considered as part of the final price for the sale, is not settled yet. This matter is under the arbitration by the International Chamber of Commerce in Paris.
Contract price for ILP consisted of three parts : 1) the shareholder part of 1994 profit; 2) the portion of 1995 profit up to the sale of the company (March 1995); a fixed price of 1460 billion lit.
Points 1) and 2) are under discussion as explained above, but IRI has already retained 585 billion lit as advance on 1994 profit; of point 3) IRI has already received 1220 billion lit. Total price already paid is, therefore, 1805 billion lit. According to the sale contract the remaining 240 billion lit., plus interests, will be paid in two equal tranches in 1997 and 1998.

II. AST

1. Capacity reductions

In accordance with the approved restructuring plan, no capacity reductions have been made during 1996.

As in the case of ILP, the only remaining aspect about production capacities to be monitored is the respect of the five years freeze put on production capacity for crude steel and hot-rolled finished products starting from the date of last closure. Since in the case of AST the decision did not required any closure, the five year freeze should start from the creation of the company, that is 31.12.93. In this case, therefore, the capacity freeze will last until the end of 1998.

2. Investments

Investments during the second six months of 1996 amounted to 27.6 billion lit.Total 1996 investments were 104.4 billion lit. almost 50% more than the ones of the year 1995.
Major areas of intervention were the stainless steel plants in Torino (45.4 billion lit.) and in Terni (11.9 billion lit.), pollution control and safety measures at Terni (5.5 billion lit.) and the hot strip mill (6.3 billion lit.), always at Terni.
These investments did not modify the production capacity of the company in liquid steel or hot rolled products.
They have been all covered by the company's own resources.

3. Workforce reductions

AST, during 1996 has reduced its workforce by additional 112 people bringing the total net reduction since the creation of the new company to 570. Total workforce at the end of 1996 was 4149 people, 71 above plan. However, as in the case of ILP, companies , originally not intended to be part of the AST group, have now been included, like Icrot that brought in 85 additional workers. Taking this into consideration, it can be considered that the objectives of the restructuring plan, as far as workforce reduction is concerned, have been achieved.

4. Production

Actual production for 1996 and comparison with previous periods can be summarized as follows :

(thousands tonnes)

	1994	1995	1996	'94/'93 % change	'95/'94 % change	'96/'95 % change
Liquid Steel	954	1037	1050	17.6	8.7	1.3
H. Rolled Coils	970	1077	1049	12.8	11.1	(2.6)
Cold R. Sheets	527	599	608	12.8	13.7	1.4
Stainless Steel	399	469	478	12.1	17.5	2.1
S.S. Hot Rolled	60	69	80	(11.8)	14.2	16.8
S.S. Cold Rolled	339	401	398	17.7	18.1	(0.6)

Thanks to a second half of 1996, which in general was better than the corresponding 1995 period, the total production of the year was kept on the same level of 1995 or sligthly below like in the case of hot rolled coils and stainless cold rolled sheets. Only the production of hot rolled stainless sheets reached a level much above the 1995 one (16.8% increase).However, this product was the only one showing a production level in 1996 still below plan, as it can be seen in the following table :

(thousands tonnes)

	1996 Plan	1996 actual	Actual vs.Planned (% changes)
Liquid Steel	980	1050	7.1
Hot Rolled Coils	907	1049	15.7
Cold Rolled Sheets	495	608	22.8
Stainless Steel	410	478	16.6
S.S. Hot Rolled	90	80	(11.1)
S.S. Cold Rolled	320	398	24.4

5. Sales

Sales of finished products during second half of 1996 totalled 481.8 thousands tons, 20.7 % above the sales of the same period of 1955. Cold rolled stainless steel sales were 198.5 thousands tons, 13.4% above 1995 corresponding sales. Thanks to the good performance of the second part of the year, total 1996 sales were above 1995 ones by 7.5% and cold rolled products sales were 20.5% above plan.

Shares of sales by market do not show important variations, only few percentages are shifted from the domestic sales into the other EC sales.

(in % share of sales)

Markets	1993	1994	1995	1st H 1996	1996
Domestic	60.8	64.7	62.3	63.0	61.5
Other EC	15.8	15.2	15.6	11.8	13.2
O. Countries	23.4	20.2	22.1	25.2	25.4

The Italian authorities have also provided averages prices charged by AST during 1996. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

The results for the second half of 1996 confirm the worsening financial performance already seen in the first half of the same year when compared to the results of the year 1995.
Main financial data and comparisons with previous year and the plan are summarized in the following tables.

(billions Lit.)

	1994	1995	1996 preliminary	'96/'95 % change
Turnover	1657.8	2553.1	2040.1	(20.1)
Gr. operative margin	137.0	560.8	142.2	(74.6)
Depreciation	70.1	93.4	80.7	(13.6)
Operating results	35.0	471.3	61.5	(87.0)
Net fin. charges	41.9	12.1	9.5	(21.5)
Net results	(52.4)	454.7	76.3	(83.2)
Net Financial Debts	305.9	5.3	85.0	

(billions Lit.)

	1996 PLAN	1996 preliminary	1996 vs. PLAN % change
Turnover	1974	2040	3.3
Gr. operative margin	231	142	(38.4)
Depreciation	72	81	12.1
Operating results	159	62	(61.3)
Net fin. charges	57	10	(83.3)
Net results	45	76	69.9
Net Financial Debts	467	85	(81.8)

7. Privatisations

As reported in the third monitoring report, the privatisation of AST was finalized on 23.12.94 with the approval of the Commission and the transfer of the share to the new owner.

After the settlement of the dispute between IRI and the new owner over the accounting of the 1994 profit, the final price to be paid to IRI will be 623 billion lit.
Out of this amount, 300 billion lit. (plus 12 billion lit. interest) had already been paid up to 31.12.95. balance up to 621 billion lit. was paid by December 1996. Two billion lit. remain to be paid.

III. ILVA in Liquidazione

1. Capacity reductions

Ilva in Liquidazione has performed all capacity reduction foreseen by the approved restructuring plan.

2. Workforce reductions

As it can be seen in the table in the above section under "Questions outstanding from the previous monitoring report", Ilva in Liquidazione, by December 1996, has reduced its

workforce by 5660 people (not including the people transferred to ILP, AST and to the other companies which have been sold).
The major part of the 2179 people still remaining at the end of 1996 will be transferred with the companies still to be sold, mainly during 1997.

3. Financial Performance

For the reasons explained in the previous monitoring reports, the Commission services concentrate their activitity to monitor the evolution of the liquidation activity of Ilva in Liquidazione S.p.A. by analysing its balance sheet and its financial flows.

The evolution of the Ilva in Liquidazione balance sheet is given in the annex table at point 1. As explained in the sixth monitoring report, in the same table at point 2, it is reported the indebtedness at the level of the group, and at point 3 the indebtedness at IRI charge, calculated in the same manner as in the plan.

The Commission services, as in previous monitoring reports, devote most attention to monitor the coverage of the above mentioned level of indebtedness of Ilva in Liquidazione (at IRI's level), thus,

1. having taken the data shown in the attached table at point 1, and having made the reconciliations described at point 2 and 3 of the same table,

2. keeping in mind that by its decision taken on 23.12.93, the Commission approved a maximum amount of aid of 4790 billion lit. for the liquidation and restructuring of Ilva, consisting of an injection of 650 billion lit. - already granted by IRI in 1992 - and of 4140 billion 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. keeping in mind that additional aid to cover social costs for an amount of 163 billion lit. was approved on 14.9.1995 under art. 4.1 of the Steel Aid Code,

the following table provides preliminary estimations of the coverage of Ilva indbtedness until the end of the liquidation process based on the preliminary results at December 31 1996 as transmitted by the Italian authorities. These figures take into account the preliminary value for the incomes from the sale of ILP at a level of 2250 billion Lit. and the final value for the sale of AST i.e. 623 billion Lit..

(billions lit.)

ESTIMATED COVERAGE OF ILVA IN LIQUIDAZIONE INDEBTEDNESS BASED ON RESULTS AT :								
		PLAN	31.12.93 final	31.12.94 final	30.6.95 final	31.12.95 final	30.6.96 estimate.	31.12.96 prelim.
1	Total comparable Ilva indebtednss	(10067)	(10889)	(11426)	(11542)	(11181)	(10507)	(10475)
2	Incomes from the sales of ILP,AST,Sofin.	2806	2760	2960	4160	4183	3933	3933
3	Debts transf. to ILP,AST,Sofin.	1897	2546	2546	2546	2546	2546	2546
4	Other debts to be transferred	1061	923	592	592	416	(49)	0
5	Expected incomes from sales of companies	1425	1425	1400	1128	380	100	100
6	Expected incomes from the liquidation process	448	448	1253	1013	1112	957	972
7	Foreseen disboursements during the liquidation	(645)	(645)	(616)	(355)	(590)	(540)	(474)
8	Expected liquidation costs	(1065)	(1065)	(640)	(530)	(376)	(376)	(79)
9	Total residual indebtedness	(4140)	(4506)	(3931)	(2988)	(3510)	(3936)	(3477)
10	Var. from plan		366	(209)	(1152)	(630)	(204)	(663)*

* estimated amount of not utilized approved aid not including the 163 billion lit. approved under art. 4.1 SAC

Items referred to by the indicated row numbers and their variations can be explained as follows:

row (1): Total comparable indebtedness is the result of the operations described previously under point a), b) and c). It represents the Ilva in Liq. indbtedness at IRI level calculated as it was in the plan. Its subsequents variations are due to the movements in the Ilva in Liq. S.p.A. balance sheet. Main variation was in 1994 due to the change in the evaluation methods as explained in the sixth monitoring report.

row (2): Incomes from the sales of ILP, AST and Sofinpar sold by IRI, but contributing to the reduction of Ilva in Liq. indebtedness. Variations are due to changes in the estimated or realized prices of the various companies. For ILP up to 1994 it was used the book value (1300 billion lit.), during 1995 the contract value (2500 billion lit.) and currently, due to the dispute between IRI and Riva on the contract price, a more prudential estimate of 2250 billion lit. is used. For AST since 1994 it was used the contract price (600 billion lit.) subsequently adjusted in 1995 to the final price (623 billion lit.) which resulted from an arbitration between IRI and the new owners of AST.

row (3): Debts transferred with the spinning off of the above companies as of the 1993 balance sheet.

row (4): Estimate of the debts that will be trasferred with the sale of the other subsidiaries. It varies according to the companies left to be transferred.

row (5): Expected incomes at various point in time from the sale of the subsidiaries and holdings left to be sold. Differences between the various columns correspond to the companies sold in the meantime. Estimate at 31.12.96 includes incomes from the sale of the remaining shareholdings

row (6): It represent the best estimate at any given time of what is expected to realize from the various assets of the company (land, stocks, trade receivables, other credits, etc.). Major change was in 1994 when, even applying the prudent liquidation evaluation methods, more incomes than planned were expected.

rows (7)&(8): Represent liquidation expenses (trade paylables, payments of pension funds) or liquidation costs (financial charges, dismantling costs, restructuring costs) estimated at any given time to be borne until the end of the liquidation process. Decreases are due to foreseen costs already paid, while increses are due to unforeseen expenses or costs occurred.

row (9): Residual indebtedness, once all the above described items have been subtracted or added, to be covered by aid.

row (10): Variation from planned residual indebtedness to be covered by aid. It represent the estimation at any given time of the aid that either will not be needed (in brackets) or that will be needed in addition to the approved one.

