COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

MONITORING OF ARTICLE 95 ECSC STEEL AID CASES
NINTH REPORT, MAY 1998

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Ninth Report, May 1998

Summary

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

1. C.S.I., Spain

During the monitored period the privatisation of the former CSI-Corporación Siderurgica - now renamed Aceralia - has been completed. Arbed, the technological partner, holds 35 % of the capital and the active management of the company. Other partners are Aristrain, which merged its acitivities in the new company, with 11.2 % and Gestamp with 1 %. Balance of the shares have been sold on the stock market.

Rebuilding of blast furnace No. 5 at Gijón was completed in November 1997. At the end of December 1997 the last blast furnace at Avilés for a capacity of 800,000 tonnes had been close down as planned. Other investments foreseen by the plan have been completed. Workforce reductions continue on schedule.

Aceralia had positive results at the end of 1997 approximately 40 % higher than the one of 1996.

No further aid was paid in the second part of 1997 to AHV-Ensidesa Capital, the liquidating company. Incomes received from the sale of Aceralia will reduce the amount still to be paid to AHV-Ensidesa Capital.

ACB continued its operations during the second part of 1997. Total production of marketable products during this period, all acquired by CSI, was 372,000 tons.

2. SIDENOR, Spain

All foreseen investments, capacity and workforce reductions have been achieved on schedule.

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

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

[3] Decision No 96/269/ECSC (O.J. No L 94, 16.4 1996, p. 17)

Sidenor closed is second year as fully privatized company with a profit, even if 38 % lower than the one of 1996 mainly due to higher depreciation.

Acenor SA, the liquidating company, continues its activities now essentially limited to the payment of the social benefits to the dismissed people.

Aid paid during the 1997 was 8,992 million ptas. mainly to cover social costs.

Only 707 million ptas. as social aid remains to be paid.

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 also been achieved.

The arbitration of the dispute between Riva and IRI on the price paid for ILP, is still expected to be solved before the end of this 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.

IRI has paid all aid needed to cover the negative equity of Ilva in Liquidazione. No more aid will be paid and the liquidation process will be completed using the resources of the company which consist of assets still to be liquidated and credits to be collected. Main liabilities are labour costs and possible disboursements due to the outcome of legal disputes still pending. Final aid actually paid 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 31.12.97 are in line with the planned ones. Planned workforce reductions were achieved by the end of 1996.

Reported production and sales for the first half of the financial year 1997/98 (from July 1997 to June 1998), are in line with the imposed limitations. Commission services visited Irish Ispat on 25.2.98 and obtained internal plant records confirming the reported figures.

All aid has been already paid before 30.5.96, date when the former Irish Steel was privatized.

Results for the period from January 1997 to December 1997 show a loss for 3.4 million IR£.

In the second part of the year 1997, Irish Ispat obtained a loan for US$ 13.3 million from its shareholder.

5. SIDERURGIA NACIONAL, Portugal

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

SN Longos is due to install a new electric arc furnace to replace the crude steel production in the blast furnace still operated by *SN Servicos*. After having accepted the postponement of the investment until after privatization the Commission insisted that the new private shareholders would do the necessary to have the new crude steel production of *SN Longos* entering into operation by the end of 1998 at the latest. The Portuguese authorities explained in the current monitoring report that this date would not be achieved due to unexpectedly difficult negotiations with the electricity supplier. The new target date of *SN Longos* for the entering into operation of furnace is June 1999.

The reduction of workforce of *SN Servicos* is still behind the plan. The Portugese authorities continue their efforts to render the remaining necessary lay-offs possible and socially acceptable. It is expected that the initial target figure would be achieved in the course of 1998 and would even be exceeded until the year 2000.

SN SGPS, the holding company created to administer the privatization of the long and the flat products branch, is in liquidation. Only minor legal problems are still to be solved.

The aid authorized under Article 95 of the ECSC Treaty was fully paid in 1994/95. The authorization of aid under Art 2 and 3 of the Fifth Steel Aid Code is used by 37.5 %.

6. EKO Stahl, Germany

EKO Stahl GmbH was privatized (60%) by the beginning of 1995. The capacity reductions required were achieved by the end of February 1995. The investment plan is impemented in line with the plan. The new blast furnace entered into operation in April 1997. The new hot-rolling mill is in regular operation since the beginning of 1998.

