



COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

**MONITORING OF ARTICLE 95 ECSC STEEL AID CASES
EIGHTH REPORT, NOVEMBER 1997**

**Monitoring of Article 95 ECSC steel aid cases
Eighth Report, November 1997**

Summary

The Commission presents its Eighth Report on the Monitoring of Article 95 ECSC steel and iron ore aid cases pursuant to its decisions of 4 April 1994¹, 21 December 1994² and 29 November 1995³. 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.

In line with what was announced to the Council on the occasion of the last monitoring report, this report reduces information provided on financial performance for the privatized companies. The Commission has requested all the relevant information, but to protect commercial interests, this information is not being made public.

All of the restructured companies are now privatized or in the process to be privatized; there is, however, a marked difference in their financial performances. For some of these companies their longer term viability still remains to be assured.

1. C.S.I., Spain

Rebuilding of blast furnace No. 5 at Gijón is well under way and should be completed in November 1997. At the end of December 1997 the last blast furnace at Avilés for a capacity of 800,000 tonnes will close down as planned. Other investments are proceeding on schedule and over 90 % of the planned investments have been contracted. Workforce reductions continue on schedule.

The restructured CSI-CS group had positive results at the end of June 1997 of the same magnitude as last corresponding period and better than the plan thanks to the better financial structure of the company.

The final 1996 financial data confirm the reached viability of the company by the end of that year.

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)

During the monitored period the privatisation process continued. On the first of August 1997 the Agencia Industrial del Estado choose the offer of Arbed to become the technological partner of CSI taking 35 % of the capital and the management of the operations.

During the first half of 1997 a further tranche of aid for 40,666 million ptas. was paid to AHV-Ensidesa Capital, the liquidating company. Aid for 336.7 billion ptas. still remain to be paid.

ACB continued its operations the first half of this year producing 214,640 tonnes of marketable products all acquired by CSI.

2. SIDENOR, Spain

All foreseen investments, capacity and workforce reductions 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 the first half of 1997 was 3,350 million 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 6.3 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.

Planned workforce reductions have been achieved.

The arbitration body that was called to arbitrate, under the rules of the International Chamber of Commerce in Paris, the dispute between Riva and IRI on the price paid for ILP, has postponed its judgement which is now expected not before the end of next year.

Liquidation activities at Ilva in Liquidazione continue regularly. All major subsidiaries or shareholding have been sold, only few small ones 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 3962 billion lit., or 341 billion lit. less than the approved aid. Final aid needed at the end of the liquidation process is forecasted to remain lower than the approved one.

4. IRISH STEEL, Ireland

Investments carried out at Irish Ispat up to 30.6.97 represent about 50 % of the budgeted ones, while another 26 % is in progress. Planned workforce reductions were achieved by the end of 1996.

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Reported production and sales for the the financial year 1996/97 (from July 1996 to June 1997), are within the imposed limitations. Commission services visited Irish Ispat on 22/7/97 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.

Results for the period from January 1997 to June 1997 show a loss for 0.43 million IRE.

No further loans have been obtained by Irish Ispat during the monitored period.

5. **SIDERURGIA NACIONAL, Portugal**

After the privatization of *SN Longos* and *Lusosider* and the required capacity closures 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 operated by *SN Servicos*. After having accepted the postponement of the investment until after privatization the Commission insists that *SN Longos* and the public administrations would do the necessary to have the new electric arc furnace entering into operation by the end of 1998 at the latest.

The reduction of workforce of *SN Servicos* is still behind the plan. This is partly due to the delay in the closure of the blast furnace but more than 200 employees still kept are not affected hereby. The company and the Portuguese authorities continue their efforts to catch up with the plan.

SN SGPS, the holding company created to administer the privatization of the long and the flat products branch is in liquidation. It is intended to terminate this operation by the beginning of 1998.

The aid approved under Article 95 of the ECSC Treaty was fully paid in 1994/95. The authorized aid under Art 2 and 3 of the Fifth Steel Aid Code is used by 37%.

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 implemented in line with the plan. First trial rolling of the new hot-rolling mill was on 22 July 1997. The new blast furnace entered into operation in April 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 the first semester of 1997, the company suffered losses of 57 Mio DM.

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

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hot-rolling mill poses some technical difficulties which are to be solved as soon as possible in order to overcome the continued restrictions in product range and productivity. The new electric arc furnace will enter into operation by the end of this year.

The net operating result is again negative. However, the company reduced its losses compared to 1996 by 40%.

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 were below the plan. In the first semester of 1997, the Austrian State paid 15 mio ÖS.

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
	authorized	granted	authorized	granted	required		achieved		plan	achieved	
					kt/y	date	kt/y	date			
SN	60.12 bn Esc = 306 MECU	100 %	5.925 bn Esc	2.204 bn Esc	140	31.12.95	100%	31.12.95	1798	1232 = 69 %	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	8525	investments in line with plan, losses exceed the amount covered by authorized operating aid, increase in workforce for new hot rolling mill
SEW	274 Mio DM = 140 MECU	269.91 Mio DM = 98.5 %	60.62 Mio DM	100%	160	31.12.96	100%	31.12.96			difficulties with new hot-rolling mill, new electric furnace to enter into operation by 1997
VAEG	408 Mio OS = 29.7 MECU	110 Mio OS = 27 %	-	-	-	-	-	-	286	0	pricing at market level, first redundancies planned in 1998

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

company	aid Article 95 ECSC		aid Steel Aids Code and Art 56 ECSC contribution of the State		capacity reduction				redundancies		remarks
	authorized	granted	authorized	granted	required		achieved		plan	achieved	
					kt/y	date	kt/y	date			
CSI	437.8 bn Pta (2715MECU)	219.9 bn Pta (1363.4 MECU)	196.1 bn Pta (1215.8 MECU)	77.3 bn Pta (479.3 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	9307 by 30.6.97	* net reductions **effective date of net reduction
of which Social Aid	54.4 bn Pta (341.7 MECU)										
SIDENOR	80 bn Pta (496 MECU)	80 bn Pta (496 MECU)	24.2 bn Pta (150 MECU)	18.1 bn Pta (112.4 MECU)	505 liq.st. S.S. plant 379 H.R.	5.94 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.
of which Social Aid	7.79 bn Pta (48.9 MECU)	7.79 bn pta (48.9MECU)									
ILVA	4790 bn Lit (2302 MECU)	4692 bn Lit (2255 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	11758 by i2.96	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.IRE (47.7 MECU)	38.298 M.IRE (47.7 MECU)							205 by 1996	209 by 1996	

**Monitoring of Article 95 ECSC steel aid cases
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C.S.I. Spain

I. 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 of June 1996 see seventh monitoring report)
- Closure of 950,000 tons of crude steel production capacity at Gijón (achieved since end of 1995-see seventh monitoring report)
- Closure of 2,200,000 tons of crude steel capacity at Sestao (achieved since end of 1995-see seventh 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).

II. Key Points from the last monitoring report

Viability - The analysis of the final 1996 CSI results confirms the achievement of the Commission's criteria for viability by the end of 1996 as required by the Commission decision 94/261/ECSC of 12.4.94.

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III. The new monitoring report

The eighth monitoring report was received from the Spanish authorities on the 15th of September 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 :

- Workforce reduction : dismissal of additional 312 workers; an additional reduction of 1040 people is needed before the end of 1998 to achieve the plan,
- privatisation of CSI : selection of Arbed as technological partner with 35% of capital and management control.

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

- completion of capacity and workforce reductions,
- remaining aid payments,
- 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).

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

Major projects foreseen by the restructuring plan were the rebuilding of the two blast furnaces at Gijón. Reconstruction of blast furnace n° 6 was completed in October 1996. Reconstruction of blast furnace n° 5 started in March 1997 and should last until November 1997

In total, investments for 40 billion ptas. were contracted for all of 1997, of which 15 billion ptas. already completed and paid during the first half of the year.

Together with the 60.6 investments already contracted until the end of 1996, they make a total of 100 billion ptas. against a total engagement of 109 billion ptas.

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 for the first halves of the years from 1993 to 1997 are summarized as follows:

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(thousands tonnes)

CSI Production	1st Half 93	1st Half 94	1st Half 95	1st Half 96	1st Half 97	1st h 97/ 1st h 96 (% change)
Liquid Steel	2675	2615	2675	2361	2006	(15.04)
H. R. Coils	1828	1836	1982	1462	1254	(14.23)
Heavy Plates	284	295	322	273	281	2.93
Wire Rods	206	208	247	224	220	(1.79)
H. Sections	166	118	154	112	119	6.25

The downward trend started during the second half of 1995 is directly related to the reductions in capacity production at Sestao and Avilés and to the shut down of the blast furnaces at Gijón for reconstruction. The limited in-house coil production capacity had also an impact on the overall steel production. 1997 production, therefore, is expected to be below plan, when annualized, except for coils.

(thousands tonnes)

CSI Production	1997 Planned	1997 Annualized	Actual vs. Planned (per cent change)
Liquid Steel	4130	3678	(10.94)
Hot Rolled Coils	2300	2299	-
Heavy Plates	550	515	(6.33)
Long Products	700	621	(11.21)

5. Sales

Sales of finished products, which had also started to decline during the second half of 1995 and in 1996 were 3.2 % below the 1995 level. In first half of 1997 were 2.6 % above corresponding previous period. Comparison with plan figures is not possible since details of sale plan for 1997 are not available.

Breakdown of sales by market during the first half of 1997 shows a slight improvement in the share of domestic sale (see table below).