According to the above estimates, when the liquidation process will be completed and the prices for the sales of all the companies which have been privatized, cashed in, the total amount of aid finally necessary to cover the resulting indebtedness, is expected to be 663 billion Lit. less than the amount approved under the art. 95 decision. Adding the 163 billion lit approved under SAC, the total approved aid presently estimated not to be utilized at the end of the liquidation process could amount to 826 billion lit..

4. Aid payments

During the liquidation process, IRI provides funds to Ilva in Liquidazione in order to carry out its activities. These funds have to be considered as tranches of aid already granted under the art. 95 ECSC decision since IRI will never ask for its repayment.
On the other hand, IRI is also receiving, since 1995, the payments for the sale of ILP and AST which, by contract, are spread over a number of years. These amounts have to be deducted by the funds provided by IRI to Ilva.

Funds provided by IRI and prices cashed-in evolved as follows :
(In billion lit.)

	1993	1994	1995	1996	Total 93-96
Funds provided by IRI	1538	2156	1670	1104	
cumulative total (A)	1538	3694	5364	6468	6468
Prices cashed-in by IRI for :					
AST	0	0	312*	321	633
ILP	0	0	1685	120	1805
cumulative prices cashed-in (B)	0	0	1997	2438	2438
Cumulative aid received by Ilva in Liquidazione (A-B)	1538	3694	3367	4030	4030

*includes 12 billion lit. interests

Therefore, the funds provided by IRI to Ilva in Liquidazione between 1993 and 1996 were 4030 billion Lit., net of the incomes already received from the sale of ILP and AST. This amount is still below the approved amount of 4303 billion lit. (4140 billion lit art. 95 ECSC and 163 billion lit. SAC)
Balances of ILP and AST prices still to be received are 242 billion lit.of which 2 billion lit. for the sale of AST and 240 billion lit. for the sale of ILP (excluding interests and amounts still under arbitration).

5. Privatisations

After the privatisation of Dalmine and Companhia Siderurgica de Tubarao,in the first half of 1996, only Dalmine Resine was sold for 7 billion lit.. Three companies (ILIIC, Ilvanetwork and Sidermontaggi) for a total book value of about 55 billion lit. have been put into liquidation at the end of 1996.

Up to now, Ilva in Liquidazione sales of ownerships or shareholdings totalled 1392.6 billion lit. and the debts transferred 384.3 billion lit. (see table in following page). These totals do not include incomes from the sale of ILP and AST which were owned and sold directly by IRI.
Total planned expected incomes were 1425 billion lit. and the expected transfers of debts 1061 billion lit.. It has to be noted that some of the subsidiaries and shareholdings sold were not foreseen in the plan.

STEEL MONITORING REPORT No. 7, March 1997, ILVA

(billions lit.)

Subsidiaries and shareholdings sold by Ilva in Liquidazione			
Companies	Buyer	Price	Debts transferred (applies only to companies fully owned)
*Cogne Acc. Speciali	Marzorati Group	7.0	75.0
*ICMI	ILP	105.0	89.7
*TDI	ILP	30.0	50.3
ISE	Edison-EDF, ILP	420.0	3.6
*ICE	Valle d'Aosta Region	86.0	(0.3)
*Sidermar di Navig.	Coe&Clerici	60.8	
*Sidermar Serv. Acc.	ILP	0.6	
*Sidermar Trasp. Costieri	ILP	22.8	
*Lovere Sidermecc.	Lucchini Group	25.0	
*Verres	Finaosta	1.8	
*Nitco	Expertise srl	0.3	
*Thainox	Ugine, Thaismart Plus Ltd.	40.0	
*SISH	Sahavirya Steel Holding	158.8	
*Sahavirya	Supatra Eaucheevalkul	28.1	
*Soc. Off. Savigliano	Uninvest srl	0.6	
*P. Port	WIT	2.51	
*Tad Fin	PIM	3.8	
*TSSI	WPG	6.6	
Dalmine	Techint	301.5	166.0**
Tubarao	Banco Bozano Simonsen	58	
*Tubificio di Piombino		6.1	
*Sidersud ILBS		2.8	
*D'Amore Tubi		3.4	
*Siderlandini		7.8	
Dalmine Resine		7.0	
Other shareholdings		7.1	
TOTAL		1392.6	384.3

* Companies for which price payments have already been received up to the end of 1995.
** Net of the debts toward Ilva in Liquidazione

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RECONSTRUCTION OF IRI/ILVA IN LIQUIDAZIONE INDEBTEDNESS

BALANCE SHEET of ILVA SpA	PLAN	Balance Sheet at 31.12.93 (final)	Balance Sheet at 31.12.94 (final)	Balance Sheet at 30.6.95 (final)	Balance Sheet at 31.12.95 (final)	Balance Sheet at 30.6.96 (estimated)	Balance Sheet at 31.12.96 (preliminary)
Non-Current Assets (Net)							
Intangible assets	107	1	0	0	0	0	0
Property,Plant and Equipment	327	275	248	255	277	277	187
Financial assets	850	1053	1369	1158	555	503	463
total	1284	1329	1617	1413	832	780	650
Net Working Capital							
Inventories	17	147	136	131	26	25	19
Trade accounts receivables	26	517	322	249	649	259	100
Trade accounts payables	-1153	-1324	-360	-232	-154	-113	-100
Provisions for contingencies and exp.		-1267	-1583	-1390	-1182	-1030	-790
Other activities	-364	628	456	394	248	249	300
Other liabilities		-193	-183	-78	-80	-49	-80
total	-1474	-1492	-1210	-926	-493	-659	-551
Severance payments fund (TFR	-172	-141	-73	-45	-74	-65	-24
Net Invested Capital	-362	-304	334	442	265	56	75
Covered by :							
Equity	-5477	-5472	-6794	-6799	-6794	-6794	-6794
Net Financial Indebtedness	5115	5169	3434	7241	1695	6850	6869
Total Funds	-362	-303	-3360	442	-5099	56	75
CONSOLIDATED INDEBTEDNESS OF ILVA IN LIQUIDAZIONE							
Net Financial indebtedness Ilva s.p.a.	5115	5169	3434	7241	1695	6850	6869
Debts of companies to be liquidated				49	-45	-49	0
Debts of companies to be sold	1061	923	592	546	461	0	0
total	6176	6092	4026	7836	2111	6801	6869
Debts of Cogne in Liquidazione	228	291	0	0	0	0	
Total consolidated indebtedness	6404	6383	4026	7836	2111	6801	6869
INDEBTEDNESS AT IRI's CHARGE							
Ilva in Liquidazione	6404	6383	4026	7836	2111	6801	6869
ILP	1298	1885	1885	1885	1885	1885	1885
AST	474	536	536	536	536	536	536
SOFINPAR (Debts to be transferred)	125	125	125	125	125	125	125
SOFINPAR (Income from sale)	1106	1060	1060	1060	1060	1060	1060
Trade accounts payables (*)	660	900	100	100	100	100	0
Total indebtedness at IRI charge	10067	10889	7732	11542	5817	10507	10475
variance from plan		822	-2335	1475	-4250	440	408

(*) physiologic amount not covered by trade receivables.

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, March 1997

Irish Steel, Ireland

A. Introduction

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)[1] to approve aids under Article 95 ECSC linked to the sale of Irish Steel Ltd (ISL) to Ispat International amounting to a maximum of IRL£ 38.298 million, serving the following purposes:

- up to a maximum of IRL£ 17 million for the writing-off of an interest-free Government loan;
- a cash contribution of up to a maximum of IRL£ 2.831 million to cover a balance sheet deficit;
- a cash contribution of up to a maximum of IRL£ 2.36 million to cover specific remedial environmental works;
- a cash contribution of up to a maximum of IRL£4.617 million towards the costs of servicing debts;
- a cash contribution of up to a maximum of IRL£ 0.628 million to cover a deficit in the pension scheme;
- a further cash contribution of up to a maximum of IRL£ 7.2 million;
- indemnities of up to a maximum of IRL£ 2.445 million in respect of possible residual taxation and other costs and financial claims arising from the past;
- up to a maximum of IRL£ 1.217 million, representing the aid element contained in State guarantees on two loans amounting to IRL£ 12 million.

Under the terms of the decision these aids are approved subject to various conditions in particular as regards production and sales.
The relevant provisions of article 2 read as follows :

2. *[The new company] shall not extend its current range of finished products, (...), in the first five years and shall not produce beams of a larger size than its current range of sizes in that period.*
Within its current range of beams it shall limit production for the Community market of its largest U beams (Imperial), HE beams (metric) and IPE beams to a cumulative 35,000 tonnes per annum during that period.

3. *[The new company] shall not exceed the following levels of production per financial year [from 1st July to 30 June]:*

(thousands tonnes)

Max. level of Production	*1995/96*	*1996/97*	*1997/98*	*1998/99*	*1999/2000*
Hot-rolled finished products	*320*	*335*	*350*	*356*	*361*
Billets	*30*	*50*	*70*	*80*	*90*

[1] OJ L121 of 21/5/1996, p. 6

4. *[The new company] shall not exceed the following levels of European sales (Community, Switzerland and Norway) in hot-rolled finished products per financial year [from 1 July to 30 June] :*

(thousands tonnes)

Max. European sales :	*1995/96*	*1996/97*	*1997/98*	*1998/99*	*1999/2000*
Hot-rolled finished products	*298*	*302*	*312*	*320*	*320*

Furthermore, the following additional conditions were also attached to the granting of the approved aid:

- five year capacity freeze, except for productivity improvements, starting from the date of the last payment of aid under the plan (that is from 30.5.1996).
- a level of net financial charges at the outset of the new company of at least 3.5 % of annual turnover (**achieved** see sixth monitoring report).

B. The new monitoring report

The third monitoring report on Irish Steel essentially covers the position of ISL (now Irish Ispat Ltd.) as at 31 December 1996, based on information submitted by the Irish authorities on 15 March 1997 in accordance with the Commission's decision.The report also includes information on the company's production and sales up until the end of February 1997 (sections 4 and 5 refer).
Commission representatives visited ISL on 14.3.97 and were able to obtain internal plant reports (weekly melt shop and mill production reports, sales records and invoices) allowing them to verify the reported sales and production figures.