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 1997, the company suffered losses of 109 mio DM, more than covered by authorized aid for operating losses during the restructuring period. The exceeding amount of 9 mio DM is to be borne by the equity of the company.

7. SEW Freital, Germany

After the privatization of the company in 1994 and the required capacity closures in 1995, the monitoring now concentrates on the restructuring efforts of the private management. The new combined merchant bar / wire rod mill poses some technical difficulties which are to be solved as soon as possible in order to overcome the continued restrictions in product range and productivity. The new electric arc furnace with a capacity of 200 kt/y entered into operation in September 1997 and replaced the remaining old furnace with a capacity of 145 kt/y.

The net operating result is again negative but the losses of 1997 are 30% lower than in 1996. This development is caused by the restrictions in productivity related to the technical diffculties in the new hot-rolling mill.

The aid to cover old debts authorized under Article 95 was completely paid until the end of 1996. The final amount is 0.6% lower than authorized by the Commission. Only a small portion of aid for workforce reduction may still be disbursed.

8. VOEST ALPINE ERZBERG, Austria

Voest Alpine Erzberg scheduled to cease its production of iron ore 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 is exclusively 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 until 1997 are below the plan. In 1997, the Austrian State paid 39 mio ÖS for operating losses and 9 mio ÖS for closing costs.

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
					required		achieved				
	authorized	granted	authorized	granted	kt/y	date	kt/y	date	plan	achieved	
CSI of which Social Aid	437.8 bn Pta (2715MECU) 54.4 bn Pta (341.7 MECU)	219.9 bn Pta (1363MECU)	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 12.95	10347by 1998	9638 by 31.12.97	* net reductions ** effective date of net reduction
SIDENOR of which Social Aid	80 bn Pta (496 MECU) 7.79 bn Pta (48.9 MECU)	80 bn Pta (496 MECU) 7.79 bn pta (48.9MECU)	24.2 bn Pta (150 MECU)	23.5 bn Pta (145.7 MECU)	505 liq.st. S.S. plant 379 H.R.	6.94 6.94 6.94	100 % 100 % 100 %	6.94 7.94 6.94	2593 by 1995	2593 by 1995	additional 18.3 bn pta. (115 MECU) were paid during 94/95 as balance of aid approved under protocol 10 of Treaty of Accession.
ILVA	4790 bn Lit (2302 MECU)	4777 bn Lit (2297 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 12.96	aids paid are net of incomes received from sales of ILP and AST and cashed-in directly by IRI. up to 28.4.98.
IRISH STEEL	38.298 M.IR£ (47.7 MECU)	38.298 M.IR£ (47.7 MECU)							205 by 1996	209 by 1996	

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

Overview

company	aid Article 95 ECSC		aid Steel Aid Code		capacity reduction				redundancies		remarks
					required		achieved				
	authorized	granted	authorized	granted	kt/y	date	kt/y	date	plan	achieved	
SN	60.12 bn Esc = 306 MECU	100 %	5.925 bn Esc	2.225 bn Esc	140	31.12.95	100%	31.12.95	1798	1205 = 67 %	redundancies behind plan. new electric furnace now planned to enter into operation June 1999
EKO	900.62 mio DM = 461 MECU	100%	385 mio DM	100%	361	31.1.95	100%	28.2.95	8800	8532	investments in line with plan. losses exceed the amount covered by authorized operating aid, increase of workforce for new hot-rolling mill
SEW	274 mio DM = 140 MECU	269.95 mio DM = 98.52 %	60.62 mio DM	100%	160	31.12.96	100%	31.12.96			difficulties with new hot-rolling mill. new electric furnace entered into operation in summer 1997
VAEG	408 mio ÖS= 29.7 MECU	143 mio ÖS = 35 %	-	-	-	-	-	-	286	0	pricing in line with decision. first redundancies planned in 1998

Monitoring of Article 95 ECSC steel aid cases
Ninth Report, May 1998

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 III 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 (**achieved** : 800,000 tons closed by end 1994, 800,000 tons closed by end 1996 and 800,000 tons closed at the end of 1997)
- Closure of 1,980,000 tons of pig iron production capacity at Sestao (**achieved** since end of 1995 see sixth 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** 31.12.95 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

No points were outstanding since the last monitoring report.

III. The new monitoring report

The ninth monitoring report was received from the Spanish authorities on the 15th of March 1998, in compliance with the requirements of the above mentioned decision.