(in % share of sales)

Markets	1992	1993	1994	1995	1996	2nd H. 1996	1st H. 1997
Domestic	69.15	63.56	65.80	73.84	69.06	70.65	72.11
Other E.C.	16.03	15.73	17.40	18.05	18.03	17.89	16.57
O. Countries	14.82	20.72	16.80	8.11	12.92	11.46	11.32

The Spanish authorities have also provided average prices charged by C.S.I during the first half of 1997. The Commission examined the information given and concluded that the prices are within the normal range.

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6. Financial Performance

The financial performance of CSI during the first half of 1997, compared with the one of the same period of 1996, shows an increased turnover. However, higher costs of sales and higher depreciation generated operating results below the ones of the previous year corresponding period. Finally, thanks to lower net financial charges the net results are slightly higher than at the end of June 1996 (3.32 % more) as shown in the following table :

(millions ptas.)

C.S.I. - C.S.	1st Half 1996	1996	1st Half 1997	1st H 97/1st H 96
Turnover	161672	306238	178186	10.21
Cost of Sales	140661	270822	161309	14.68
of which :Depreciation	12471	27003	15598	25.07
Net Operating Result	10029	16038	9348	(6.79)
Financial Charges	1625	(838)	541	(66.71)
Net Results (before taxes)	8188	16901	8460	3.32
L/T Debts	15233	19462	19861	30.38
S/T Debts	135566	103709	114670	(15.41)

Comparison of 1997 annualized figures with the 1997 plan gives the following results :

(millions ptas.)

	1997 planned	1997 Annualized	Actual vs. Plan
Turnover	311962	326674	4.72
Cost of Sales	288803	295733	- 2.4
of which :Depreciation	33381	28596	(14.33)
Net Operating Result	23158	17138	(26.00)
Financial Charges	10508	992	(90.33)
Net Results (before taxes)	12905	15510	20.19
L/T & S/T Debts	105760	134531	27.20

As it can be seen, if the same financial performance of the first half is maintained in the second part of the year, the restructured CSI will have net results better than the planned ones due to a better financial structure of the company.

According to the approved restructuring plan, CSI had to achieve viability by the end of 1996. The Commission, after having received and analyzed the final 1996 financial

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figures can conclude that the viability criteria set by the Commission itself, had been met.

7. Terms and Conditions of new loans

During the first half of 1997 CSI has contracted a syndicated loan with Spanish and foreign banks for 25 billion Ptas. at market rate and without state guarantee. This new loan was used to replace older ones.

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 first half of 1997 the "Agencia Industrial de l'Estado" (AIE) has launched an open bid procedure to assign 35 % of CSI capital to a steel group which, as a technological partner, would take the management of the company.

On the first of August 1997, the AIE has declared the offer of the company ARBED as the best one and the entry of Arbed in the capital of CSI was approved by the Ministry Council.

This operation includes the increasing of CSI capital by 129,200 million of Ptas. to be subscribed entirely by Arbed and the acquisition of 9.5 % shareholding of CSI in the capital of Arbed plus other participations in Arbed's subsidiaries.

On this occasion CSI management decided to change the name of CSI-CS into ACERALIA Corporación Siderurgica.

The privatisation of CSI (Aceralia) will be completed with the entrance in the capital of one or more national steel producers for a total of 10 - 15 % of the capital and the floating of the rest in the stock market before the end of the year.

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 property 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

Last tranche of capacity reduction still to be performed is the shutting down of the last blast furnace at Avilés 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 furnaces at Gijón. However, during the shut down of the Gijón furnaces the required capacity reduction of 2.3 million tons in pig iron was respected. With the start up of the rebuilt furnaces and the consequent shut down at Avilés of the remaining operating furnace the condition of the decision will still be respected.

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Details on the status of these closures are shown in Table I attached to this report (unchanged since last report).

2. Reduction of Workforce

In the first half of 1997, additional 312 workers were laid off bringing the total workforce reduction since the beginning of the restructuring to 9307 people. In order to accomplish the reduction foreseen by the plan (10347), 1040 people more will have to be dismissed up to the end of 1998.

Total cost for the workforce reductions during first half of 1997 was 11,343 million ptas. plus 4,513 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 162,265 billion ptas. of which :

- 89.5 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.

- 72.7 billion ptas. at the charge of the company will be covered by state aid approved under art. 4.1 SAC and art. 95 ECSC.

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	Situation at 30.6.97
Fixed assets	8.0	6.9	6.7	7.0	6.6
Current Assets	19.5	13.8	14.4	15.9	12.0
Credit with new group	182.4	144.6	120.5	120.5	120.5
Total Assets	209.9	165.4	141.6	143.4	139.1
Equity	(97.3)	(27.8)	(16.2)	(24.7)	(17.3)
Funds		13.4	11.7	9.4	9.4
Debts	307.2	179.8	146.1	158.7	147.1
Total Liabilities	209.9	165.4	141.6	143.4	139.1

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(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	Situation at 30.6.97
Fixed assets	79.0	6.8	4.9	5.9	5.8
Current Assets	44.9	39.5	26.3	3.0	2.3
Credit with new group	23.6	18.9	15.8	15.6	15.6
Total Assets	147.5	65.1	47.0	24.5	23.7
Equity	9.8	(53.7)	(5.0)	(15.0)	(8.4)
Funds	0.3	2.9	2.3	1.4	1.4
Debts	137.4	115.9	49.7	38.1	30.8
Total Liabilities	147.5	65.1	47.0	24.5	23.7

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

During the first half of 1997 40,666 million Ptas of aid were received by AHV-Ensidesa Capital. All of them were used to cover social costs.

Along with aid previously paid, as reported in seventh monitoring report, total aid paid is therefore 297.2 billion ptas. These payments have covered capital injections previously made, social costs and, in part, the capitalisation of the new group.

For memory, the following table summarize the aid payments up to the end of the first half 1997 :

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(billions ptas.)

	approved aid	approved aid reclassified	aid payments at 30.6.97
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	21.3
Total under art. 95	437.8	437.8	219.9
Social aid under art. 56 ECSC, art. 4.1 SAC and general social measures	196.1	196.1	77.3
Total	633.9	633.9	297.2

Aceria Compacta de Bizkaia

1. Investments

During the first half of 1997, the realized investments amounted to 13,342 million ptas. in line with the planned schedule.

2. Financing

No additional financing has to be reported for the first six months of 1997.

3. Production

During the first six months of 1997, ACB produced 214,640 tons of marketable products which have been acquired by CSI at market price.

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SCHEDULE OF CAPACITY CHANGES (status at 30.6.97) (thousand tonnes) Location/Installation	PRODUCTION CAPACITIES DURING YEARS (at beginning of each year)							Capacity Reduction	
	Capacity	1993	1994	1995	1996	1997	1998	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
Eighth Report, November 1997**

SIDENOR, Spain

I. 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 maximum of 7.79 billion pesetas as being compatible with Article 4.1 of the Steel Aids Code.

Granting of the above mentioned 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).

II. Key points from the last monitoring reports

No points were outstanding from the last monitoring report.

III. The new monitoring report

This eighth monitoring report on Sidenor is based on information submitted on 15th of September 1997 in accordance with Commission decision 94/261/ECSC. It covers the period up to 30.6.97.

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.
- respect of the five years production capacity freeze (up to end of 1998).

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

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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 the relevant section of this report.

4. Production

Production of Sidenor during the first 6 months of 1997 and comparison with previous corresponding periods is summarized as follows :

(thousands tonnes)

Actual Production	1st Half 93	1st Half 94	1st Half 95	1st Half 96	1st Half 97	1st h 97/ 1st h 96 (% change)
Liquid Steel	260.6	338.1	382.0	367.7	413.2	12.4
Special Steels	204.0	276.5	316.9	282.5	332.3	17.6
Stainless Steel	11.4	12.8	0.0	0.0	0.0	0.0
Forge&Foundry	15.7	20.1	25.2	32.6	31.7	(2.3)

Production of liquid steel and special steels during the first half of 1997 recovered from the low level of the last part of 1996 scoring the best performance in the last five years.. Forge and foundry products, on the contrary, are leveling off but always at a high level.

5. Sales

Total sales of Sidenor during first half of 1997 were 346.0 thousand tons, 8.7 % higher than corresponding 1996 period.

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	1st H. 1996	1st H. 1997
Domestic	53.9	52.0	57.3	57.4	56.9	57.3	54.0
Other EC	40.7	38.7	35.3	38.7	38.0	38.3	41.7
O. Countries	5.5	9.3	7.3	3.9	5.2	4.3	4.4

The breakdown by market shows a slight increase in the share of sale in the other EC countries mainly at the expenses of the domestic share.

The Spanish authorities have also provided average prices charged by Sidenor during the first half of 1997. The Commission examined the information given and concluded that the prices are within the normal range.

STEEL MONITORING REPORT No. 8. November 1997. SIDENOR

6. Financial Performance

The Spanish authorities supplied a full range of financial data and financial ratios covering the period up to 30.6.97. The Commission has analyzed such data, but, in line with what announced in the occasion of the presentation of last monitoring report, the semestrial results of privatized companies, like Sidenor, are not disclosed in the monitoring report any more to avoid undue business disadvantages.

7. Terms and conditions of new loans

During the first half of 1997, Sidenor has obtained a loan of 10 billion ptas. from a foreign bank at market rates without any state guarantees.

8. Aid payment

As explained in the sixth monitoring report, all approved restructuring aid to Sidenor was paid during 1995 before its privatisation. No other aid is scheduled for Sidenor.

A complete summary of all the aids paid up to 30.6.97 is given under the section "Aid payment" of the Acenor report.

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.

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 extinguish these debts.