Irish Steel Ltd. operated on a financial year from July 1st to June 30th. It is intention of the new owners to change it to the normal calendar year. Therefore the next financial year end is 31.12.97.

Main events since the last monitoring report are :

- continuation of the investment program (over 50% achieved),
- completion of workforce reduction,
- economic results for the monitored period showing a loss.

Only remaining condition to be monitored beside the imposed production and sales levels, is the five years production capacity freeze up to end of May 2001.

1. Capacity Reductions

No capacity reductions are required as a condition of the aid authorised under Article 95 ECSC.

2. Investments

Up to 31.12.96, the amount of 2,776,050 IRL (representing about 58 % of the total investments foreseen by the approved restructuring plan) was spent for investments at Irish Ispat Ltd.
They referred to :

- The melt plant, for 809,413 IRL, or 29.2% of total,
- The mill plant, for 1,186,621 IRL, or 42.7% of total,
- General capital expenditures for 780,016 IRL, or 28.1% of total, mainly in computer and other general equipment.

A detailed list of all performed investments was supplied by the Irish Authorities. These investments were funded from the company's internal resources.

3. Workforce Reductions

The total number of workers has been reduced to 352 by the end of 1996, as already announced in the last monitoring report,.
Total workforce will kept at th level of 348 people during 1997.
Costs of the redundancies have been funded from internal resources and working facility from banks.

4. Production

Actual production of finished products in the period July 1, 1996 to end of December 1996 was 138,336 tonnes 13% above the level of production during the same previous period. *To remain within the production limitation of 335,000 tons for 1996/97 laid down* by the Commission decision, finished product production must not exceed the amount of 196,664 between January and June 1997. During the months of January and February 1997, total production was 45,988 tons which represent less than one third of the allowed remaining production.The following table summarize the situation :

(thousands tonnes)

Finished Products Production				
year	Jul. to Dec.	Jan. to Jun. Y-T-D	Total Jul. 96 to Feb. 97	limitation /year
95/96	123	172	295	320
96/97	138	46	184	335

Sizes of beams produced were within the current range of sizes as communicated to the Commission in November 1995.

Total billet production for the period Jul. to Dec. 1996, was 155,209 tonnes. Production of billets for sale outside the company from Jul. 1996 to Feb. 1997 was 2,372 tonnes compared with the limitation of 50,000 tonnes for the total 96/97 period as laid down by the Commission decision.

5. Sales

Sales of finished products in the period 1 July 1996 to the end of December 1996 totalled 133,025 tons. compared with total sales in corresponding previous period of 120,725 tonnes (10.2 % higher).

The breakdown of sales by market for the first half of financial year 1996/97 shows that approximately 94% of sales or 125,275 tonnes went to European markets as defined under the decision (i.e. Community, including domestic market in Ireland, plus Switzerland and Norway), to remain below the 302,000 ton limitation for 1996/97 imposed by the Commission decision, sales during the second part of the financial year should not exceed 176,721 tonnes. So far sales during Jan. and Feb. 1997 amounted to 43,202 tonnes or 24.4% of the remaining sales under the limitation.

The Irish authorities have also provided information on prices. The Commission has examined this information and concluded that the prices are within the normal range.

Production for sale to Community markets of ISL's largest U beams (Imperial), HE beams *(metric) and IPE beams during the monitored period*, was 9,728 tonnes plus 3,309 during Jan. and Feb.1997, for a total of 13,037 year to date. Therefore, production for sale of these products is, so far, within the annual limitation of 35,000 tons as laid down in the decision.

6. **Financial Performance**

The Irish authorities presented a full range of financial data as requested by the Commission.

On 30.5.96, when ISL was privatized, the Irish government paid the approved aid in the following forms:

- 19.453 million IR£ in cash.
- 17 million IR£ to extinguish a previous government loan. This amount is blocked for the duration of the loan.

In the period July 1, 1996 to December 31,1996 on a turnover of IR£ 25.1 million Irish Ispat Ltd. made a net operating loss of IR£ 3.6 million (14.3.0%). This amount was reduced to a final result of 2.21 million IR£ loss by drawing one tenth of the aid received in cash and considered as deferred income to be distributed over the five year period to compensate for the non realized gains due to the limitations on production and sales.
A comparison with recent past performance can be seen in the following table:

(million IRL£)

	1992/93	1993/94	1994/95	1995/96 (1st H)	1995/96 (2nd H)	1996/97 (1st H)
Turnover	58.845	62.291	66.978	27.8	34.2	25.1
Net Profit/(loss)	(12.979)	(18.764)	(5.83)	(3.789)	1.799	(2.21)
as % of turnover	22%	30%	8.7%	13.6%	5.3%	14.3

7. **Terms and conditions of new loans**

Untill 31.12.96 the shareholder of Irish Ispat Ltd. has injected IR£ 9.988 million in the company as advance share capital.
This loan was used to reduce the working capital facilities with banks.

8. **Aids**

As already explained in the sixth monitoring report, the Irish government has paid to the former Irish Steel Ltd. all the approved aid amounts.
No aid has been received by Irish Ispat Ltd.

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, May 1997

Siderurgia Nacional, Portugal

I. Introduction

On 12 April 1994 the Commission approved aid in favour of the public Portuguese steel undertaking *Siderurgia Nacional* under Article 95 ECSC Treaty[1] as follows:

- 38.00 bn Esc[2] for capital injection,
- 22.12 bn Esc for debt write - off.

This aid was **paid** in 1994 and 1995 (see II.7.)

In September it approved under the Fifth Steel Aid Code[3]

- 4.925 bn Esc social aid,
- 1.000 bn Esc environmental aid.

1.77 bn Esc social aid was paid. The remaining social aid and the environmental aid may still be disbursed..

The authorization of aid was *inter alia* linked to the following conditions:

- closure of a light section mill and a medium section mill with a total hot-rolling capacity of 140 kt/y (**achieved**, see II.1.),
- replacement of the blast furnace in Seixal by an electric arc furnace (**outstanding**, see II.2.),
- the total workforce should be reduced by 1798 employees until the end of 1996 (**delayed**, see II.3.),
- the level of net financial charges of the companies should be at least 3.5 % of turnover (**achieved**, see fourth and fifth monitoring report).

In March 1994, the former *Siderurgia Nacional* was split into *SN SGPS*, a holding company, and the three operating companies *SN Planos*, *SN Longos* and *SN Servicos*. In August 1995 the Portuguese authorities decided to sell 90% of the shares in *SN Planos* to *Lusosider Produtos Siderurgicos S.A.*, a company controlled by *Hoogovens Groep BV* and *Sollac S.A.*, a subsidiary of *Usinor Sacilor S.A.*, with a small participation of *DHS France* (4.97%). The

1 O.J. No L 112, 3.5.1994, p. 52

2 1 billion (10^9) Esc = 5.096 MECU (3.3.1997)

3 O.J. No C 390, 31.12.1994, p. 18

remaining 10% of the shares in *SN Planos* are offered to workers and small individual investors. The company was renamed ***Lusosider Acos Planos S.A.***. In September 1995 the Portuguese Government decided to sell 80% of the shares in ***SN Longos*** to a group consisting of *Metalurgica Galaica S.A.*, *Erisider Holland B.V.* (a company of the *Riva* group) and *Atlansider SGPS*. The latter holds 0.8% of the shares, the two other shareholders keep 39.6% of the shares each. 10% of the shares in *SN Longos* are offered to workers and small individual investors. Another 10% of the shares are kept by the Portuguese state.

The Portuguese Council of Ministers decided formally on 4 March 1997 to proceed to the privatization of the 10% share in *SN Longos* and *Lusosider* to small individual investors and workers.

II. The new monitoring report

The present report covers the developments up until 31 December 1996 based on the information provided by the Portuguese Government in its seventh monitoring report which was submitted, in line with the request of the Commission, on 14 March 1997.

1. Capacity reduction

The light section mill in Seixal was closed by 31 October 1993 thus providing the first part (60 kt/y) of the total capacity reduction of 140 kt/y in hot rolled finished products required by the Article 95 ECSC decision of the Commission. The medium section mill in Seixal with a capacity of 80 kt/y was closed by 31 December 1995 so that the required total capacity reduction was achieved in line with the Commission's decision. Both installations belong, since the creation of the new corporate structure, to *SN Servicos*.

A company specialized in the marketing of used installations was charged to find a purchaser for the closed rolling mills. The medium section mill was sold for export to Brazil by contract of 9 September 1996. The management of *SN Servicos* is awaiting the import authorization of the Brazilian authorities. The light section mill is still not sold.

2. Investments

a) *SN Longos*

Realized investment

In 1996 *SN Longos* spent 2.74 billion Esc for investments:

in mio Esc	Seixal	Maia
General equipment	1797	755
Buildings and infrastructure	27	69
Data processing equipment	34	64
Total	**1852**	**888**

Investment Planning

The following investment plan have been approved by the administrative council of *SN Longos*:

in mio Esc	investment	amount
Seixal	continuous caster	708
	buildings and infrastructure	280
	general equipment	444
Maia	electric furnace	1549
	rolling mill	382
	equipment and infrastructure	988

The planned investments would contribute towards the general modernization of the existing installations to reduce production cost and increase productivity without changing their production capacity.

The envisaged investments in Seixal mainly concern the installation of a central water treatment for the rolling mill and the necessary modifications to allow fueling the reheating furnace with natural gas. There are also important investments to upgrade customer service and data processing. The main investment planned for the Maia plant concerns the modernization of the caster.

Regarding the planned installation of a **new electric arc furnace** of *SN Longos* in Seixal it was previously reported that the company charged external consultants to consider the technical and environmental aspects related to this investment. While the results of the study on environmental problems are currently discussed with the relevant Portuguese authorities, the final report of the technical consultants is expected to be available in May 1997. This study is mainly to evaluate the different technological options in order to achieve the best possible solution. At present, the new furnace is expected to enter into operation at the end of 1998.

The Commission, during the discussions to prepare the present monitoring report, insisted that the installation of the new crude steel production facilities of *SN Longos* in Seixal was one of the core elements of the decision under Article 95 of the ECSC Treaty. On the basis of the independent expert study the termination of crude steel production with the blast furnace technology was considered crucial to arrive at a long term viability of the company. It was accepted, however, that a certain delay occured compared to the initial plan because the privatization could only be started after the adoption of the Article 95 decision and because it was reasonable not to take such major investment decision under the management due to leave the company after the envisaged privatization. The Commission expressed its view that the technical and environmental evaluations as well as the internal decision making process of *SN Longos* should be terminated as soon as possible to avoid further delays. It considers the second half of 1998 to be the target period for the entering into routine operation of the new furnace of *SN Longos* in Seixal.

b) Lusosider

In 1996 *Lusosider* carried out regular investments of 136 million Esc. Based on a technical study the company drafted a short and medium term investment plan which envisages investments of 2 billion Esc in 1997. These investments would mainly comcern general maintenance of existing installations, the introduction of a new data processing system and some measures related to quality improvement and environmental protection.