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

- Completion of the investment programme foreseen in the restructuring plan.
- Workforce reduction : dismissal of additional 331 workers; an additional reduction of 709 people is needed before the end of 1998 to achieve the plan,
- Capacity reduction : The closure of the last blast furnace at Avilés completes the foreseen capacity reductions.
- Privatisation of 100 % of the capital of Aceralia (new name of the CSI-Corporación Siderurgica)

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

- completion of workforce reductions,
- remaining aid payments,
- respect of the five years production capacity freeze.

Aceralia

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.. However, Aceralia will be sumitted to the five years capacity production freeze as requested by the decision. This period will last until the end of year 2000, since, accorrding to the supplied information, it appears that thê extra period in which Ansio stayed in production to allow the new owner to train its staff, did not create a significant negative competitive effect within the EU. Therefore. the Commission can accept that the Ansio was closed insofar as the Art. 95 decision is concerned from 31 Dec. 1995

2. Investments

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

Total investments foreseen by the plan and engaged by the company were 109 billion ptas. to be completed by the end of 1997. Until the end of 1996 investments for 60.6 billion ptas. had been contracted and paid. Additional 40 billion ptas. of investments were contracted and paid during 1997 (15 billion ptas. during the first half and 25 billion ptas. during the second half of the year).

The investment programme as it was foreseen in the restructuring plan can be considered as completed.

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 Aceralia no reduction of workforce is foreseen.

4. Production

Production of the group for the years from 1993 to 1997 was as follows:

(thousands tonnes)

Aceralia Production	1993	1994	1995	1996	1997	1997/ 1996 (% change
Liquid Steel	5,329	5,361	5,158	4,204	4040	(3.9)
H. R. Coils	3,739	3,762	3,775	2,801	2446	(12.67)
Heavy Plates	522	589	601	529	536	1.32
Wire Rods	385	415	456	395	413	4.56
H. Sections	289	223	277	249	228	(8.43)

The lower productions in the years 1996 and 1997 are due to the reductions in capacity production at Sestao and Avilés and to the shut down of the blast furnaces at Gijón for recontruction. 1997 production was below plan except for coils, as it can be seen in the following table.

(thousands tonnes)

Aceralia Production	1997 Planned	1997 Actual	Actual vs. Planned (per cent change)
Liquid Steel	4130	4040	(2.18)
Hot Rolled Coils	2300	2446	6.35
Heavy Plates	550	536	(2.55)
Long Products	700	641	(8.43)

5. Sales

Sales of finished products, during the total year 1997, after two consecutive years of decline in 1995 and 1996, were just above the 1996 level (0.59 % more). In first half of 1997 they were 2.6 % above corresponding previous period, but they declined by 1.58 % in the second half. Comparison with plan figures is not possible since details of sale plan for 1997 are not available.

Breakdown of sales by market during the second half of 1997 shows a continuing of the 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	2nd H. 1997
Domestic	69.15	63.56	65.80	73.84	69.06	70.65	72.11	75.16
Other E.C.	16.03	15.73	17.40	18.05	18.03	17.89	16.57	14.99
O. Countries	14.82	20.72	16.80	8.11	12.92	11.46	11.32	9.84

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

6. Financial Performance

During the total year 1997, Aceralia realized a turnover of 393,806 million Ptas. : an increase of 16.0 per cent over the previous year. In spite of higher costs of sales and higher depreciation, the provisional net results are 38.5 % higher than the ones of 1996, as shown in the following table :

(millions ptas.)

ACERALIA	1995	1996	1997	1997/1996
Turnover	361675	339366	393806	16.04
Cost of Sales	222934	218091	263049	20.61
Other operating expenses	63543	80787	81527	0.92
Depreciation	22091	27003	30031	11.21
Net Operating Result	52835	13406	19199	43.21
Financial Charges	2627	(1001)	(609)	(39.16)
Net Results	22864	15579	21572	38.47
L/T Debts	15233	19462	14734	(24.29)
S/T Debts	135566	103709	113525	9.46

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

(millions ptas.)

	1997 planned	1997 Provisional	Actual vs. Plan
Turnover	311962	393806	26.24
Cost of Sales & other operating expenses	255422	344576	2.99
Depreciation	33381	30031	(10.04)
Net Operating Result	23158	19199	(17.10)
Financial Charges	10508	(609)	(94.20)
Net Results	9611	21572	124.45
L/T & S/T Debts	105760	128259	21.27

As it can be seen, if the provisional results are confirmed, Aceralia will have net results better than the planned ones due to increased turnover and a better financial structure of the company.