Under these circumstances, Acenor will not proceed 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 31.12.96, the total payments made by Acenor/Foarsa on behalf of the state amounted to 20.76 billion ptas. all covered by loans. Since that date, additional 2.37 billion ptas. have been advanced on behalf of the state.

Total social payments advanced by Acenor up to 30.6.97 are therefore 23.14 billion ptas. See below section "Aid Payments" for full details on aid paid by Spanish state.

STEEL MONITORING REPORT No. 8, November 1997, SIDENOR

2. Financial Performance

The balance sheet of Acenor S.A. at 30.6.97 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	Acenor 30.6.97
Fix assets	0.25	0.1	0.64	0.07	0.01
Deferred expenses	54.5	54.0	49.2	52.62	50.08
Current assets	0.26	1.86	1.15	1.71	0.14
Total assets	55.018	55.91	50.98	54.41	50.24
Equity	(46.04)	(53.84)	(23.98)	(8.18)	(7.50)
Equity loans	16.15	0.00	0.00	0.0	0.0
Funds	41.50	36.98	41.25	45.25	42.62
L/T Debts	10.29	25.55	6.51	12.80	12.80
S/T Debts	33.11	47.22	27.18	4.54	2.32
Total Liabilities	55.01	55.91	50.98	54.41	50.24

The variations in the S/T debts during the first half of 1997 are due to the aid payment obtained during the period (see below "Aid payment" section).

3. Terms and conditions of new loans

No new loans have been reported for the monitored period.

4. Aid payment

The amount of aid received during the first six months of 1997, has been of 3,350 million ptas. out of a forecasted amount of 8,992 million ptas. for the year 1997. This aid was used to cover social costs.

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 6,349 million ptas. remains to be paid.

For a full summary of aid payments compared to the aid approved see the table in the following page.

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.

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Summary of aid payments to SIDENOR		
(in billion ptas.)	aid approved	aid payments at 30.6.97
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	25.921
total art. 95 ECSC aid	80.052	
Grand total	122.547	116.198

**Monitoring of Article 95 ECSC steel cases
Eighth Report, November 1997**

ILVA, Italy

I. 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).

II. Key points from the last monitoring reports

Workforce Reductions

Details on the cost at companies charge for the workforce reductions were the only outstanding information from the last report. These details are now available. Under the restructuring plan Ilva had to reduce its workforce by 11500 people by the end of 1996. This was achieved by the end of 1996 since by that time¹ 10568 people were put into pre-retirement and 1190 more were dismissed in other ways, for a total of 11758.

Social costs borne by the company were essentially the severance payments due to workers at the end of their relationship with the company. At this effect a special fund (TFR) must be created under Italian laws. Workforce reduction costs compared to the planned ones for which aid was notified have been as follows :

¹ In fact, for administrative reasons, 480 preretirements at ILP related to 1996, were only performed in January 1997.

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	No. of preretirements		Costs (billion Lit.)		Ave. cost per worker (million Lit.)	
	Forecast	Actual	Forecast	Actual	Forecast	Actual
Ilva in Liq. (incl. Dalmine)	5156	4974	180	168	35	34
ILP	4406	4853	154	226	35	47
AST	759	807	26	39	35	48
Total	10321	10634	360	433	35	41

Social aid approved under Art. 95 ECSC (197 billion Lit) and Art. 4.1 SAC (163 billion Lit.) for a total of 360 billion Lit. has been given in its totality to Ilva in Liquidazione to cover its costs and partially cover for the amounts of severance funds transferred to ILP and AST at the time of the splitting of the group. The severance fund (TFR) on 31.12.93 was split in the following way :

(billion Lit.)	Ilva in Liq.	ILP	AST
TFR (severance fund)	414	418	122

This fund is used for all workers leaving a company for whatsoever reason (not only pre-retirement) and must be increased by the company by 4 % every year.

III. The new monitoring report

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

Main events since the last monitoring report are :

- completion of the planned workforce reduction,
- cashing in by IRI of a further portion of ILP's price,
- payment of an additional tranche of aid to Ilva in Liquidazione.

Main issues remaining to be monitored are :

- indebtedness of Ilva in Liquidazione and aid payments,
- 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).

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

ILP Group's investments during the first half of the year 1997 totalled 63 billion Lit. They were utilized to continue the revamping of one of the blast furnaces and the continuous casting plant at Taranto (6 billion Lit), a hot rolling mill (12 billion Lit.) and the cold rolling

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and hot coating area (24 billion Lit.). Out of this total, 10 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

Workforce reductions foreseen by the restructuring plan have been achieved at the end of 1996 as reported in the seventh monitoring report.

Total ILP's workforce at the end of June 1997 was 15475 people, an increase of 50 compared to the figure at the end of 1996. During the first six months of 1997 the last 480 workers still remaining from the 1996 quota were put into preretirement while 530 workers were hired.

4. Production

Production during the first half of 1997 is summarized and compared with correspondent 1996 period in the following table :

(thousands tonnes)

ILP Production	1994	1995	1996	1st H. 1996	1st H. 1997	1stH 97 / 1stH 96
Pig Iron	8208	8546	7546	3937	3909	(0.71)
Liquid Steel	8457	8783	7731	4138	3951	(4.52)
H. R. Coils	6500	6855	6405	3241	3489	7.65
Plates	1155	1105	1100	566	-	-

Former Ilva Group restructuring plan was up to 1996, therefore no comparison of actual production with planned figures is possible anymore.

5. Sales

Sales of finished products during the first half of 1997 totalled 3.9 million tons, about 10 % higher than corresponding period of 1996. Increases were in plates, large diameter pipes and coated products.

Breakdown of sales by market shows some recovery in the share of sale into the domestic and other EC markets, as shown in the following table :

(in % share of sales)

Markets	1992	1993	1994	1995	1996	1st H 97
Domestic	71.8	67.9	68.9	73.1	55.5	59.8
Other EC	13.9	12.7	15.1	12.4	19.7	22.2
O. Countries	14.3	19.4	16.0	14.5	24.9	18.0

The Italian authorities have also provided averages prices charged by ILP during the first six months of 1997. The Commission examined the information given and concluded that the prices are within the normal range.

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6. Financial Performance

The Italian authorities supplied a full range of financial data and financial ratios covering the period up to 30.6.97. The Commission as analyzed such data, but, in line with what announced in the occasion of the presentation of last monitoring report, the semestrial results of privatized companies, like ILP, are not disclosed in the monitoring report any more to avoid undue business disadvantages.

7. Terms and condition of new loans

No new loans are reported for the first half of 1997.

8. Privatisations

The third tranche for 120 billion Lit., plus interests, of the base price for ILP has been paid to IRI on 28.4.97. Last tranche is foreseen to be paid next year.

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 in the arbitration under the rules of 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); 3) a fixed price of 1460 billion lit.

Object of the dispute between Riva and IRI are additional environment related costs that in Riva's opinion should be borne by the seller.

Because of this, the 1994 dividend (point 1) and the 1995 adjustment (point 2) have been put into arbitration.

The arbitration body was named in January 1997 with the idea to conclude its work by the end of the year. In March 1997 the technical expert was nominated and in June 1997 the arbitration body met to define the methodology of the expert activity; in that occasion the deadline for the expert's report was postponed to June 30, 1998. Final arbitration is now expected by the end of year 1998.

Due to the delay of the arbitration process, the Commission has taken a more prudential approach in the estimation of the final price paid for ILP.

Following table gives a summary of the amounts making up the price for ILP and the points under discussion :

Price of ILP (in billion Lit.)	Price as by contract	Price paid up to 30.6.97.	Price that will be paid by 31.12.98	Price claimed by IRI	Price claimed by Riva	Price used in monitoring reports
Base Price	1460	1340	1460	1460	1460	1460
1994 prelim. dividend	585	585	585	585	405	562
1994 final adjustment	240			240		
1995 adjustment	228			228		228
Total Price	2513	1925	2045	2513	1865	2250

1994 dividend and its adjustment are under discussion, but IRI has already retained 585 billion lit as advance on 1994 profit. The adjustment for 1995 is due by contract, but Riva has freezed it waiting for the results of the arbitration. Of the base price IRI has already received 1340 billion lit. and the balance 120 billion Lit. will be paid at the end of March 1998. Total price already paid is, therefore, 1925 billion lit.

For the reasons stated above, the Commission now uses the figure of 1865 billion Lit. in all its analysis as the price paid for ILP.

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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 require 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 first six months of 1997 amounted to 9.7 billion lit.

Major area of intervention were the stainless steel plants in Terni (2.7 billion lit.), the remaining were divided in various projects in different locations.

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

Workforce reductions foreseen by the restructuring plan have been achieved at the end of 1996 as reported in the seventh monitoring report.

During the first half of 1997 AST has increased its workforce by additional 69 people bringing its total workforce at the end of June 1997 at 4218 people.

4. Production

Actual production for first six months of 1997 and comparison with previous corresponding period can be summarized as follows:

(thousands tonnes)

	1994	1995	1996	1st H. 1996	1st H. 1997	1stH 97 / 1stH 96
Liquid Steel	954	1037	1050	535	627	17.2
H. Rolled Coils	970	1077	1049	561	613	9.3
Cold R. Sheets	527	599	608	311	342	10.0
Stainless Steel	399	469	478	248	255	2.8
S.S. Hot Rolled	60	69	80	41	33	(19.5)
S.S. Cold Rolled	339	401	398	207	222	7.2

Former Ilva Group restructuring plan was up to 1996, therefore no comparison of actual production with planned figures is possible anymore.