3. Evolution of workforce

The reduction of workforce is still behind the initial plan. This delay affects only *SN Servicos* and would therefore have no impact on the viability of the privatized companies. 447 workers still kept by *SN Servicos* are necessary to run the blast furnace, which was initially scheduled to cease production by the end 1995 but can only be closed once the new furnace of *SN Longos* in Seixal enters into operation. Keeping this in mind the delay compared to the initial plan affects 370 workers. The following table shows the evolution of workforce and the forecast as far as available:

	1993	1994	1995	1996	1997	1998
	real				forecast	
Privatized companies						
SN Longos Seixal	2056	445	509	269	c)	c)
SN Longos Maia	429	402	386	315	c)	c)
Total SN Longos	2485	847	895	584		
Lusosider	530	471	454	441	421	c)
SN Longos +Lusosider	**3015**	**1318**	**1349**	**1025**	c)	c)
Public companies						
SN Servicos	a)	1423	1216	1204	1061	63
SN SGPS	a)	36	25	b) 7	0	0
SN Servicos + SN SGPS	a)	**1459**	**1241**	**1211**	**1061**	**63**
Actual figures						
Total workforce	3015	2777	2590	2236	c)	c)
Reduction per year	193	238	187	354		
Comparison to plan						
Plan total workforce	2925	2380	1682	1410	1410	1410
Deviation without delay regarding blast furnace	90	397	461	379		
Deviation from plan	90	397	908	826		

a) before the creation of the new corporate structure
b) in liquidation
c) no information regarding the envisaged workforce evolution of the privatized companies given

It should be noted that the reduction in workforce is significantly behind the plan. The excess workforce is kept in *SN Servicos* which still operates the crude steel production that is due to come under the responsibility of *SN Longos* with the expected creation of the new electric arc furnace. *SN Longos* would presumably increase its workforce once the new furnace enters into operation, so that the total workforce of the privatized companies would slightly increase after the closure of the blast furnace.

The Portuguese authorities continue their efforts to reduce workforce in *SN Servicos*:

- the scheme for mutual agreements is continued and allows for improved conditions compared to the initial arrangement;
- special insentives and support is offered to those workers which intend to set up an own small business;
- training is offered in certain areas to promote alternative employment.

Financing of redundancies

	nature	number of workers	Art 56 ECSC	State (Art 56)	company[1]	Total costs
			costs in mio Esc			
1993	early ret.	138	52.8	52.8	-	105.6
	releases[2]	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[2]	114	67.3	67.3	245.0	379.6
	others	20	0	0	0	0
	Total[3]	245	110.9	110.9	245.0	466.8
1995	early ret.	133	52.0	52.0	34.3	138.3
	releases[2]	51	29.7	29.7	136.9	196.3
	others	11	-	-	-	-
	Total[3]	195	81.7	81.7	171.2	334.8
1996[4]	early ret.	128				
	releases[2]	249				
	others	9				
	Total[3]	386	-	-	-	-
Total		1019	81.7	81.7	171.2	334.8

1 to which the State contributes up to 50% authorized under Art 4.1 of the Fifth Steel Aid Code
2 through mutual agreements
3 these figures do not correspond to the net reduction of workforce given in the previous table because the companies hired some new employees
4 it should be noted that the figures given in the last monitoring report were estimates for the entire year of 1996, and not, as presented, final figures for the first half of 1996

In 1996 no social aid under Art. 4 of the Fifth Steel Aid Code was disbursed.

4. Production

Evolution of annual production

in kt	1995	1996	1996 c.t. 1995
crude steel	796.3	839.6	+ 5.4 %
finished products *SN Longos*	704.8	655.4	- 7.1 %
finished products *Lusosider*	217.4	194.7	- 10.6 %

Evolution of monthly production 1996

1st semester 1996

in kt	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
crude steel							
SN Servicos	38.6	34.3	41.7	35.6	40.5	38.2	228.9
SN Longos	32.1	30.2	35.6	32.1	35.0	31.6	196.6
SN Longos *	56.5	42.1	59.6	57.9	59.5	58.2	333.8
Lusosider							
cold rolled plate	2.0	1.8	2.3	3.4	3.5	2.3	15.3
galvanized sheet	2.8	7.7	8.2	6.7	8.7	7.1	41.3
tinplate	4.9	6.1	3.3	5.5	5.8	6.3	31.9
Total	9.7	15.6	13.8	15.6	18.0	15.7	88.5

2nd semester 1996

in kt	JUL	AUG	SEP	OCT	NOV.	DEC	TOTAL
crude steel							
SN Servicos	37.7	37.5	38.9	39.7	35.2	35.8	224.8
SN Longos	34.9	9.5	35.8	32.3	39.6	37.2	189.3
SN Longos *	38.3	26.0	63.0	51.9	74.5	67.9	321.6
Lusosider							
cold rolled plate	4.1	2.0	4.5	3.5	3.8	4.4	22.3
galvanized sheet	9.4	2.6	9.9	11.0	9.8	9.7	52.4
tinplate	6.0	6.6	4.8	5.9	4.7	3.6	31.6
Total	19.5	11.2	19.2	20.4	18.3	17.7	106.3

Comparison of semesters

in kt	1. semester	2. semester	evolution
crude steel			
SN Servicos	228.9	224.8	- 1.7 %
SN Longos	196.6	189.3	- 3.7 %
SN Longos *	333.8	321.6	- 3.6 %
Lusosider			
cold rolled plate	15.3	22.2	+ 45.1 %
galvanized sheet	41.3	52.4	+ 26.8 %
tinplate	31.9	31.6	- 0.9 %
Total	**88.5**	**106.2**	**+ 20.0 %**

* rebars and wire rod, the production of sections was closed by the end of 1995

5. Sales

Sales in 1996 per product category

	Portugal		EU 14		3rd Countries		Total
	kt	%	kt	%	kt	%	kt
SN Servicos							
- billets	314.7	69.5	45.1	9.9	93.3	20.6	453.1
SN Longos							
- rebars	656.7	97.0	17.4	2.6	2.7	0.4	676.8
- wire rod	75.1	62.6	40.4	33.7	4.5	3.7	120.0
- profiles	0.7	23.3	2.3	76.6	0	0	3.0
Total long products	**732.5**		**60.1**		**7.2**		**799.8**
Lusosider							
- cold rolled sheet	37.1	86.9	5.5	12.9	0.1	0.2	42.7
- galvanized sheet	31.2	33.5	23.4	25.1	38.5	41.4	93.1
- tin plate	33.6	57.0	21.6	36.6	3.8	6.4	59.0
Total flat products	**101.9**		**50.5**		**42.4**		**194.8**

Sales in the 1st Semester of 1996 per product category

	Portugal		EU 14		3rd Countries		Total
	kt	%	kt	%	kt	%	kt
SN Servicos							
- billets	160.2	70.1	27.3	11.9	41.2	18.0	228.7
SN Longos							
- rebars	298.1	95.0	13.0	4.1	2.7	0.9	313.8
- wire rod	38.1	53.6	30.3	2.6	2.7	3.8	71.1
- profiles	0.7	23.3	2.3	75.7			3.0
Total long products.	**336.9**	**86.9**	**45.6**	**11.7**	**5.4**	**1.4**	**387.9**
Lusosider							
- cold rolled sheet	16.8	94.9	0.8	4.5	0.1	0.6	17.7
- galvanized sheet	12.1	28.5	6.2	14.6	24.1	56.9	42.4
- tin plate	17.6	60.7	8.2	28.3	3.2	11.0	29.0
Total flat products	**46.5**	**52.2**	**15.2**	**17.0**	**27.4**	**30.8**	**89.1**

Sales in the 2nd Semester of 1996 per product category

	Portugal		EU 14		3rd Countries		Total
	kt	%	kt	%	kt	%	kt
SN Servicos							
- billets	154.5	68.9	17.8	7.9	52.1	23.2	224.4
SN Longos							
- rebars	358.6	98.8	4.4	1.2	0.0	0.0	363.0
- wire rod	37.0	75.7	10.1	20.7	1.8	3.7	48.9
- profiles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total long products.	**395.6**	**96.0**	**14.5**	**3.5**	**1.8**	**0.4**	**411.9**
Lusosider							
- cold rolled sheet	20.3	81.2	4.7	18.8	0.0	0.0	25.0
- galvanized sheet	19.1	37.7	17.2	33.9	14.4	28.4	50.7
- tin plate	16.0	53.3	13.4	44.7	0.6	2.0	30.0
Total flat products	**55.4**	**52.4**	**35.3**	**33.4**	**15.0**	**14.2**	**105.7**

The sales of billets to the Portuguese market by *SN Servicos* go exclusively to *SN Longos*. Since the closure of the medium section mill with a capacity of 80 kt/y, the demand of *SN Longos* decreased so that *SN Servicos* increased its exports of billets, amounting to 30.5% of its production, mainly to third countries. Still in 1994 *SN Servicos* could deliver all its production to its Portuguese client, while in 1995 it exported around 7% of the production.

Due to an increased demand from the construction industry in 1996 *SN Longos* was able to reduce significantly its excess stocks in long products.

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

The Portuguese authorities provided a full range of financial data and financial ratios in line with the Annex to the Commission's decision. The following tables show the financial results of the three operating companies *SN Servicos*, *SN Longos* and *Lusosider*. The results for *SN SGPS*, which is now in liqidation, are given under II. 8.

a) *SN Servicos*

in mio Esc	1996 *	1. Semester 1996	1995
Sales + services performed	21245.3	11395	21810
other products	67.7	- 759	1662
costs of sales	13516.6	7150	14594
personnel costs	4222.3	2182	4228
depreciation + provisions	1064.5	539	1087
net financial charges	361.7	197	344
other costs	4934.3	2419	4308
operating result	- 2927.1	- 1851	- 1087
gross benefit	- 3218.9	- 1955	- 854

* provisional figures

b) *SN Longos*

in mio Esc	1996 *	1. Semester 1996	1995
Sales + services performed	37596	18429	40231
other products			
costs of sales	27191	14050	28629
personnel costs	2578	1309	3134
depreciation + provisions	2572	1286	2763
net financial charges	923	457	930
other costs	6033	2994	6388
operating result	- 1701	- 1667	- 1613
gross benefit	- 2867	- 2227	- 1709

* provisional figures

c) *Lusosider*

in mio Esc	1996 *	1. Semester 1996	1995
Sales + services performed	18017	8142	22290
other products			51
costs of sales	16186	7684	20769
personnel costs	1752	811	1685
depreciation + provisions	1697	763	1926
net financial charges	420	383	786
other costs	67	24	53
operating result	- 2106	- 1533	- 2834
gross benefit	- 1527	- 1641	- 2996

* provisional figures

7. Aid

The aid authorized under Article 95 of the ECSC Treaty (see above I.1.) has been paid in six installments between March 1994 and June 1995 as explained in the previous monitoring reports. The approved aid under Article 3 of the Fifth Steel Aid Code has not been paid so far. The use of the approved social aid under Article 4.1 of the Fifth Steel Aid Code is explained above under II.3. (financing of redundancies). Up until the end of 1995 1.77 billion Esc of 4.925 billion Esc authorized were paid. In 1996, no social aid was disbursed.