7. Terms and Conditions of new loans

Beside the syndicated loan for 25 billion Ptas contracted by Aceralia with Spanish and foreign banks during the first half of 1997 (as reported in the last monitoring report), no other loans has been received by Aceralia during the second part of the year.

8. Aid Payments

As already stated in the previous monitoring reports, the Spanish government had engaged itself to provide aid for the capitalization of the former 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

After the open bid procedure launched by the former owner of Aceralia "SEPI" during the first half of 1997 to assign 35 % of CSI capital, the privatisation of Aceralia has been carried out during the second part of 1997 as follows :

1.8.97	Awarding to Arbed of 35 % of the capital owned by SEPI. As reported in last monitoring report, this operation included the increasing of Aceralia's capital by 129,200 million Ptas. to be subscribed entirely by Arbed and the acquisition of 9.5 % shareholding by Aceralia in the capital of Arbed plus other participations in Arbed's subsidiaries.
17.10.97	Aquisition of 11.2 % of the capital of Aceralia by J.M.Aristrain S.A., subject to the approval of the European Commission.
18.10.97	Acquisition of 1 % of the capital of Aceralia by Gestamp, SL
9.12.97	Offer on the stock exchange of the remaining capital of Aceralia.

Following this last operation, Aceralia has been completely privatized.

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

Following the completion of the rebuilding of blast furnace no. 5 at Gijón and its start up in November 1997, the last blast furnace still operating at Avilés for 800,000 tons of production capacity was shut down. Its dismantling will start in April 1998.
With its closure, all the capacity reductions imposed by the Commission decision have been fulfilled.

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

2. Reduction of Workforce

In the second half of 1997, additional 331 workers were laid off bringing the total workforce reduction since the beginning of the restructuring to 9638 people. In order to accomplish the reduction foreseen by the plan (10347) 709 people more will have to be dismissed up to the end of 1998.

Total cost for the workforce reductions during second half of 1997 was 20,834 million ptas. plus 3,339 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 186,438 billion ptas. of which :

- 103,207 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.
- 83,231 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	Situation at 31.12.97
Fixed assets	8.0	6.9	6.7	7.0	6.6	5.8
Current Assets	19.5	13.8	14.4	15.9	12.0	3.6
Credit with new group	182.4	144.6	120.5	120.5	120.5	120.5
Total Assets	209.9	165.4	141.6	143.4	139.1	129.9
Equity	(97.3)	(27.8)	(16.2)	(24.7)	(17.3)	(18.8)
Funds		13.4	11.7	9.4	9.4	5.4
Debts	307.2	179.8	146.1	158.7	147.1	143.3
Total Liabilities	209.9	165.4	141.6	143.4	139.1	129.9

(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	Situation at 31.12.97
Fixed assets	79.0	6.8	4.9	5.9	5.8	4.7
Current Assets	44.9	39.5	26.3	3 0	2.3	1.3
Credit with new group	23.6	18.9	15.8	15.6	15.6	15 6
Total Assets	147.5	65.1	47.0	24.5	23.7	21.6
Equity	9.8	(53.7)	(5.0)	(15.0)	(8.4)	(13.5)
Funds	0.3	2.9	2.3	1.4	1.4	1.3
Debts	137.4	115.9	49.7	38.1	30.8	33.8
Total Liabilities	147.5	65.1	47.0	24.5	23.7	21.6

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 former 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

Beside the 40,666 million Ptas of aid received by AHV-Ensidesa Capital during the first half of 1997 , no other aid was received by this company..

Total aid paid is therefore 297.2 billion ptas. as reported in the last monitoring report. These payments have covered capital injections previouly made, social costs and, in part, the capitalisation of the new group.

From the privatisation of the Aceralia Group, which it was not foreseen by the restructuring plan, SEPI received the following amounts :

- 137.2 billion ptas. from the sale of shares on the stock market
- 45.2 billion ptas. from the sale of shares to Aristrain and Gestamp

for a total of 182.4 billion ptas.
Therefore the amount of aid to be paid to AHV-Ensidesa Capital, will be reduced by an equivalent amount.