5. Sales

Sales of finished products during first half of 1997 totalled 561.7 thousands tons, 22.5 % above the sales of the same period of 1996. Cold rolled stainless steel sales were 225.1 thousands tons, 11.2% above 1996 corresponding sales.

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Shares of sales by market show an important increase in the share of sales into the other EC countries, as shown in the following table :

(in % share of sales)

Markets	1993	1994	1995	1996	1st H 1997
Domestic	60.8	64.7	62.3	61.5	58.4
Other EC	15.8	15.2	15.6	13.2	20.6
O. Countries	23.4	20.2	22.1	25.4	21.0

The Italian authorities have also provided averages prices charged by AST during first six months of 1997. The Commission examined the information given and concluded that the prices are within the normal range.

Financial Performance

The Italian authorities supplied a full range of financial data and financial ratios covering the period up to 30.6.97. The Commission as analyzed such data, but, in line with what announced in the occasion of the presentation of last monitoring report, the semestrial results of privatized companies, like AST, are not disclosed in the monitoring report any more to avoid undue business disadvantages.

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 price finally paid to IRI was 622 billion Lit. (600 billion Lit. contract price - 22 billion Lit. adjustments) plus interests for 60.3 billion Lit.

ILVA in Liquidazione

1. Capacity reductions

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

2. Workforce reductions

At the end of 1996, 2179 people were in the books of Ilva in Liquidazione group. During the first six months of 1997 this number was reduced to 1548 people and it is foreseen that it will reach 536 people by the end of the year.

3. Financial Performance

For the reasons explained in the previous monitoring reports, the Commission services concentrate their activity 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 and seventh monitoring reports, in the same table at point 2, it is reported the indebtedness at the level of the group as estimated year after

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year, and at point 3 the indebtedness at IRI charge, calculated in the same manner as in the plan:

Ilva in Liquidazione balance sheet at the end of June 1997 shows a total financial indebtedness of 6756² billion Lit. compared to a negative equity of 6794 billion Lit..

Tangible and financial assets still to be liquidated amount to 500 billion Lit.; they include 40 billion Lit. of land properties, 233 billion Lit. of an obligatory credit with Dalmine to be cashed-in and 119 billion Lit. to be received by Lucchini for the sale of land at Piombino still owned by Ilva.

Subsidiaries and shareholdings still in the group represent a value of about 20 billion Lit. half of which is the remaining 10 % of the capital of Bagnoli SpA (see below under "Privatisations"), the rest is spread over more than twenty small companies most of them in liquidation.

Commercial credits and other activities to be collected amounts to over 300 billion Lit. Provisions to cover costs and risks up to the end of the liquidation amount to 755 billion Lit..

The Commission services, as in previous monitoring reports, devote most attention to monitor the remaining liquidation costs and 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 June 30, 1997 as transmitted by the Italian authorities. These figures take into account the preliminary value for the incomes from the sale of ILP at a most prudential level of 1865 billion Lit. (see above "Privatisation" under ILP section) and the final value for the sale of AST i.e. 622 billion Lit..

² This amount includes 6509 billion Lit. of aid already paid by IRI (see below "Aid payments" section).

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(billions lit.)

ESTIMATED OUTCOME OF THE LIQUIDATION OF ILVA IN LIQUIDAZIONE BASED ON RESULTS AT :							
		PLAN	31.12.93 final	31.12.94 final	31.12.95 final	31.12.96 final	30.6.97 prelimin.
1	Total comparable Ilva indebtedness	(10067)	(10889)	(11426)	(11181)	(10473)	(10362)
2	Incomes from the sales of ILP,AST,Sofin.	2806	2760	2960	4183	3932	3547
3	Debts transf. to ILP,AST,Sofin.	1897	2546	2546	2546	2546	2546
4	Other debts to be transferred	1061	923	592	416	0	233
5	Expected incomes from sales of companies	1425	1425	1400	380	100	10
6	Expected incomes from the liquidation process	448	448	1253	1112	972	517
7	Foreseen disbursements during the liquidation	(645)	(645)	(616)	(590)	(474)	(364)
8	Expected liquidation costs	(1065)	(1065)	(640)	(376)	(79)	(36)
9	Total residual Indebtedness	(4140)	(4506)	(3931)	(3510)	(3478)	(3909)
10	Var. from plan		366	(209)	(630)	(662)*	(231)*

* 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. indebtedness at IRI level calculated as it was in the plan. Its subsequent 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, and the resulting loss of about 1300 billion Lit., as indicated in the third 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 in 1996, due to the dispute between IRI and Riva on the contract price, a more prudential estimate of 2250 billion lit. was used. Due to the postponement of the arbitration results, currently the most prudential figure of 1865 billion is used. For AST since 1994 it was used the contract price (600 billion lit.) subsequently adjusted in 1996 to the final price (622 billion lit.) which resulted from an arbitration between IRI and the new owners of AST.

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- 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 transferred with the sale of the other subsidiaries. It varies according to the companies left to be transferred. Figure in last column is the obligatory credit with Dalmine to be cashed in. Previously it was included in row (6).
- 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. Figure in last column is the 10 % share of the Bagnoli SpA capital that will be most likely sold.
- 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 payables, 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 increases are due to unforeseen expenses or costs occurred. Figure in last column is mainly the estimate of what it will be utilized of the provisions for risks and liquidation expenses shown in the Ilva in Liquidazione balance sheet.
- 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. The difference between the previous estimated level of residual indebtedness and the new estimate of 3909 billion Lit. is essentially due to the more prudential approach taken by the Commission in the estimation of ILP final price.

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 231 billion Lit. less than the amount approved under the art. 95 decision, not including the 163 billion Lit approved under SAC.

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 from the funds provided by IRI to Ilva.

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Funds provided by IRI and prices cashed-in evolved as follows :

(in billion lit.)

	1993	1994	1995	1996	1st Half 1997	Total 93- 97
Funds provided by IRI	1538	2156	1670	1104	41	
cumulative total (A)	1538	3694	5364	6468	6509	6509
Prices cashed-in by IRI for :						
AST	0	0	300	321	1	622
ILP	0	0	1685	120	120	1925
cumulative prices cashed-in (B)	0	0	1985	2426	2547	2547
Cumulative aid received by Ilva in Liquidazione (A-B)	1538	3694	3379	4042	3962	3962

Therefore, the funds provided by IRI to Ilva in Liquidazione between 1993 and 1st half 1997 were 3962 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)

AST price has been paid in full. Balance of ILP price still to be received amounts to 120 billion Lit. (excluding interests and amounts under arbitration).

5. Privatisations

During the first half of 1997, Ilva in Liquidazione sold to IRI 80 % of the recently created company Bagnoli Spa. In this company were grouped all the Ilva's properties at Bagnoli so that they could be transformed and used for activities other than steel. Price was 40 billion Lit. (total equity was 50 billion Lit.)

Also during the same period, it was sold to Riva the 40.9 % share that Ilva in Liquidazione still had in Acciaierie di Cornigliano. Riva already owns the rest of the capital. Sale price was 37.5 billion Lit.

With these two last sales the value of the remaining subsidiaries and shareholding still in the books of Ilva in Liquidazione amounts to 20 billion Lit. down from 917 billion Lit. at the end of 1993, including the remaining 20 % of Bagnoli SpA which will be probably sold in the next future.

Following table, revised since last monitoring report, summarizes all the sales of subsidiaries and shareholdings showing the actual prices received compared with the plan.

Up to now, Ilva in Liquidazione sales of ownerships and shareholdings totalled 1554.2 billion lit. and the debts transferred 1055.4 billion lit. (including 233 billion Lit. still to be transferred to Dalmine but covered by an obligatory credit). 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 considered at zero value in the plan.

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Subsidiaries and shareholdings sold by Ilva in Liquidazione					
Companies (billions lit.)	Buyer	Price		Debts transferred (applies only to companies fully owned)	
		Plan	Actual	Plan	Actual
Cogne Acc. Speciali	Marzorati Group	0	7.0	100	75.0
ICMI	ILP	0	105.0	112	79.7
TDI	ILP	50	30.0	158	55.0
ISE	Edison-EDF, ILP	750	420.0	109	104.0
ICE	Valle d'Aosta Region	0	86.0	0	(0.3)
Sidermar di Navig.	Coe&Clerici	110	60.8	0	
Sidermar Serv. Acc.	ILP	0	0.7	0	
Sidermar Trasp. Costieri	ILP	0	22.8	0	
Lovere Sidermecc.	Lucchini Group	45	25.0	0	
Verres	Finaosta	0	1.8	0	
Nitco	Expertise srl	0	0.3	0	
Thainox	Ugine, Thaismart Ltd.	0	40.0	0	
SISH	Sahavirya Steel Holding	0	158.8	0	
Sahavirya	Supatra Eaucheevaikul	0	109.3	0	
P.Port	WIT	0	2.5	0	
Soc. Off. Savigliano	Uninvest srl	0	0.6	0	
Tad Fin	PIM	0	3.8	0	
TSSI	WPG	0	6.6	0	
Dalmine	Techint	350	301.5	582	700.0*
Tubarao	Banco Bozano Sim.	50	60.7	0	
Tubificio di Piombino		0	6.1	0	39.5
Sidersud ILBS		0	2.8	0	
D'Amore Tubi		0	3.4	0	
Siderlandini		0	7.8	0	
Dalmine Resine		0	6.8	0	
Bagnoli SpA	IRI	0	40.0	0	
Acc. di Cornigliano	Riva	0	37.5	0	
ILIC		80	0	0	
Other shareholdings		(10)	7.1	0	2.5
TOTAL		1425	1554.2	1061	1055.4

* including 233 billion Lit. still to be transferred.