8. Liquidation of *SN SGPS*

SN SGPS was founded to serve as a holding for the three operating companies created to allow the separate privatization of the long and the flat products branch. It also served as an administrative body for the different financial transactions in connection with the creation of the new corporate structure and the privatization. Since both operating companies are now privatized and *SN Servicos* and its management would be able handling the remaining tasks such as the sale of the light section mill and the administration of several accounts it was decided in October 1996 that *SN SGPS* had served its purpose and should be liquidated. The liquidation is scheduled to be terminated by the end of April 1997.

The accounts of *SN SGPS* were provisionally closed by 30 November 1996 to serve as a basis for the liquidation procedure:

in mio Esc	30.11.1996 *	1. sem 1996	1995
Sales + services performed	0	0	513
other products	0	0	870
costs of sales	0	0	0
personnel costs	203.9	115	259
depreciation + provisions	408.1	12	117
net financial charges	2032.4	3098	5009
other costs	236.4	149	4
			631
operating result	- 2880.8	- 3374	- 8633
gross benefit	- 11789.0	- 3441	- 12090

* provisional figures

in mio Esc	30.11.1996 *	30.6.1996	1995
Intangible assets	14387.6	21369	23346
stocks	0.0	0	0
clients	0.0	976	1283
other debtors	5417.7	3012	4405
other assets	116.8	936	7524
Total assets	19922.0	26293	36558
Equity	- 8653.9	- 878	2563
Creditors, MLT	17545.6	7819	7751
Creditors, ST	9571.3	18148	25086
other liabilities	1459.0	1204	1158
Total liabilities	28575.9	27171	33995

* provisional figures

On the basis of the above figures is it obvious that *SN SGPS* would have to be liquidated with a negative equity of approximately 8.65 billion Esc (44 MECU). The initial expectation of the Portuguese authorities was to arrive at a final positive result of *SN SGPS* at the end of its operations so that the revenue would have been available to pay back part of the aid authorized under Article 95 of the ECSC Treaty. The reasons for the finally negative result are the following:

- The initial restructuring plan, based on the *Roland Berger* study of 1991/92, assumed that the restructuring measures could be started in 1993. Due to the delay connected to the Article 95 procedure of the Commission and the Council, which was terminated only in April 1994, additional losses compared to the expectations had to be covered, amounting to approximately 11 billion Esc.

- As a result of the delay related to the Artiicle 95 procedure, the envisaged aid could only be paid in 1994 and 1995, leading to additional unexpected financial charges of approximately 4 billion Esc.

- The open tender to privatize the majority shares in *SN Longos* and *SN Planos* led to a privatization revenue of about 10 billion Esc less than estimated by the most pessimistic assumptions that were based on expert evaluations.

The total additional burden of 25 billion Esc (127.4 MECU) related to the unexpected delays and the low revenue from privatization corresponds to practically all losses of *SN SGPS* since its creation.

The negative equity of 8.65 billion Esc corresponds 90% of a liability of *SN SGPS* vis-a-vis the Portuguese treasury based on the redemption of an ECSC investment loan of 75 million Swiss Francs that became due by 15 July 1996. This loan was granted on the basis of a contract between the old *Siderurgia Nacional* and the ECSC of 14 April 1989 and was covered by a guarantee (*carta de conforto*) of the Portuguese State.

When the repayment of the loan with interest was due in July 1996, the management of *SN SGPS* had to declare the incapability of the company to satisfy the ECSC. The Portuguese State was consequently obliged to honour the guarantee. On 29 July 1996 it paid 75,656,525.11 Swiss Francs (which corresponded, based on the exchange rate of 25 July 1996, to 9,546,189,025 Esc) to the ECSC and earned a claim under a right of recourse of the guarantor against *SN SGPS* of this amount with interest at market rate running from the date of payment. Due to the negative equity of *SN SGPS* the Portuguese treasury would have to write-off 90 % of this claim in the framework of the liquidation.

When the Commission decided to grant the ECSC investment loan in December 1988 the aid element of the *carta de conforto* was considered compatible with the common market under the particular provisions regarding the restructuring of the Portuguese steel industry of Article 212 in connection with paragraph 2 of the Annex to Protocol No. 20 of the Act concerning the accession of the Kingdom of Spain and the Portuguese Republic.

Another ECSC investment loan of 40 MECU (7.84 billion Esc), due for redemption by 27 February 1998 may be repaid from the residual equity of *SN SGPS*. The Commission services responsible to administer the loan and the Portuguese authorities together with the liquidators of *SN SGPS* are currently negotiating the conditions for the termination of this loan contract before the end of the liquidation procedure at the end of April 1997.

In the framework of the liquidation of *SN SGPS,* the 10% share in *Lusosider* and the 20% share in *SN Longos* was sold to *SN Servicos* at the same price that was paid by the private companies that took over the majority share in these undertakings in 1995.

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, May 1997

EKO Stahl GmbH, Germany

I. Introduction

On 21 December 1994 the Commission authorized State aid in favour of EKO Stahl GmbH under Article 95 ECSC Treaty[1] as follows:

- 362.2 Mio DM[2] for compensation of losses accumulated before privatization,
- 220.0 Mio DM for compensation of losses during the restructuring period,
- 314.0 Mio DM for investments and repairs,
- 4.02 Mio DM as the aid element of a public guarantee.

The aid was **paid** before the end of 1994. The aid for compensation of losses is limited to 100 Mio DM per year in 1995 - 1997. So far, 120 Mio DM of this amount was used (see II.7.).

On 21 December 1994 the Commission further approved regional investment aid of 385 Mio DM under Article 5 of the Fifth Steel Aid Code[3] (see II.7.).

The authorization of aid was *inter alia* linked to the following conditions:

- closure of a medium section mill at *HES Hennigsdorfer Elektrostahlwerke GmbH* and a special steel plates mill at *Walzwerk Burg GmbH* with a total hot-rolling capacity of 361 kt/y (**achieved**, see II.1.),
- the total capacity reduction in Eastern Germany between 1 July 1990 and 31 December 1996 shall amount to at least 10%, excluding the capacity reductions in Burg, Hennigsdorf and Freital and taking into account the 900 kt/y capacity to be built up at EKO (**achieved**, see II.1.),
- the new hot-rolling mill shall be built up to reach its 900 kt/y capacity by the end of 1997 and shall be kept at this capacity up until the end of February 2000 (**forthcoming,** see II.1.),
- the production of the new hot-rolling mill shall only be used for further processing in the company's own cold-rolling facilities (**forthcoming**),
- the level of net financial charges of the company should be at least 3.5 % of turnover (**achieved**, see third monitoring report).

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1 O.J. No L 386, 31.12.1994, p. 18

2 1 mio DM = 511,741.91 ECU (3.3.1997)

3 O.J. No C 18, 17.1.1997, p. 7

II. The new monitoring report

The present report covers the developments up until 30 June 1996 based on the information provided by the German Government in its fifth monitoring report covering the new privatization and restructuring plan under participation of *Cockerill Sambre S.A.*, which was submitted, in line with the request of the Commission, on 14 March 1997.

1. Capacity

Capacity reduction

The requested capacity closures at *Walzwerke Burg GmbH* and *Hennigsdorfer Elektrostahlwerke GmbH* were carried out by the end of February 1995.

Total capacity reduction in Eastern Germany

The decision of the Commission to authorize regional investment aid under Article 5 indent 3 of Decision No 3855/91/ECSC of 27. November 1991 (Fifth Steel Aid Code) in favour of EKO Stahl GmbH was based on the assumption that the total capacity in hot-rolled finished products in the territory of the former GDR would still show a decrease by at least 10% compared to the situation in 1990 at the end of 1996, even if the capacity of 900 kt/y to be installed at EKO Stahl would be taken into account. The capacity reduction should therefore cover:

capacity reduction to balance ...	kt/y
regional under Art. 5 SAC	535
Art 95 aid for *EKO Stahl*	361
Art 95 aid for *SEW Freital*	160
additional capacity of *EKO Stahl*	900
Total	**1956**

The following table shows the capacity development in the territory of the former GDR based on the capacity evaluations carried out by the Commission:

in kt/y [1]	1.7.90	12/90	1991	1992	1993	1994	1995	1996
Stahl + Walzwerk Brandenburg	1120	1120	1120	350	350			
Brandenburger Elektrostahlw. [2]				770	770	770	770	770
Maxhütte Unterwellenborn [3]	720	720	600	600	600	600	600	600
Blechwalzwerk Olbernhau	125							
Walzwerk Ilsenburg	650	650	650	650	650	650	650	650
Stahlwerk Hennigsdorf	1286	1036	976					
Hennigsd. Elektrostahlwerke [4]				976	976	976	656	656
Eisen- u. Hüttenwerke Thale	135							
SEW Freital	340	340	340	340	340	340	340	180
Walzwerk Finow	220	50						
Walzwerk Burg	102	102	41	41	41	41		
Stahl- u. Walzwerk Riesa	650	650	550			450	450	450
Total	6348	4668	4277	3727	3727	3827	3466	3306

1 capacity evolution other than resulting from productivity improvements
2 *Brandenburger Elektrostahlwerke GmbH* was created through asset purchases from the insolvency of *Stahl- und Walzwerk Brandenburg*
3 *Maxhütte Unterwellenborn* is now *Stahlwerke Thüringen GmbH*
4 *Hennigsdorfer Elektrostahlwerke GmbH* was created through asset purchases from the insolvency of *Stahlwerk Hennigsdorf*

After the full entering into operation of the new hot-rolling mill of *EKO Stahl GmbH* with a capacity of 900 kt/y the total capacity in the territory of the former GDR will consequently be at 4206 kt/y. It may be concluded that the total capacity reduction between 1 July 1990 and 31 December 1996 was 2042 kt/y, 86 kt/y more than required.