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

(billions ptas.)

	approved aid	approved aid reclassified	aid payments at 31.12.97
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 second half of 1997, the realized investments amounted to 4,143 million ptas. in line with the planned schedule.

2. **Financing**

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

3. **Ownership**

Aceralia has increased its share of the ACB capital from 32.5 % to 39.6 % and Banco Central Hispanoamericano (BCH) ownership went from 7.1 % to 22.1 %. Shares were sold by Banco Atlantico, Banco Urquijo, Corporación Gestamp and Cidessa Uno.

4. **Production**

During the second six months of 1997, ACB produced 372,000 tons of marketable products which have been acquired by CSI at market price.
Total production for 1997 has been of 596.6 thousand tons .

STEEL MONITORING REPORT No. 9, May 1998, CSI

SCHEDULE OF CAPACITY CHANGES (status at 30 6 97) (thousand tonnes)	PRODUCTION CAPACITIES DURING YEARS (at beginning of each year)							Capacity Reduction	
Location/Installation	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
Ninth Report, May 1998

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

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

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

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

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

II. Key points from the last monitoring reports

No points were outstanding from the last monitoring report.

III. The new monitoring report

This ninth monitoring report on Sidenor is based on information submitted on 15th of March 1998 in accordance with Commission decision 94/261/ECSC. It covers the period up to 31.12.97.

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 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 1997 and comparison with previous years is summarized as follows :

(thousands tonnes)

Actual Production	1993	1994	1995	1996	1997	1997/ 1996 % change
Liquid Steel	480.7	587.1	725.4	675.3	797.2	18.05
Special Steels	381.7	489.7	592.4	511.2	649.7	27.02
Stainless Steel	19.8	14.9	0.0	0.0	0.0	0.0
Forge&Foundry	28.9	36.2	47.2	56.2	56.7	0.8

Production of liquid steel and special steels during the second part of 1997 confirmed the good recovery from the low level of 1996 started in the first part of the year scoring for total 1997 the best performance in the last five years. Forge and foundry products, on the contrary, are leveling off but always at an high level.

5. Sales

Total sales of Sidenor during second half of 1997 were 312.2 thousand tons and 662.2 thousand tons for total year 1997, 15.7 % higher than 1996 sales.

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. 1997	2nd H. 1997
Domestic	53.9	52.0	57.3	57.4	56.9	54.0	55.2
Other EC	40.7	38.7	35.3	38 7	38.0	41.7	39.2
O Countries	5 5	9 3	7.3	3.9	5.2	4.4	5 6

The breakdown by market shows that the increase in the share of sale in the other EC countries obtained during the first half of 1997 did not confirmed it during the second part of the year.

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.

6. Financial Performance

Preliminary financial results shows an increase of turnover of 9.4 % versus the one of 1996. However, due to the increases in the cost of sale and of depreciation, the net operating result was barely positive. Final result benefitted of net financial incomes and extraordinary incomes for the period.

(millions ptas.)

	1996	1997 (preliminary)	1997 vs1996 (% change)
Turnover	54847	60011	9.4
Cost of sales	48518	55604	14.6
Depreciation	2845	5762*	102.5
Net Operating Result	3816	655	(82.8)
Finan. Charges	1643	1393	(15.2)
Net Result	2876	1794	(37.6)
Financial Debts	15803	18892	19.5

* Increase in depreciation is due to the depreciation of the revaluation of the assets made on 31.12.96 accordingto regional law 4/1997. Depreciation excluding the revaluation would have been 3814 million ptas.

The balance sheet at the end of 1997 compares as follows with previous years:

(billions ptas)

	Situation at 31.12.95	Situation at 31.12.96	Situation at 31.12.97	variance 97 vs. 96
Fixed assets	33.4	41.8	36.5	-5.3
Current assets	27.7	24.0	32.8	+8.8
Total assetes	61.1	65.8	69.3	+3.5
Equity	15.2	25.7	23.3	-2.4
Funds	0.2	0.4	0.3	-0.1
L/T and S/T debts	45.7	39.7	45.7	+6.0
Total Liabilities	61.1	65.8	69.3	+3.5

The balance sheet at 31.12.95 took into account the aid paid during 1995 as capital injections (14.0 billion ptas) and the capital injection of 1.4 billion ptas made by the new owner of Sidenor (see fifth monitoring report). Since 1996, balance sheet figures do not contain any aid element.