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ANNEX I

RECONSTRUCTION OF IRI/ILVA IN LIQUIDAZIONE INDEBTEDNESS

	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 31.12.96 (final)	Balance Sheet at 30.6.97 (estimated)
1. BALANCE SHEET of ILVA SpA							
<u>Non-Current Assets (Net)</u>							
Intangible assets	107	1	0	0	0	0	0
Property, Plant and Equipment	327	275	248	255	277	187	47
Financial assets	850	1053	1369	1158	555	463	453
total	1284	1329	1617	1413	832	650	500
<u>Net Working Capital</u>							
Inventories	17	147	136	131	26	19	0
Trade accounts receivables	26	517	322	249	649	100	113
Trade accounts payables	-1153	-1324	-360	-232	-154	-100	-73
Provisions for contingencies and exp.		-1267	-1583	-1390	-1182	-790	-755
Other activities	-364	628	458	394	248	300	222
Other liabilities		-193	-183	-78	-80	-80	-31
total	-1474	-1492	-1210	-926	-493	-551	-524
<u>Severance payments fund (TFR)</u>	-172	-141	-73	-45	-74	-24	-14
<u>Net Invested Capital</u>	-362	-304	334	442	265	75	-38
<u>Covered by :</u>							
<u>Equity</u>	-5477	-5472	-6794	-6799	-6794	-6794	-6794
<u>Net Financial Indebtedness</u>	5115	5169	7128	7241	7059	6869	6756
<u>Total Funds</u>	-362	-303	334	442	265	75	-38
2. CONSOLIDATED INDEBTEDNESS OF ILVA IN LIQUIDAZIONE							
Net Financial indebtedness Ilva s.p.a.	5115	5169	7128	7241	7059	6869	6756
Debts of companies to be liquidated				49	-45	0	0
Debts of companies to be sold	1061	923	592	546	461	0	0
total	6176	6092	7720	7836	7475	6869	6756
Debts of Cogne in Liquidazione	228	291	0	0	0		
Total consolidated indebtedness	6404	6383	7720	7836	7475	6869	6756
3. INDEBTEDNESS AT IRI's CHARGE							
Ilva in Liquidazione	6404	6383	7720	7836	7475	6869	6756
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	0	0
Total indebtedness at IRI charge	10067	10889	11426	11542	11181	10475	10362
variance from plan		822	1359	1475	1114	408	295
(*) physiologic amount to be covered by financial facilities.							

**Monitoring of Article 95 ECSC steel aid cases
Eighth Report, November 1997**

Irish Steel, Ireland

I. Introduction

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)³ 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)*

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

³ OJ L121 of 21/5/1996, p. 6

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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).

II. Key points from the last monitoring reports

No points were outstanding since the last monitoring report

III. The new monitoring report

The fourth monitoring report on Irish Steel covers the position of ISL (now Irish Ispat Ltd.) as at 30 June 1997, based on information submitted by the Irish authorities on 15 September 1997 in accordance with the Commission's decision.

Commission representatives visited Irish Ispat on 22.7.97 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 (about 50% of the budgeted amount achieved),
- 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

From July 1995 up to June 97, the budgeted investments have been 9.6 million IRL against a planned amount of 10.0 million IRL for the two years.

Of the budgeted amount 4.7 million IRL (49 %) have been actually completed and spent, 2.5 million IRL (26 %) are either in progress or ordered and 1.9 million (20 %) have been postponed to next or future years.

The budgeted investments refers to :

- The melt plant, for 2,006,916 IRL,
- The mill plant, for 4,568,024 IRL, or 48% of total,

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- General and other expenditures for 3,026,407 IRL, or 31 % of total.

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

Planned workforce reductions were achieved by 31.12.96.

The total number of workers employed by Irish Ispat at the end of June 1997 was 363, 11 workers more since December 1996.

4. Production

Actual production of finished products in the period from the end of July 1996 up to the end of June 1997 was 297,907 or 0.7 % above the level of production during the corresponding previous period, but 11% below the production limitation of 335,000 imposed by the decision. The following table summarize the situation :

(thousands tonnes)

Finished Products Production				
year	Jul. to Dec.	Jan. to Jun.	Total	limitation /year
95/96	123	172	295	320
96/97	138	160	298	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. 1996 to Jun. 1997, was 334,831 tonnes. Production of billets for sale outside the company for the same period was 3,945 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 monitored period totalled 300,354 tonnes compared with total sales in corresponding previous period of 297,993 tonnes (0.8 % higher).

The breakdown of sales by market for the period Jul. 1996/ Jun. 1997 shows that approximately 94% of sales or 282,066 tonnes went to European markets as defined under the decision (i.e. Community, including domestic market in Ireland, plus Switzerland and Norway), below the 302,000 tons limitation for that period imposed by the Commission decision.

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 financial year 1996/97, was 33,806 tonnes. Therefore, production for sale of these products was 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:

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- 19.453 million IR£ in cash.
- 17 million IR£ to extinguish a previous government loan. This amount has been capitalized and shown in the balance sheet as Capital Reserve.

In the period January 1, 1997 to June 30, 1997 on a turnover of IR£ 32.37 million Irish Ispat Ltd. made a net operating loss of IR£ 1.65 million (5.1%). This amount was finally reduced to a after taxes loss of 0.43 million IR£ taking into account gains on exchange rates and 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 IR£)

	1992/93	1993/94	1994/95	1995/96 (1st H)	1995/96 (2nd H)	1996/97 (1st H)	1996/97 (2nd H)
Turnover	58.845	62.291	66.978	27.8	34.2	25.1	32.4
Net Profit/(loss)	(12.979)	(18.764)	(5.83)	(3.789)	1.799	(2.21)	(0.4)
as % of turnover	22%	30%	8.7%	13.6%	5.3%	14.3	5.1

7. Terms and conditions of new loans

Since the shareholder's injection of IR£ 10.0 million in the company as advance share capital made during the last part of 1996, no other loan was obtained by Irish Ispat.

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
Eighth Report, November 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 Treaty¹ as follows:

- 38.00 billion Esc² for capital injection,
- 22.12 billion Esc for debt write - off.

This aid was paid in 1994 and 1995.

In September 1994 the Commission approved under the Fifth Steel Aid Code³

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

2.204 billion 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),
- replacement of the blast furnace in Seixal by an electric arc furnace (outstanding, see III.2.),
- the total workforce should be reduced by 1798 employees until the end of 1996 (delayed, see III.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.*,

¹ O.J. No L 112, 3.5.1994, p. 52

² 1 billion (10⁹) Esc = 4.9997 MECU (1.9.1997)

³ O.J. No C 390, 31.12.1994, p. 18

a subsidiary of *Usinor Sacilor S.A.*, with a small participation of *DHS France* (4.97%). 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.

The Portuguese Council of Ministers decided on 4 March 1997 to proceed to the privatization of the 10% share in each *SN Longos* and *Lusosider* which was kept by the State before to small individual investors and workers. This operation was terminated in the first semester 1997. Another 10% of the shares are still kept by the Portuguese state.

The Portuguese authorities decided at the end of 1996 to liquidate the holding *SN SGPS*. Currently, the final clearing of accounts is under way. The committee of liquidators expects to terminate all remaining tasks by the end of January 1998. The Portuguese authorities announced a detailed report on the finalization of the liquidation in the tenth monitoring report.

II. Key points from the last monitoring reports

The last monitoring report explained the details concerning the liquidation of the holding company *SN SGPS*. There are no further developments in so far to be reported currently. The liquidation is scheduled to be completed by the end of January 1998. Another major issue of concern was the delay in the installation of the new electric arc furnace of *SN Longos* which remains a key question to be followed closely.

III. The new monitoring report

The present report covers the developments up until 30 June 1997 based on the information provided by the Portuguese Government in its eighth monitoring report which was submitted, in line with the request of the Commission, on 15 September 1997.

1. Capacity reduction

The light section mill in Seixal with a capacity of 60 kt/y was closed by 31 October 1993. The medium section mill with a capacity of 80 kt/y was closed by 31 December 1995 so that the required total capacity reduction of 140 kt/y 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. Currently, the installation is prepared for shipping. The light section mill is still not sold.

2. Investments

a) *SN Longos*

In the first semester of 1997 SN Longos carried out investments of 1 billion Esc covering the modernization of the equipment and the installation of up-to-date data processing systems. No capacity improvements were created through these investments.

Regarding the planned installation of a new electric arc furnace of SN Longos in Seixal the expert studies are finalized and the company filed the request for approval of the investment with the authorities by mid of June 1997. An investment notification under the Decision 3010/91/ECSC of 15 October 1991 was filed with the Commission. It is planned to start trial operations in November 1998 so that the new furnace would become fully operational by the end of 1998.

The Commission services, during the discussions to prepare the current monitoring report, requested regular information on the different steps to be taken to finalize this investment so as to be able reacting if any delay compared to the current plan would occur.

b) *Lusosider*

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 concern general maintenance of existing installations, the introduction of a new data processing system and some measures related to quality improvement and environmental protection. Up until the end of June more than half of the plan was implemented. No capacity improvements were created through these investments.

c) *SN Servicos*

In view of the forthcoming closure of the blast furnace, there were no significant investments of SN Servicos.