Capacity limitation

The limitation of the capacity of the new hot-rolling mill at 900 kt/y up until the end of February 2000 and at 1.5 mio t/y up until the end of February 2005 will be provided by an electronic device that will make it technically impossible to exceed these thresholds[4]. The proposed technical solution was in principle accepted by the Commission in early 1996. The technical details of the installation and the procedural precautions regarding its proper operation were discussed during the first months of 1997.

4 for details regarding this system see the fifth monitoring report, May 1996, page 2

2. Investments

The investment program of *EKO Stahl GmbH* is implemented in line with the plan. The renovated sinter entered production in January 1997, the new blast furnace N° 5A is scheduled to start production in April 1997. The first trial rolling in the new hot-rolling mill will be in July 1997.

During the second semester of 1996 investments of 246.0 Mio DM were realized. Since the beginning of 1995 a total amount of 543.7 Mio DM was spent for investments. Orders given out amounted to 924.7 Mio DM by the end of 1996 covering 84% of the total investment program of 1.1 billion DM. The main steps of the investment program in 1996 were:

- the termination of construction works in the building for the new hot-rolling mill, the installation of equipment in the base of this building and the delivery of the rolling stands;
- the installation of parts of the re-heating furnace and the water treating system for the new hot-rolling mill;
- the completion of major elements of the new blast furnace;
- the renovation of the sinter including the replacement of one of the two sinter tapes and the installation of the new control device.

As already explained in the sixth monitoring report, some initial planning had to be modified because the costs for the sinter and the blast furnace turned out to be higher than expected while the costs for the new hot-rolling mill could be limited to balance that. The following tables show the details of the revised plan and the implementation since beginning of 1995:

Investments July - December 1996

in mio DM	Total plan	plan 1996	orders	realized
modernization of sinter facilities	62.9	31.0	19.9	26.3
construction of blast furnace	298.2	144.0	42.8	83.1
new hot-rolling mill	630.9	220.5	68.9	114.5
modernization cold-rolling mill	108.0	63	24.4	22.1
TOTAL	**1100.0**	**458.5**	**156.0**	**246.0**

Investments 1996

in mio DM	Total plan	plan 1996	orders	realized
modernization of sinter facilities	62.9	31.0	49.0	30.6
construction of blast furnace	298.2	144.0	121.2	126.7
new hot-rolling mill	630.9	220.5	158.8	216.4
modernization cold-rolling mill	108.0	63	27.9	39.8
TOTAL	**1100.0**	**458.5**	**356.9**	**413.5**

Investments 1995 and 1996

in mio DM	Total plan	plan 1995/96	orders	realized
modernization of sinter facilities	62.9	33.5	54.8	33.1
construction of blast furnace	298.2	162.0	251.5	144.7
new hot-rolling mill	630.9	305.2	525.7	301.1
modernization cold-rolling mill	108.0	88.0	92.7	64.8
TOTAL	**1100.0**	**588.7**	**924.7**	**543.7**

Investments 1995 - 1997

in mio DM	1995	1996	1997 plan	1995 - 1997
modernization of sinter facilities	2.5	30.6	29.8	62.9
construction of blast furnace	18.0	126.7	153.5	298.2
new hot-rolling mill	84.7	216.4	329.8	630.9
modernization cold-rolling mill	25.0	39.8	43.2	108.0
TOTAL	**130.2**	**413.5**	**556.3**	**1100.0**

3. Evolution of workforce

On 31 December 1996 *EKO Stahl GmbH* had 2776 employees (including trainees) compared to 2720 on 1 January 1996. 53 new employees were hired for the hot-rolling mill of which 32 were former trainees of EKO Stahl. It is intended to increase the number of workers for the new hot-rolling mill to 175 employees of which 73 were already hired in 1996. 85 employees left the company. The number of trainees increased from 188 to 200 by the end of the year.

Evolution of workforce

date	employees	trainees	total
1.1.1995	2764	187	2933
1.7.1995	2478	154	2632
1.1.1996	2532	188	2720
1.7.1996	2576	151	2727
1.1.1997	2576	200	2776

4. Production, sales, turnover

1st and 2nd semester 1996

	production in kt		sales in kt		turnover in mio DM	
	1. sem.	2. sem.	1. sem.	2. sem.	1. sem.	2. sem.
Pig iron	864.1	808.1	0.0	0.0	0.0	0.0
slabs	971.3	895.0	869.6	804.7	304.9	287.1
cold strip	13.2	17.9	13.4	15.3	9.3	9.3
fine plate cold-rolled	291.4	310.4	285.3	303.6	225.0	219.2
magnetic steel sheets	17.6	17.5	17.4	17.0	14.2	13.9
fine plate galvanized	126.4	142.2	128.3	137.8	114.2	112.5
fine plate coated	31.0	50.3	32.9	53.3	39.2	60.1
Total finished cold-rolled products	**479.6**	**538.3**	**477.3**	**527.0**	**401.9**	**415.0**
miscellaneous turnover					33.8	39.9
Total turnover					**740.6**	**742.0**

1995 and 1996

	production in kt		sales in kt	
	1995	1996	1995	1996
Pig iron	1485.6	1672.1	0.0	0.0
slabs	1659.1	1866.3	1174.1	1674.3
cold strip	30.1	31.1	30.3	28.7
fine plates cold-rolled	611.4	601.8	606.2	588.9
magnetic steel sheets	28.3	35.1	28.1	34.4
fine plate galvanized	269.6	268.6	271.2	266.1
fine plate coated	97.5	81.4	92.7	86.2
Total finished cold-rolled products	**1036.9**	**1018.0**	**1028.6**	**1004.3**

2nd semester 1995 and 2nd semester 1996

	production in kt		sales in kt	
	7-12/95	7-12/96	7-12/95	7-12/96
Pig iron	820.3	808.1	0.0	0.0
slabs	909.2	895.0	640.6	804.7
cold strip	12.7	17.9	12.8	15.3
fine plates cold-rolled	267.6	310.4	274.5	303.6
magnetic steel sheets	12.1	17.5	12.8	17.0
fine plate galvanized	125.5	142.2	122.6	137.8
fine plate coated	49.9	50.3	45.6	53.3
Total finished cold-rolled products	**467.8**	**538.3**	**468.3**	**527.0**

5. Sales and markets

Sale of finished products in 1996

in mio DM	1. quarter	2. quarter	3. quarter	4. quarter	TOTAL
Germany	138.9	145.0	151.9	150.1	585.9
Export total	63.2	54.8	54.6	58.4	231.0
EU 14	56.3	48.0	44.3	46.3	194.9
CIS	0.1	0.5	0.9	0.9	2.4
Eastern Eur.	6.2	6.1	8.4	10.4	31.1
Other countries	0.6	0.2	1.0	0.8	2.6
TOTAL	**202.1**	**199.8**	**206.5**	**208.5**	**816.9**

in mio DM	1. sem.	%	2. sem.	%	TOTAL
Germany	283.9	70.6	302.0	72.8	585.9
Export total	118.0	29.4	113.0	27.2	231.0
EU 14	104.3	26.0	90.6	21.9	194.9
CIS	0.6	0.1	1.8	0.4	2.4
Eastern Eur.	12.3	3.1	18.8	4.5	31.1
Other countries	0.8	0.2	1.8	0.4	2.6
TOTAL	**401.9**	**100**	**415.0**	**100**	**816.9**

Comparison 1995 and 1996

in mio DM	1995	1996	%
Germany	617.0	585.9	- 5.0
Export total	288.0	231.0	- 19.8
EU 14	249.5	194.9	- 21.8
CIS	3.5	2.4	- 31.4
Eastern Eur.	25.3	31.1	+ 22.9
Other countries	9.7	2.6	- 74.2
TOTAL	905.0	816.9	- 9.7

in mio DM	7-12/1995	7-12/1996	%
Germany	281.5	302.0	7.3
Export total	139.2	113.0	- 18.3
EU 14	115.3	90.6	- 21.4
CIS	0.7	1.8	+ 157.1
Eastern Eur.	15.0	18.8	+. 25.3
Other countries	8.2	1.8	- 78.0
TOTAL	420.7	415.0	- 1.4

Comparison 1st and 2nd semester 1996

in mio DM	1-6/1996	7-12/1996	%
Germany	283.9	302.0	+ 6.8
Export total	118.0	113.0	- 4.28
EU 14	104.3	90.6	- 13.1
CIS	0.6	1.8	+ 200.0
Eastern Eur.	12.3	18.8	+ 52.8
Other countries	0.8	1.8	+ 125.0
TOTAL	401.9	415.0	+ 3.2

The second semester showed a stabilization of demand in cold-rolled sheet in Germany, while prices were 7% lower than in the first semester. Production and sale of slabs decreased in the second semester compared to the first semester due to the closing of a blast furnace which is to be replaced by the new furnace N° 5A.

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

The German authorities provided a full range of financial data and financial ratios in line with the Annex to the Commission's decision of 21 December 1994.

in mio DM	1994	1995	plan 1996	1996 *	1-6/96	7-12/96
turnover	1092	1440	1445	1483	741	742
gross margin	80	138	125	119	58	61
depreciation	25	34	41	42	18	24
net operating result	- 17	21	- 90	- 99	- 57	- 42
net financial charges	29	21	35	27	13	14
net results	- 48	2	- 125	- 125	- 67	- 58

* provisional figures

The increased turnover (+ 3% compared to the plan) results mainly from higher exports of slabs to third countries. The decrease of turnover in cold - rolled sheet was thereby compensated. The prices for flat products were 20 DM per ton lower than expected when the plan figures for 1996 were established. The company managed, however, to meet its planning regarding the net result by implementing a strict cost reduction program. The net financial charges increased compared to 1995 due to the investments carried out. They were lower than initially expected mainly due to a lower level of interest rates.

7. Aid

The aid authorized by the Commission under Article 95 ECSC and Article 5 of the Steel Aids Code was granted as explained in the third monitoring report. BvS and the Land Brandenburg charged independent chartered accountants 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.

The regular reports of the independent financial expert group are submitted to the Commission to allow the monitoring of the use of the aid in line with its decision. The quaterly reports No 1 - 7, covering the time from 1 January 1995 to 30 September 1996, have been examined and discussed with the German authorities. The Commission services had no particular comments.

The reports of the experts cover *inter alia* the monitoring of the use of the aid for investment granted by THA/BvS in line with the privatization contract. The experts examine the lists of intended payments prepared by *EKO Stahl* before the company uses the aid to cover investment expenses.