7. Terms and conditions of new loans

After the loan for 10 billion ptas obtained in the first half of 1997, Sidenor has not received any other loan in the year 1997.

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 exstinguish these debts.

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

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

1. Workforce reductions

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

Up to the 31.12.97, the total social payments made by Acenor/Foarsa on behalf of the state amounted to 25.5 billion ptas. covered by loans.

See below section "Aid Payments" for full details on aid paid by Spanish state.

2. Financial Performance

The balance sheet of Acenor S.A. at 31.12.97 is reported in the following table and compared with previous situations.

(billions ptas.)

	Acen.+Foarsa 31.12.94	Acenor 31.12.95	Acenor 31.12.96	Acenor 30.6.97	Acenor 31.12.97
Fix assets	0.25	0.64	0.07	0.01	0.1
Deferred expenses	54.5	49.2	52.62	50.08	65.4
Current assets	0.26	1.15	1.71	0.14	3.7
Total assets	55.018	50.98	54.41	50.24	69.2
Equity	(46.04)	(23.98)	(8.18)	(7.50)	(2.6)
Equity loans	16.15	0.00	0.0	0.0	0.00
Funds	41.50	41.25	45.25	42.62	58.4
L/T Debts	10.29	6.51	12.80	12.80	10.2
S/T Debts	33.11	27.18	4.54	2.32	3.2
Total Liabilities	55.01	50.98	54 41	50.24	69.2

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); the increase in the deferred expenses is due to an updated valuation of such costs required by the auditors.

3. Terms and conditions of new loans

During the first six month of 1996 Acenor obtained a loan from a consortium of foreign and Spanish banks for 9 billion ptas. at market rate and with a state guarantee for which the normal premium had been paid.
A number of clarifications has been asked to the Spanish authorities on the granting of this loan.

4. Aid payment

During the second half of the year 1997, Acenor received aid for 5,642 million ptas.. Together with the 3,350 million ptas received during the first six months of 1997, all the forecasted amount of 8,992 million ptas. for the year 1997 has been received. This aid was used to cover social costs and financial charges.

Only aid for 707 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.

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	31.563
total art. 95 ECSC aid	80.052	
Grand total	122.547	121.840

Monitoring of Article 95 ECSC steel cases
Ninth Report, May 1998

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

No points were outstanding since the last monitoring report.

III. The new monitoring report

This ninth monitoring report on ILVA is based on the information submitted by the Italian authorities on 15th March 1998 in accordance with Commission decision 94/259/ECSC.

Main events since the last monitoring report are :

- payment by IRI of the last tranche of aid to Ilva in Liquidazione.

Main issues remaininig to be monitored are :

- completion of the liquidation process of Ilva in Liquidazione,
- 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 second half of the year 1997 totalled 208 billion Lit. They were utilized to continue the revamping of one of the blast furnaces, the continuous casting plant at Taranto (55 billion Lit), one of the hot rolling mill (19 billion Lit.), the cold rolling and the hot coating equipments (37 billion Lit.). Also, out of this total, 74 billion lit. were spent for pollution control equipment.
Total 1997 investments totalled 271 billion Lit.
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 December 1997 was 17489 people, including workers at the Cornigliano and Icmi plants in Genoa.

4. Production

Production for all of 1997 is summarized and compared with previous years in the following table :

(thousands tonnes)

ILP Production	1994	1995	1996	1997	1997 / 1996
Pig Iron	8208	8546	7546	7880	4.4
Liquid Steel	8457	8783	7731	8008	3.3
H. R. Coils	6500	6855	6405	6822	6 5
Plates	1155	1105	1100	1256	14.2

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 1997 totalled 7.2 million tons, about 5.3 % higher than 1996 sales. 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	1997
Domestic	71.8	67.9	68.9	73.1	55.5	59.1
Other EC	13.9	12.7	15.1	12.4	19.7	25.1
O. Countries	14.3	19.4	16.0	14.5	24.9	15.8

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

6. Financial Performance

In May 1997 ILP S.p.A. - now called ILVA S.p.A. - has incorporated the ICMI's plant located in Genoa and with effect at 31.12.97 has merged with "Acciaierie di Cornigliano" also located in Genoa. Data reported in the following table reflect the situation before the merger with Cornigliano, but includes the results of the activities of the Genoa's ICMI plant.

(billions Lit.)