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 of 1995 but can only be closed once the new electric arc furnace of *SN Longos* in Seixal enters into operation. Keeping this in mind the delay compared to the initial plan currently affects 227 workers. The following table shows the evolution of workforce and the forecast:

	1992	1993	1994	1995	1996
Privatized companies					
SN Longos Seixal	2070	2056	445	509	269
SN Longos Máia	478	429	402	386	315
Total SN Longos	2548	2485	847	895	584
Lusosider	660	530	471	454	441
SN Longos +Lusosider	3208	3015	1318	1349	1025
Public companies					
SN Servicos	a)	a)	1423	1216	1204
SN SGPS	a)	a)	36	25	b) 7
SN Servicos + SN SGPS	a)	a)	1459	1241	1211
Actual figures					
Total workforce	3208	3015	2777	2590	2236
Reduction per year	-	193	238	187	354
Comparison to plan					
Plan total workforce	3208	2925	2380	1682	1410
Deviation without delay regarding blast furnace	-	90	397	461	379
Deviation from plan	-	90	397	906	826

a) before the creation of the new corporate structure

b) in liquidation

Forecasts

	1997	1998	1999	2000
SN Longos + Lusosider	906	a)	1044	1044
SN Servicos	1061	a)	366	63
Total workforce	1967	a)	1410	1107
Reduction per year	269		b) 557	303
Plan total workforce	1410		1410	1410
Deviation without delay regarding blast furnace	110			
Deviation from plan	557		0	- 303

a) Due to unpredictable elements there is currently no forecast for the end of 1998

b) Expected reduction during the years 1998 and 1999

SN Longos would presumably increase its workforce once the new electric arc furnace enters into operation, so that the total workforce of the privatized companies would slightly increase after the closure of the blast furnace. The initially planned figure of the restructuring plan of 1410 employees is expected to be achieved by 1999, after the closure of the blast furnace. A further decrease in workforce, also resulting from *PERG*, the restructuring plan for the Portuguese steel industry, is foreseen in the year 2000. It is expected that the final total workforce of the companies succeeding the old *Siderurgia Nacional* would be even lower than initially planned.

SN Servicos continue its efforts to reduce workforce:

- the scheme for mutual agreements is continued and allows for improved conditions compared to the initial arrangement;
- special incentives and support is offered to those workers which intend to set up an own small business;
- training is offered in certain areas, e.g. automotive mechanics, gastronomics and civil construction, to promote alternative employment.

Financing of redundancies

	nature	number of workers	Art 56 ECSC	State (Art 56)	company ¹	Total costs
			costs in mlo 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	early ret.	128	26	26	-	52
	releases ²	249	152	152	596	900
	others	9	-	-	-	-
	Total ³	386	178	178	596	952
1997 ⁴	early ret.	139	28	28	-	56
	releases ²	137	81	81	1244	1406
	others	-	-	-	-	-
	Total ³	276	109	109	1244	1462
Total		1295	549.5	549.5	2264.5	3363.5

¹ to which the State contributes up to 50% authorized under Art 4.1 of the Fifth Steel Aid Code through mutual agreements

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 forecast

In the first semester 0.434 billion Esc social aid authorized under Art. 4 of the Fifth Steel Aid Code was disbursed. The total amount of social aid granted therefore amounts to 2.204 billion Esc. 4.925 billion Esc were authorized in total.

4. Production

Evolution of production

in kt	1995	1996	1. sem. 1996	1. sem. 1997
crude steel	796.3	839.6	425.5	410.1
finished products <i>SN Longos</i>	704.8	655.4	333.8	375.4
finished products <i>Lusosider</i>	217.4	194.7	88.4	116.7

Evolution of annual production

in kt	1993	1994	1995	1996	1997 *
Crude steel total	745.3	722.8	796.3	839.6	820.2
<i>SN Serviços</i>		439.4	443.6	453.7	473.6
<i>SN Longos</i>		283.4	352.7	385.9	346.6
Finished products total	919.6	930.4	922.2	850.1	984.2
<i>SN Longos</i>	709.9	701.1	704.8	655.4	750.8
<i>Lusosider</i>	209.7	229.3	217.4	194.7	233.4

* annualized on the basis of the 1. semester 1997

Evolution of monthly production 1996/97

2nd semester 1996

in kt	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
crude steel							
<i>SN Serviços</i>	37.7	37.5	38.9	39.7	35.2	35.8	224.8
<i>SN Longos</i>	34.9	9.5	35.8	32.3	39.6	37.2	189.3
<i>SN Longos</i>	38.3	26.0	63.0	51.9	74.5	67.9	321.6
<i>Lusosider</i>							
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 flat products	19.5	11.2	19.2	20.4	18.3	17.7	106.3

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1st semester 1997

in kt	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
crude steel							
<i>SN Servicios</i>	39.3	33.0	40.0	38.3	43.8	41.5	236.8
<i>SN Longos</i>	0.8	16.3	36.7	42.2	37.9	39.3	173.3
<i>SN Longos</i>	45.3	46.5	65.1	73.3	71.5	73.7	375.4
<i>Lusosider</i>							
cold rolled plate	3.2	4.1	3.9	4.3	3.9	5.8	25.2
galvanized sheet	11.7	9.7	8.6	9.0	9.2	8.4	56.6
tinplate	5.7	5.7	5.8	6.3	5.9	5.5	34.9
Total flat products	20.6	19.5	18.3	19.6	19.0	19.7	116.7

Comparison of semesters

in kt	1. sem. 96	1. sem. 97	evolution
crude steel			
<i>SN Servicios</i>	228.9	236.8	+ 3.5%
<i>SN Longos</i>	196.6	173.3	- 11.8 %
<i>SN Longos</i>	333.8	375.4	+ 12.5%
<i>Lusosider</i>			
cold rolled plate	15.3	25.2	+ 64.7%
galvanized sheet	41.2	56.6	+ 37.0%
tinplate	31.9	34.9	+ 9.4%
Total flat products	88.4	116.7	+ 31.8%

The above figures reflect the recovery of markets and the end of the consolidation period after the privatization of *Lusosider* and *SN Longos*.

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	76.7	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	76.7	0	0	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

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Sales in the 1st semester of 1997 per product category

	Portugal		EU 14		3rd Countries		Total
	kt	%	kt	%	kt	%	kt
SN Servicos							
- billets	198.7	84.2	21.8	9.3	15.4	6.5	235.9
SN Longos							
- rebars	367.3	99.1	3.2	0.9	-	-	370.5
- wire rod	26.9	49.5	27.4	50.5	-	-	54.3
- profiles	-	-	-	-	-	-	-
Total long products	394.2	92.8	30.6	7.2	-	-	424.8
Lusosider							
- cold rolled sheet	21.3	84.2	4.0	15.8	-	-	25.3
- galvanized sheet	27.0	46.9	20.4	35.4	10.2	17.7	57.6
- tin plate	17.4	42.9	21.7	53.6	1.4	3.5	40.5
Total flat products	65.7	53.2	46.1	37.4	11.6	9.4	123.4

Comparison between the 1st semester 1996 and the 1st semester 1997

	Portugal	EU 14	3rd Countries	Total
<i>SN Servicos</i>	+ 24 %	- 20 %	- 62 %	+ 3 %
<i>SN Longos</i>	+ 17 %	- 33 %	-	+ 10 %
<i>Lusosider</i>	+ 41 %	+ 203 %	- 57 %	+ 32 %

		1. sem. 96	1. sem. 97
<i>SN Servicos</i>	Portugal	70 %	84 %
	EU 14	12 %	9 %
	3rd Countries	18 %	7 %
<i>SN Longos</i>	Portugal	87 %	93 %
	EU 14	12 %	7 %
	3rd Countries	1 %	-
<i>Lusosider</i>	Portugal	52 %	53 %
	EU 14	17 %	37 %
	3rd Countries	31 %	10 %

The sales of billets in the Portuguese market by *SN Servicos* go exclusively to *SN Longos*. After having sold 30.5% of its production to third countries in 1996, mainly due to the decrease in demand from *SN Longos* after the closure of the medium section mill by the end of 1995, *SN Servicos* reduced the percentage of export to 15.8 % of its production in the first semester of 1997. It is expected that the percentage of export will be at the level of 1995 (~ 7%) over the entire year of 1997.

The average prices of the product groups achieved were given in the monitoring report. The Commission compared these prices with the average market prices 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 table shows the financial results of *SN Servicos*. The semestrial results of the privatized companies *SN Longos* and *Lusosider* are not shown in the monitoring report any more to avoid undue business disadvantages.

SN Servicos

in mio Esc	1996	1. semester 1996	1. semester 1997
Sales + services performed	21145.3	11395	11028
other products	67.7	- 759	12
costs of sales	13516.6	7150	6885
personnel costs	4222.3	2182	2173
depreciation + provisions	1064.5	539	688
net financial charges	361.7	197	436
other costs	4934.3	2419	1846
operating result	- 2927.1	- 1851	- 592
gross benefit	- 3218.9	- 1955	- 583

The positive development in the first semester of 1997 was achieved due to increased market prices for slabs, lower costs for primary products and improvements of the internal organization of *SN Servicos*. Since March 1997 the company operates at a positive cash flow. It is expected that *SN Servicos* would achieve a positive result in 1997.

In the first semester of 1997 *SN Longos* increased its turnover by 17% and achieved a still negative operating result but 66% better compared to the first semester of 1996. *Lusosider* increased its turnover compared to the first semester of 1996 by 45% and achieved a positive operating result.

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 fourth monitoring report. 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 June 1997 2.204 billion Esc of 4.925 billion Esc authorized were paid.

**Monitoring of Article 95 ECSC steel aid cases
Eighth Report, November 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 Treaty¹ as follows:

- 362.6 Mio DM² 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, 177 Mio DM of the maximum amount of 220 Mio DM was used (see III.7.).