The following table shows the use of the authorized aid up until the end of 1996:

in mio DM	authorized	1994	1995	1996	total
compensation of losses .- 1994	362.60	362.60	0.0	0.0	362.60
compensation of losses 1995 - 97	220.00		[1] 20.0	100.0	120.00
contribution BvS for investments	275.00		32.6	103.0	135.60
contribution BvS for repair and maintenance	39.00		0.3	16.7	17.00
aid element of guarantee	4.02	4.02	0.0	0.0	4.02
Total aid Article 95 ECSC	**900.62**	**366.62**	**52.9**	**219.7**	**639.22**
regional investment aid	380.00	0.00	45.0	142.3	187.30
investment allowance	5.00	0.00	5.0	0.0	5.00

[1] calculated losses related to the purchase of the hot-rolling mill of HES, see Art 1 § 2 of the Commission's decision of 21 December 1994

[2] of which 33 mio DM would cover the costs for a new sinter tape to replace the initially intended repair of two old sinter tapes

One of the contractual obligations of *EKO Stahl* is to pay interest to BvS on the amounts received until they are effectively spend for the contractual purposes, so as to avoid the aid exceeding the maximum amount authorized by the Commission. In order to comply with that conditions the company charged the bank at which the separate accounts for the aid received are managed to transfer automatically the interest received on maturing time deposits to BvS. During the second half of 1996, BvS received DM 14.2 million interest. In 1996, BvS received a total amount of DM 15.87 million interest from these accounts.

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, May 1997

SEW Freital GmbH, Germany

I. Introduction

The Commission decided on 12 April 1994 to approve aid totalling 274 Mio DM[1] in favour of *Sächsische Edelstahlwerke GmbH*, Freital/Sachsen under Article 95 ECSC Treaty[2]. It further approved regional investment aid totalling 60.6 Mio DM, an ERP loan and a Federal/Land guarantee covering 80% of an investment loan of 100.8 Mio DM under Article 5 of the Fifth Steel Aid Code. Regional investment aid totalling 11.6 Mio DM for investments related to the non - ECSC activities of the company were approved under general aid schemes[3].

The aid was **paid** until the end of 1996, except a small portion of 2.9 Mio DM social aid which may still be disbursed (see II.6.)

The authorization of aid was *inter alia* linked to the following conditions:

- reduction of hot-rolling capacity of the company from 340 kt/y down to 180 kt/y by the end of 1996 (**achieved**, see II.1.),
- reduction of crude steel capacity from 300 kt/y down to 200 kt/y by the end of 1996 (**achieved**, see II.1.),
- replacement of the old electric arc furnaces by a new furnace (**forthcoming**),
- the remaining capacity shall not be increased other than resulting from productivity improvements up until the end of the year 2000 (so far **observed**, see II.2.)
- the level of net financial charges of the company should be at least 3.5 % of turnover (**achieved**, see third monitoring report).

1 1 mio DM = 511,741.91 ECU (3.3.1997)

2 O.J. No L 112; 3.5.1994, p. 71

3 O.J. No C 302; 9.11.1993, p. 6 and O.J. No C 401; 31.12.1994, p. 10

II. The new monitoring report

The present report covers the developments up until 31 December 1996 based on the information provided by the German Government in its seventh monitoring report which was submitted, in line with the request of the Commission, on 14 March 1997.

1. Capacity

The Commission requested in its decision authorizing the aid under Article 95 of the ECSC Treaty that the capacities of *SEW Freital* shall be reduced as follows:

product	capacities		capacity reduction	
	1.7.1990	31.12.1996	total	in %
crude steel	300 000 t/y	200 000 t	100 000 t/y	33 %
hot-rolled finished products	340 000 t/y	180 000 t	160 000 t/y	47 %

The initial capacity in hot-rolled finished products was as follows:

mill No 450 (medium section mill)	170 kt/y
mill No 280 (light section mill)	80 kt/y
mill No 700	90 kt/y
total	340 kt/y

These installations were closed and dismantled before 31 December 1995. They were replaced by a combined merchant bar / wire rod mill, parts of which were moved from *Boschgotthardshütte* in Siegen to Freital, with a capacity for hot-rolled finished products of 180 kt/y.

All crude steel facilities existing at the time of German unification but one electric arc furnace were closed and dismantled with the result that the current crude steel capacity is currently at 145 kt/y. The remaining electric arc furnace is scheduled to be closed down to be replaced by a new electric arc furnace with a capacity of 200 kt/y. The installation of the new furnace is delayed due to some technical obligations that were imposed by the authorities responsible for environmental protection. The new furnace was ordered and paid during the second half of 1996 and the installation was started in beginning 1997. It is intended to have the new furnace entering into operation by the end of 1997. The implementation of the restructuring plan is not affected by the delay because the existing furnace will be sufficient until the end of 1997 to cover the demand of crude steel created by the new combined merchant bar / wire rod mill.

2. Investments

The following investments have been carried out until the end of 1996:

in mio DM	carried out until 12/1996		plan	
installation	Total	ECSC	Total	ECSC
crude steel facilities	45	45	48	45
rolling + forging facilities	110	107	90	80
reheating + adjusting installations	48	40	67	65
environment, infrastructure, administration and marketing (Freital)	40	38	42	40
polished steel installations, peeling- and abrading installations (Lugau)	21	0		
drawn wire installations (Lugau)	6	0	33	0
environment, infrastructure administration and marketing (Lugau)	7	0		
TOTAL	**277**	**230**	**280**	**230**

The differences between the plan and the final figures mainly result from the fact that the invoices of suppliers for rolling installations were also covering some infrastructure installations that were put in the plan under other items.

The investments were financed as follows:

in mio DM	total	of which investments in ECSC related installations
own capital after increase of equity	10.00	10.00
loans of shareholders	13.66	13.66
loans of suppliers, own performances	64.14	52.16
loans of banks	120.0	93.58
of which DtA ERP	20.00 100.00	
regional investment aid *	56.81	48.42
tax allowance (InvZul) - regional aid	15.39	12.18
TOTAL	**280.00**	**230.00**

3. Evolution of workforce

	1993	1994	1995	1996
number of employees	1123	1061	1085	866

Financing of redundancies

in 1000 DM per 31.12.	1993	1994	1995	1996	1993 - 1996
contribution THA/BVS					
general	6955	405	1026	442	8828
management	1595				1595
various	4000				4000
employment company	731				731
total THA/BVS	13281	405	1026	442	15154
Art 56 ECSC contr.	1164	144	505		1813
SEW Freital	41	239	3806	1405	5491
total costs	**14486**	**788**	**5337**	**1847**	**22458**

The Commission approved a maximum of 34 Mio DM aid of THA to cover costs of redundancies. The plan figure of 34 Mio DM includes payments of THA totalling 15.974 Mio DM that were disbursed already before privatization to cover costs of redundancies. In the second semester of 1996 BvS had to pay 236000 DM for workforce reduction in line with the provisions of the privatization contract and 3000 DM for pension obligations. The total contribution of BvS in 1996 was at 441000 DM. Therefore, the contribution of THA to cover costs of redundancies now totals, including the payments before privatization, 31.128 Mio DM, which is 2.872 mio DM less than authorized.

4. Production and sales

1995

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	56676	17940	17940		
semi-finished products	41144	8901	8011	780	110
merchant bars, wire rod	25041	24051	22474	1330	247
forged pieces	5143	3901	3472	407	22
polished steel drawn (Lugau)	7750	7416	6798	218	400

1996

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	41571	8181	8181	0	0
semi-finished products	22442	6188	5771	138	279
merchant bars, wire rod	19165	25797	24192	1445	160
forged pieces	7344	5626	4885	715	26
polished steel drawn (Lugau)	7314	7379	6773	460	146

2nd semester 1995

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	28948	8753	8753	0	0
semi-finished products	17233	3683	3303	290	90
merchant bars, wire rod	11238	16681	15918	638	125
forged pieces	1618	1855	1627	147	81
polished steel drawn (Lugau)	3391	3149	2728	116	305

1st semester 1996

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	21069	5480	5480	0	0
semi-finished products	11150	3540	3191	70	8
merchant bars, wire rod	11691	15184	13704	1320	160
forged pieces	4672	3834	3211	597	26
polished steel drawn (Lugau)	4099	4074	3871	57	346

2nd semester 1996

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	20502	2701	2701	0	0
semi-finished products	11292	2648	2580	68	0
merchant bars, wire rod	7474	10613	10448	125	40
forged pieces	2672	1792	1674	118	0
polished steel drawn (Lugau)	3215	3305	2902	403	0

Comparison production 1995 and 1996

in tons	1995	1996	%
crude steel	56676	41571	- 27
semi-finished products	41144	22442	- 46
merchant bars, wire rod	25041	19165	- 23
forged pieces	5143	7344	+ 43
polished steel drawn (Lugau)	7750	7314	- 6

Comparison production 2nd semester 1995 and 2nd semester 1996

in tons	7-12/95	7-12/96	%
crude steel	28948	20502	- 29
semi-finished products	17233	11292	- 34
merchant bars, wire rod	11238	7474	- 33
forged pieces	1618	2672	+ 65
polished steel drawn (Lugau)	3391	3215	- 5

Comparison production 1st semester 1996 and 2nd semester 1996

in tons	1-6/96	7-12/96	%
crude steel	21069	20502	- 3
semi-finished products	11150	11292	+ 1
merchant bars, wire rod	11691	7474	- 36
forged pieces	4672	2672	- 43
polished steel drawn (Lugau)	4099	3215	- 22

It should be noted that the planned production level of the new combined merchant bar / wire rod mill was not achieved in 1996. The supplier of the installation, an East German company that filed for bancruptcy in October 1996, was unable to solve major technical difficulties that arose during the trial period. The installation can so far not be considered to fully meet the technological and commercial intentions of the management of *SEW Freital*. The impact of this development on the implementation of the restructuring plan is to be discussed.

5. Financial Performance

The German authorities presented a full range of financial data and financial ratios in line with the Annex to the Commission's decision of 12 April 1994.

in mio DM	1994	1995	1996 *	comparison 96/95 in %
turnover	109.1	178.8	148	- 17
total performance**	138.4	207.2	163	- 21
total cost of sales ***	126.1	181.9	139	- 24
depreciation	14.0	19.7	24	+ 22
net operating res.	- 4.3	0.1	- 8	
long & shortterm debts	49.8	149.9	140	- 7

* provisional figures
** turnover plus increase in stocks plus activated own performance plus miscellaneous income
*** cost of sales plus personnel costs

The decrease in production (see above II.4.) and financial performance results from the following factors:

- The positive market situation of 1994 and 1995 led to orders that were still honoured during the first months of 1996. During the second half of 1995 the general market situation in the special steel sector led to a decrease of orders and prices, a trend that continued in 1996. The turnover in 1996 decreased compared to 1995 due to these reasons. It is expected that the market would slightly recover in 1997.

- The productivity during 1996, after the entering into operation of the new rolling mill, is still below that of 1995 because the technical problems related to the installation of a new mill are still not solved (see above II.4.).

6. Aid

The following table gives an overview regarding the aid:

in mio DM	authorized	granted
waiving of liquidity loans (banks) *		72.52
waiving of loans of THA		52.77
total loans waived	147.00	125.29
covering of claims of suppliers	42.00	60.69
guarantee for value of stock and claims	9.00	1.78
subtotal covering of old debts	198.00	196.76
maintenance	42.00	42.00
reduction of workforce	34.00	31.13
Total	274.00	269.89

BvS paid, as result of a settlement in Court, a final amount of DM 9 million to cover old debts. The company and BvS agreed that all claims arising from the privatization contract are thereby satisfied. Only a small portion of aid for workforce reduction (see above II.3.) may still be paid.

Monitoring of Article 95 ECSC steel aid cases
Seventh Report, May 1997

Voest Alpine Erzberg GmbH, Austria

I. Introduction

The Commission decided on 29 November 1995 to approve aids in favour of *Voest Alpine Erzberg GmbH* (VAEG) in order to allow the gradual closure of its mining activities until the year 2002[1]. The aid approved totals 272 Mio ÖS (19.84 MECU) to cover operating losses during the period 1995 until 2002 and 136 Mio ÖS (9.92 MECU) to cover costs for a safe and environmentally friendly retreat from the ore mining.

The following yearly maximum amounts of aid for the different purposes were approved:

	Total aid		Operating aid		Closing aid	
	mio ÖS	MECU	mio ÖS	MECU	mio ÖS	MECU
1995	50	3.65	45	3.28	5	0.36
1996	50	3.65	42	3.06	8	0.58
1997	50	3.65	39	2.85	11	0.80
1998	47	3.43	36	2.63	11	0.80
1999	57	4.16	34	2.48	23	1.68
2000	52	3.79	30	2.19	22	1.61
2001	52	3.79	26	1.90	26	1.90
2002	50	3.64	20	1.46	30	2.18
Total	**408**	**29.76**	**272**	**19.85**	**136**	**9.91**

The authorization of aid was *inter alia* linked to the following conditions:

- the yearly maximum amount of aid and the maximum amount of production as given in the table above shall not be exceeded (so far **observed**, see II.2.),

[1] O.J. No L 94, 16.4.1996, p. 17

- the operating aid shall not exceed the difference between the production costs and the revenues (so far **observed**, see II.2.),
- the price charged for the iron ore shall be at market level and shall not be lower than the price for imported iron ore (so far **observed**, see II.2.).

II. The third monitoring report

The present report covers the developments up until 31 December 1996 based on the information provided by the Austrian Government in its third monitoring report, which was submitted, in line with the request of the Commission, on 14 March 1997.

1. The company

The *Voest Alpine Erzberg Gesellschaft mbh* (VAEG) is held by *ÖIA Bergbauholding Aktiengesellschaft*, which belongs to the *Österreichische Industrieholding Aktiengesellschaft*. The Austrian State holds 100% of the shares of the latter. VAEG is involved in the mining of ore of low iron density (~32% Fe). The open pit mine consists of 23 layers with a height of approximately 24 m and 860 m length.

The company has only one client, the *Voest Alpine Stahl AG* (VASA), which was privatized in autumn 1995.

2. Operating aid

a) Production and sales

In 1996 VAEG produced 1,300,000 tons iron ore with a minimum quality of 33.04% Fe and 0.5603 mio tons tons low quality products, usable for the burden (*Möllerzusatzmaterial*) of VASA. It sold 1.3 mio tons iron ore and 0.50774 mio tons low quality products to VASA.

b) Production costs

The production costs for the standard quality iron ore totalled 226.739 mio ÖS[2], i.e. 174.42 ÖS/ton which represents an increase of 2.1 % compared to 1995. The production costs for the low quality products were 28.379 mio ÖS, i.e. 50.65 ÖS/ton which represents an increase of 63.7% compared to 1995. This increase is to be explained by the fact that in 1995 the low quality material was mainly extracted as part of the normal production process. In 1996, this material had to

[2] 1 mio ÖS = 72955 ECU (3.3.1997)

be extracted, as part of the closing activities, through blasting and drilling. A detailed overview on production costs is given in the Annex.

c) Pricing

In 1996, the iron ore of standard quality was sold at 139,5 ÖS/ton (1995: 139.0 ÖS/t). This standard price was fixed in December 1995 for the entire year 1996. A revision of the pricing during the last quarter of 1996 led to the conclusion that the additional costs of processing the low density iron ore VAEG delivers compared to the costs of processing imported high density iron ore should be balanced by a deduction which was fixed at 13.2 mio ÖS, i.e. 10.15 ÖS/ton, so that the price finally paid for iron ore delivered in 1996 would amount to 129.35 ÖS/ton. The low quality material (*Möllerzusatzmaterial*) was sold at 76.0 ÖS/ton (1995: 78.0 ÖS/ton), fixed on the basis of the market price for lime gravel (*Kalkschotter*). The price per ton pure ferrum (*Stofftonne Eisen*) including costs of transport to VASA/Linz was at 682.88 ÖS/ton.

This price is higher than the average price for iron ore imports to Austria in 1995: 2.47 million tons of iron ore with an average of 62.5% Fe were imported at a total purchase price of 910 mio ÖS[3] (including costs of transport to Austrian border). The average price at the Austrian border was therefore at 368.42 ÖS/ton, inculding transport to Linz 387.96 ÖS/ton. The average price per ton pure ferrum including transport to Linz was therefore 620.74 ÖS/ton Fe. The exact figures for iron ore import prices during 1996, to be provided by the Austrian Central Statistic Agency, are still not available due to internal organizational problems of this body and might be reported in the next monitoring report.

The price paid is also higher than the general market prices in 1996. Published prices for iron ore CIF Rotterdam in 1996 were at 252.85 ÖS/ton. Including transport the price in Austria for imported iron ore would be 393.45 ÖS/ton, which is 631.54 ÖS/ton Fe.

It may therefore be concluded that the prices charged in 1996 were not lower than required under Article 2 of the Commission's decision of 29 November 1995.

d) Operating aid paid in 1996

The total losses of VAEG in 1996 were at 50.75 mio ÖS. In 1995 the company suffered losses of 53.318 mio ÖS which represents a decrease by 4.8%.

3 data of the Austrian Chamber of Commerce

8.4 mio ÖS of the total losses in 1996 were related to closing activities. In 1995 losses of 5.173 mio ÖS were related to closing activities. Therefore, the percentage of losses related to non-productive activities increased from 9.7% in 1995 to 15.75% in 1996. For details as regards the losses see the Annex.

The company applied for an aid of 50 mio ÖS to cover losses of 1996. The Austrian Government agreed to pay a total amount of 48 Mio ÖS, of which 40 Mio ÖS were agreed for operating losses and 8 Mio ÖS for losses related to closing activities. The aid was paid in three tranches in August (22.8 Mio ÖS), November (22.2 Mio ÖS) and December (3 Mio ÖS). The remaining losses have to be covered by revenues from other activities, such as touristic services and a truck repair service.

3. Closing aid

The following table shows the planned total costs for closing activities, the planned total aid and the expenses of VAEG for closing activities in 1995 and 1996.

	planned cost up to 2002	authorized closing aid	aid planned 1996	costs in 1996	costs in 1995
securing of endangered layers	26.7	13.4	3.0	5.047	3.67
securing of the edges of layers	41.7	8.3	1.0	1.175	
relief of the roofs of deposits	54.0	0	0		
creation of collecting compartment for falling material	4.5	3.6	1.0	1.277	1.087
closure of open cast sites	1.0	0.1	0		
diversion of surfacial water	3.5	1.4	0.5		
pulling down of processing plant, transport facilities and buildings	45.0	40.5	0		
demolition of equipment and buildings	25.0	18.3	1.0		
demolition of other mining facilities	16.2	2.4	0.6		
redevelopment of dumphills and basins of mud	1.4	0	0		
recultivation and forestry activities	50.2	12.6	0.9	0.878	0.416
sanitation of polluted soil	35.0	0	0		
sanitation of plluted slaghill	10.0	0	0		
social measures	140.3	35.4	0		
TOTAL	**454.5**	**136.0**	8.0	8.377	**5.173**

4. Aid compared to the plan

	Total aid		Operating aid		Closing aid	
in Mio ÖS	authorized	paid	authorized	paid	authorized	paid
1995	50	47	45	42	5	5
1996	50	48	42	40	8	8
1997	50		39		11	
1998	47		36		11	
1999	57		34		23	
2000	52		30		22	
2001	52		26		26	
2002	50		20		30	
Total	**408**	**95**	**272**	**82**	**136**	**13**

5. Evolution of workforce

The plan regarding workforce reduction is as follows:

workforce	1995	1996	1997	1998	1999	2000	2001	2002
in production	280	276	273	273	254	242	210	181
in closing activities	6	10	13	13	20	20	31	34
Total	**286**	**286**	**286**	**286**	**274**	**262**	**241**	**215**

Therefore, the first reduction of workforce is to be expected by the end of 1998.

6. The development of the area

The Commission, with the unanimous assent of the Council, approved the aid to allow a gradual closure of the mining activities in order to allow an environmentally friendly process and to allow the Austrian authorities to ease the social problems related to the, in the long term unavoidable, loss of jobs in the disfavoured region *Eisenerz*. In 1996 the average unemployment rate in the region was at 8.9%, 0.6 % lower than in 1995. 3.5% of the inhabitants work for VAEG. The regional authorities are actively promoting the creation of new jobs. These efforts were, however, not very successful up until now so that the preservation of employment in VAEG is still considered crucial to avoid a deterioration of the social situation in the area.

Annex

Comparison of production costs and revenues in 1996

	iron ore		low quality material		closing and securing	total	
Production in tons	1300000		560300				
Costs	In 1000 ÖS	in ÖS/ton	in 1000 ÖS	in ÖS/ton	in 1000 ÖS	in 1000 ÖS	in ÖS/ton
production	51246	39.42	5412	9.66		56658	30.46
extraction	71354	54.89	8769	15.65		88500	47.57
processing	53164	40.90	7962	14.21	8377	61126	32.86
quality control	12924	9.94	1496	2.67		14420	7.75
dispatch	10458	8.04	4740	8.46		15198	8.17
overhead	27593	21.23				27593	14.83
total cost of sales	**226739**	**174.42**	**28379**	**50.65**	**8377**	**263495**	**141.64**
Revenue							
sales in tons	1300000		507740				
sales price	181350	139.50	38588	76.0		219938	
quality deduction	13187	10.15				13187	
Total	168163	129.35	38588	76.0		206751	114.37
Difference							
Operating result	**- 58576**		**+ 10209**		**- 8377**	**- 56744**	
stock creation						**+ 5994**	
Result						**- 50750**	
Aid							
	40000				**8000**	**48000**	