On 21 December 1994 the Commission further approved regional investment aid of 335 Mio DM under Article 5 of the Fifth Steel Aid Code³ (see III.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),
- 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 Stahl* (achieved, see the seventh monitoring report),
- 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 III.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),

¹ O.J. No L 386, 31.12.1994, p. 18

² 1 mio DM = 505,203.6 ECU (1.9.1997)

³ O.J. No C 18, 17.1.1997, p. 7

- the level of net financial charges of the company should be at least 3.5 % of turnover (achieved, see the third monitoring report).

II. Key points from the last monitoring reports

While *EKO Stahl* continued its investments foreseen in the restructuring plan, the losses in 1996 turned out to be higher than expected in the plan after having achieved a small profit in 1995. It seems therefore, that the loss compensation agreed for the restructuring period will be needed completely and that the company would have to cover losses exceeding the compensation allowed by own means.

III. The new monitoring report

The present report covers the developments up until 30 June 1997 based on the information provided by the German Government in its sixth 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 15 September 1997.

1. 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. The proposed technical solution was in principle accepted by the Commission in early 1996. For details regarding this system see the fifth monitoring report.

2. Investments

The investment program of *EKO Stahl* is implemented in line with the plan. Up until the end of June 1997 91.7% of the orders were given out. The renovated sinter entered into operation in January 1997, the new blast furnace N° 5A started trial production on 28 April 1997. It is intended to enter into regular production by the beginning of August 1997. The first trial rolling in the new hot-rolling mill was on 22 July 1997. Regular production, after the acceptance of performance of the installation by *EKO Stahl*, is intended to start in January 1998.

During the first semester of 1997 investments of 229.4 mio DM were realized. Since the beginning of 1995 a total amount of 773.1 mio DM was spent for investments. Orders given out amounted to 1008.8 mio DM by the end June 1997 covering 91.7% of the total investment program of 1.1 billion DM.

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As already explained in the sixth monitoring report, the 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 this. The following tables show the details of the revised plan and the implementation since beginning of 1995:

Investments 1st semester 1997

in mio DM	Total plan	plan 1997	orders	realized
modernization of sinter facilities	62.9	29.8	6.8	22.1
construction of blast furnace	298.2	153.5	22.0	75.3
new hot-rolling mill	630.9	329.8	49.6	122.2
modernization cold-rolling mill	108.0	43.2	5.7	9.8
TOTAL	1100.0	556.3	84.1	228.4

Investments 1995 - June 1997

in mio DM	Total plan	plan 95 - 97	orders	realized
modernization of sinter facilities	62.9	62.9	61.6	55.2
construction of blast furnace	298.2	298.2	273.5	220.0
new hot-rolling mill	630.9	630.9	575.3	423.3
modernization cold-rolling mill	108.0	108.0	98.4	74.6
TOTAL	1100.0	1100.0	1008.8	773.1

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

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3. Evolution of workforce

On 30 June 199 EKO Stahl GmbH had 2827 employees (including trainees) compared to 2776 on 31 December 1996. 44 new employees were hired for the hot-rolling mill. 51 former trainees of EKO Stahl were employed under regular contracts. 40 persons were hired under limited contracts. 31 employees left the company. The number of trainees decreased to 147.

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
1.7.1997	2680	147	2827

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

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1st semester 1996 and 1st semester 1997

	production in kt		sales in kt		turnover in mio DM	
	1-6/96	1-6/97	1-6/96	1-6/97	1-6/96	1-6/97
Pig iron	864.1	798.0	0.0	0.0	0.0	0.0
slabs	971.3	885.8	869.6	657.1	304.9	259.5
cold strip	13.2	22.9	13.4	24.1	9.3	14.7
fine plate cold-rolled	291.4	339.6	285.3	345.2	225.0	244.0
magnetic steel sheets	17.6	16.6	17.4	17.3	14.2	13.6
fine plate galvanized	126.4	136.0	128.3	139.4	114.2	120.2
fine plate coated	31.0	49.6	32.9	47.1	39.2	56.6
Total finished cold-rolled products	479.6	564.7	477.3	573.2	401.9	448.1
miscellaneous turnover					33.8	40.1
Total turnover					740.6	747.7

Comparison 2nd semester 1996 and 1st semester 1997

	production in kt		sales in kt	
	7-12/96	1-6/97	7-12/96	1-6/97
Pig iron	808.1	798.0	0.0	0.0
slabs	895.0	885.8	804.7	657.1
cold strip	17.9	22.9	15.3	24.1
fine plates cold-rolled	310.4	339.6	303.6	345.2
magnetic steel sheets	17.5	16.6	17.0	17.3
fine plate galvanized	142.2	136.0	137.8	139.4
fine plate coated	50.3	49.6	53.3	47.1
Total finished cold-rolled products	538.3	564.7	527.0	573.2

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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

Sale of finished products in the 1st semester 1997

in mio DM	1. quarter	2. quarter	TOTAL
Germany	153.0	164.4	317.6
Export total	64.3	66.2	130.5
EU 14	50.2	45.6	95.8
Eastern Eur.	13.3	19.5	32.8
Other countries	0.8	1.1	1.9
TOTAL	217.3	230.8	448.1

Comparison 2nd semester 1996 and 1st semester 1997

in mio DM	2. sem. 96	1. sem 97	evolution in %
Germany	302.0	317.6	5.2
Export total	113.0	130.5	15.5
EU 14	90.6	95.8	5.7
Eastern Eur.	20.6	32.8	59.2
Other countries	1.8	1.9	6.6
TOTAL	415.0	448.1	8.0

The first semester of 1997 showed an increase of demand in cold-rolled sheet, while prices were only 1% lower than in the second semester of 1996. Production and sale of slabs again decreased in the first semester due to the reduced crude steel capacity and an increase in hire - rolling.

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	1996	plan 1997	1. sem 97
turnover	1092	1440	1483	1423	748
gross margin	80	138	119	123	57
depreciation	25	34	42	64	26
net operating result	- 17	21	- 99	- 68	- 40
net financial charges	29	21	27	- 42	- 18
net results	- 48	2	- 125	- 109	- 57

* provisional figures

The increased turnover (+ 2% compared to the plan) results mainly from higher sales of cold - rolled finished products. The net financial charges increased compared to the second semester 1996 by 4 mio DM due to the investments carried out. They were lower than initially expected due to the continued low level of interest rates. The net result in the first semester 1997 was 9 mio DM higher than expected in the business plan.

7. Aid

The aid authorized by the Commission under Article 95 ECSC and Article 5 of the Fifth Steel Aid 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

STEEL MONITORING REPORT No 8, November 1997, EKO Stahl

quarterly reports No 1 - 10, covering the time from 1 January 1995 to 30 June 1997, 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 June 1997:

in mio DM	authorized	1994	1995	1996	1-6/97	total
compensation of losses - 1994	362.60	362.60	0.0	0.0	0.0	362.60
compensation of losses 1995 - 97	220.00		¹ 20.0	100.0	57.0	177.00
contribution BvS for investments	275.00		32.6	103.0	57.7	193.30
contribution BvS for repair and maintenance ²	39.00		0.3	16.7	13.2	30.20
aid element of guarantee	4.02	4.02	0.0	0.0	0.0	4.02
Total aid Article 95 ECSC	900.62	366.62	52.9	219.7	127.9	767.12
regional investment aid	380.00	0.00	45.0	142.3	79.8	267.10
investment allowance	5.00	0.00	5.0	0.0	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 cover the costs of 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 first half of 1997, BvS received DM 13 million interest.

**Monitoring of Article 95 ECSC steel aid cases
Eighth Report, November 1997**

SEW Freital GmbH, Germany

I. Introduction

The Commission decided on 12 April 1994 to approve aid totalling 274 Mio DM¹ in favour of *Sächsische Edelstahlwerke GmbH, Freital/Sachsen* under Article 95 ECSC Treaty². 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 schemes³.

The aid was paid, except a small portion of 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),
- reduction of crude steel capacity from 300 kt/y down to 200 kt/y by the end of 1996 (achieved, see III.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 III.2.)
- the level of net financial charges of the company should be at least 3.5 % of turnover (achieved, see third monitoring report).

II. Key points from the last monitoring report

The technical restraints to the productivity of the new hot-rolling mill were explained in the last monitoring report. This issue remains a major point of concern due to the negative impact on the viability of the company.

¹ 1 mio DM = 505,203.6 ECU (1.9.1997)

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

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III. The new monitoring report

The present report covers the developments up until 30 June 1997 based on the information provided by the German Government in its eighth monitoring report which was submitted, in line with the request of the Commission, on 15 September 1997.

1. Capacity

The Commission requested in its decision authorizing the aid under Article 95 of the ECSC Treaty that the hot-rolling capacity of *SEW Freital* shall be reduced by 160 kt/y. This goal was achieved as reported in the seventh monitoring report.

The Commission further requested a reduction of the crude steel capacity by 100 kt/y from 300 kt/y down to 200 kt/y. At present only one of the old electric arc furnaces with a capacity of 145 kt/y is in operation. This 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 is sufficient to cover the quantity needed to operate the new combined merchant bar / wire rod mill at the level foreseen until the end of 1997.

2. Investments

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

in mio DM installation	carried out until 12/1996		plan	
	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	33	0
drawn wire installations (Lugau)	6	0		
environment, infrastructure administration and marketing (Lugau)	7	0		
TOTAL	277	230	280	230

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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. Remaining investments scheduled to be finalized until the end of 1997 concern the electric arc furnace and related infrastructure. The investments planned for the restructuring of the company would thereby be completed.

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
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	30.6.1997
number of employees	1123	1061	1085	866	821

Financing of redundancies

in 1000 DM per 31.12.:	1993	1994	1995	1996	1. sem. 97	1993 - 6/97
contribution THA/BVS						
general	6955	405	1026	442	20	8828
management	1595					1595
various	4000					4000
employment company	731					731
total THA/BVS	13281	405	1026	442	20	15154
Art 56 ECSC contr.	1164	144	505			1813
SEW Freital	41	239	3806	1405		5491
total costs	14486	788	5337	1847	20	22478

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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 first semester of 1997 BvS had to pay 10000 DM for workforce reduction in line with the provisions of the privatization contract and 10000 DM for pension obligations. Therefore, the contribution of THA to cover costs of redundancies now totals, including the payments before privatization, 31.148 Mio DM, which is 2.852 mio DM less than authorized.

4. Production, sales and markets

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

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

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1st semester 1997

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	28424	3565	3565	0	0
semi-finished products	15390	2740	2466	220	54
merchant bars, wire rod	18599	15216	14270	757	189
forged pieces	2042	1696	1473	156	40
polished steel drawn (Lugau)	4005	4352	3716	163	473

Comparison production 1st semester 1996 and 1st semester 1997

in tons	1. sem. 96	1. sem. 97	%
crude steel	21069	28424	+ 34
semi-finished products	11150	15390	+ 38
merchant bars, wire rod	11691	18599	+ 59
forged pieces	4672	2042	- 57
polished steel drawn (Lugau)	4099	4005	- 1

Comparison production 2nd semester 1996 and 1st semester 1997

in tons	2. sem. 96	1. sem. 97	%
crude steel	20502	28424	+ 38
semi-finished products	11292	15390	+ 36
merchant bars, wire rod	7474	18599	+ 148
forged pieces	2672	2042	- 24
polished steel drawn (Lugau)	3215	4005	+ 24

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.

The planned production level of the new combined merchant bar / wire rod mill was still not achieved in the first semester of 1997. The supplier of the installation, an East German company that filed for bankruptcy 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.

STEEL MONITORING REPORT No 8, November 1997, SEW Freital

The current technical restraints cause serious difficulties to return the company back to viability. The ongoing losses of the East German plants of the SEW group are still to be balanced by the positive results of the West German plants. The management of SEW Freital took appropriate measures to solve the problem up until the last quarter of 1997. It hired a new technical director for the hot-rolling mill with particular experience in the type of flexible production intended. Specialized engineering offices were charged to identify and implement the additional investments necessary. The plan designed in cooperation with the external engineers provides for the completion of the revamping by the last quarter of 1997, allowing during the period up until then a step-by-step increase of productivity. The management is confident that these measures would allow achieving the full technical restructuring of SEW Freital by the end of this year.

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. The semestrial results of the privatized company SEW Freital are not shown in the monitoring report any more to avoid undue business disadvantages. However, it should be mentioned that the company's annualized results of the first semester of 1997 show a slight decrease of 5% in turnover and a significant increase by 40% in the net operating result compared to 1996. Due to the still limited productivity of the new hot-rolling mill and the high level of depreciation the management expects a negative result in 1997.

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	31.15
Total	274.00	269.91

**Monitoring of Article 95 ECSC steel aid cases
Eighth Report, November 1997**

Voest Alpine Erzberg GmbH, Austria

I. Introduction

The Commission decided on 29 November 1995 to approve State aid in favour of Voest Alpine Erzberg GmbH (VAEG) in order to allow the gradual closure of its mining activities until the year 2002¹. The aid approved totals 272 Mio ÖS² to cover operating losses during the period 1995 until 2002 and 136 Mio ÖS to cover costs for a safe and environmentally friendly retreat from the iron 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 III.2.),
- the operating aid shall not exceed the difference between the production costs and the revenues (so far **observed**, see III.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 III.2.).

¹ O.J. No L 94, 16.4.1996, p. 17

² 1 mio ÖS = 72096 ECU (1.9.1997)

II. Key points from the last monitoring report

The company continued its closing activities in line with the plan and observed the limitation in production as imposed by the Article 95 decision. The prices charged for iron ore deliveries were at market level so that a spill-over of the operating aid to the only customer *Voest Alpine Stahl AG* was excluded. The aid paid to cover operating losses and closing activities remained below the losses occurred and below the level authorized.

III. The fourth monitoring report

The present report covers the developments up until 30 June 1997 based on the information provided by the Austrian Government in its fourth monitoring report, which was submitted, in line with the request of the Commission, on 15 September 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 the first semester of 1997 VAEG produced 823.800 tons iron ore with an average quality of 33.0 % Fe and 6,200 tons low quality products, usable for the burden (*Möllerzusatzmaterial*) of VASA. It sold 796,800 tons iron ore and 6,200 tons low quality products to VASA.

b) Production costs

The production costs for the standard quality iron ore totalled 127.297 mio ÖS, i.e. 154.52 ÖS/ton which represents a decrease of 11.4 % compared to 1996. The production costs for the low quality products were 325,000 ÖS, i.e. 52.29 ÖS/ton which represents an increase of 3.2 % compared to 1996. A detailed overview on production costs is given in the Annex.

c) Pricing

In the first semester of 1997, the iron ore of standard quality was sold at 139,5 ÖS/ton, the same price as fixed in 1996. This standard price was fixed in December 1996 for the entire year 1997. A revision of the pricing during the first semester of 1997, however, 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 'quality deduction' which was fixed at 11.9 mio ÖS, i.e. 13.8 ÖS/ton, so that the price finally paid for iron ore delivered in the first semester of 1997 amounts to 125.7 ÖS/ton. The low quality material (*Möllerzusatzmaterial*) was sold at 76.0 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 696.36 ÖS/ton, i.e. 1.9% higher than in 1996.

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 ÖS³ (including costs of transport to Austrian border). The average price at the Austrian border was therefore at 368.42 ÖS/ton, including 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.

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 the first semester 1997 were not lower than required under Article 2 of the Commission's decision of 29 November 1995.

d) Operating aid paid in 1997

The total losses of VAEG in the first semester of 1997 were at 24.567 mio ÖS. In 1996 the company suffered losses of 50.75 mio ÖS. The annualized losses in the first semester are 3.2% below the losses in 1996. This development is mainly due to limited costs for closing activities during the winter.

0.765 mio ÖS of the total losses in the first semester of 1997 were related to closing activities. In 1996 losses of 8.4 mio ÖS were related to closing activities:

³

data of the Austrian Chamber of Commerce

STEEL MONITORING REPORT No 8, November 1997, Voest Alpine Erzberg

Therefore, the percentage of losses related to non-productive activities decreased from 15.75% in 1996 to 3.1% in the first semester of 1997. For details as regards the losses see the Annex.

The company applied for an aid of 50 mio ÖS to cover losses of 1997. The Austrian Government did not agree on a fixed amount of aid before the final figures for the entire year 1997 were known. It disbursed a down payment of 15.0 mio ÖS in April 1997.

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 1-6/1997.

	planned cost up to 2002	authorized closing aid	plan 1997	costs 1-6/97
securing of endangered layers	26.7	13.4	3.0	0.6
securing of the edges of layers	41.7	8.3	1.0	
relief of the roofs of deposits	54.0	0		
creation of collecting com- partment for falling material	4.5	3.6	1.0	
closure of open cast sites	1.0	0.1		
diversion of surfacial water	3.5	1.4	0.5	
pulling down of processing plant, transport facilities and buildings	45.0	40.5	2.8	
demolition of equipment and buildings	25.0	18.3	1.2	
demolition of other mining facilities	16.2	2.4	0.6	
redevelopment of dumphills and basins of mud	1.4	0		
recultivation and forestry activities	50.2	12.6	0.9	0.2
sanitation of polluted soil	35.0	0		
sanitation of polluted slaghill	10.0	0		
social measures	140.3	35.4		
TOTAL	454.5	136.0	11.0	0.8

4. Aid compared to the plan

in Mio ÖS	Total aid		Operating aid		Closing aid	
	authorized	paid	authorized	paid	authorized	paid
1995	50	47	45	42	5	5
1996	50	48	42	40	8	8
1997	50	15	39	15	11	
1998	47		36		11	
1999	57		34		23	
2000	52		30		22	
2001	52		26		26	
2002	50		20		30	
Total	408	110	272	97	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. However, in the first semester of 1997 two companies in *Eisenerz* had to reduce employment by 60 persons. 3.5% of the inhabitants work in the mining of VAEG. The regional authorities are actively promoting the creation of new jobs.

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Annex

Comparison of production costs and revenues in 1996

Production in tons	Iron ore		low quality material		closing and securing	total	
	823800		6200				
Costs	In 1000 ÖS	in ÖS/ton	in 1000 ÖS	in ÖS/ton	in 1000 ÖS	in 1000 ÖS	in ÖS/ton
production	28943	35.13	62	9.94	756	29005	34.95
extraction	41608	50.51	100	16.12		42464	51.16
processing	27850	33.81	92	14.77		27942	33.67
quality control	6058	7.35	17	2.75		6075	7.32
dispatch	7273	6.63	54	8.71		7327	8.63
overhead	15565	16.69				15565	18.75
total cost of sales	127297	154.52	325	52.29		756	128378

Revenue

sales in tons	796800		6200				
sales price	111154	139.50	471	76.0		111625	
quality deduction	11000					11000	
subtotal	100154		471			100625	
stock increase	3188	118.0				3186	
Total	103340		471	76.0	0	103811	125.31

Difference

Operating result	- 23957		+ 146		- 756	- 24567	
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Aid

	15000				8000	15000	
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