	1994	1995	1996	1997 preliminary	1997/1996 % change
Turnover	5395	6415	5760	7178	24.6
Gr. operative margin	952	1793	853	873	2.3
Depreciation	275	337	360	303	(15.8)
Operating results	791	1388	485	561	15.7
Net fin. charges	29	88	49	44	(10.2)
Net results (before taxes)	681	790	436	554	27.1
Net Financial Debts	188	207	438	828	89.0

Major item to highlight is that, in spite of the increased turnover, the gross operating margin has remained almost stable compared with 1996. Decreased depriciation and financial charges have contributed to the achievement of final results showing an increase of 27.1% compared with the ones of 1996.

7. Terms and condition of new loans

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

8. Privatisations

The last tranche of the base price for ILP for 120 billion Lit., plus interests will be paid to IRI on 28.4.98 as by contract.
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, as it was explained in details in the last monitoring report, will probably be settled by the end of 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 (not changed since last monitoring report) 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 31.12..97	Price that will be paid by 31.12.98	Price claimed by IRI	Price claimed by Riva	Price used in previous 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 April 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.

AST

1. Capacity reductions

In accordance with the approved restructuring plan, no capacity reductions have been made during the second half of 1997.

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

2. Investments

Investments during the second six months of 1997 amounted to 48.4 billion lit.
Major area of intervention were the hot strip mill (17.5 billion lit.), the stainless steel plant (3.5 billion lit.) and safety and pollution control equipment in Terni (3.5 billion lit.), the stainless steel plant in Torino (7.7 billion lit.). Remaining investments 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.
At the end of 1997, workforce of AST was 4192 people, 43 people more than at the end of 1996.

4. Production

Actual production for 1997 and comparison with previous years can be summarized as follows :

(thousands tonnes)

	1994	1995	1996	1997	1997 / 1996
Liquid Steel	954	1037	1050	1193	13.6
H. Rolled Coils	970	1077	1049	1166	11.2
Cold R. Sheets	527	599	608	675	11.0
Stainless Steel	399	469	478	512	7.1
S.S. Hot Rolled	60	69	80	73	(8.8)
S.S. Cold Rolled	339	401	398	439	10.3

Production of hot rolled coils during 1997 was above declared capacity of 1155 thousands tons. However, since this increase in capacity is due to productivity gains as allowed for in the decision, the Commission is satisfied with this situation.

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 1997 totalled 1061.1 thousands tons, 12.8 % above the sales 1996. Cold rolled stainless steel sales were 441.4 thousands tons, 10.1% above 1996 corresponding sales.

Shares of sales by market show an 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	1997
Domestic	60.8	64.7	62.3	61.5	59.0
Other EC	15.8	15.2	15.6	13.2	18.1
O. Countries	23.4	20.2	22.1	25.4	22.9

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.

6. Financial Performance

During the second part of 1996, AST management took the decision of bringing the company financial year from July 1 to June 30. Therefore, the figures shown in the the following table under the years 1996 and 1997 are the sum of the results of the two halves of each year.
While 1997 turnover was 7.0 % higher than 1996, 1997 gross operating margin exceeded the one for 1996 by 34.6 %. Net results were 33.9 % lower than previous year also due to higher depreciation and higher financial charges.

(billions Lit.)

	1994	1995	1996	1997	97/96 % change
Turnover	1657.8	2553.1	2042.8	2186.2	7.0
Gr. operative margin	137.0	560.8	142.2	191.4	34.6
Depreciation	70.1	93.4	79.4	104.4	31.5
Operating results	35.0	471.3	62.8	87.0	38.5
Net fin. charges	41.9	12.1	10.6	32.7	208.5
Net results	(52.4)	454.7	104.9	69.6	(33.65)
Net Financial Debts	305.9	5.3	83.9	(72.0)	

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. 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

Workforce reductions according to the restructuring plan were achieved by the end of 1996 as indicated in the eighth monitoring report.
At the end of 1996, 2179 people were in the books of Ilva in Liquidazione group. During 1997 this number was reduced to 1548 people by the end of June and to 490 people by the end of December.

3. Financial Performance

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

The evolution of the Ilva in Liquidazione balance sheet is given in the annex table at point 1. In the same table, at point 2, as explained in the previous monitoring reports, it is reported the indebtedness at the level of the group as estimated year after year, and at point 3 the indebtedness at IRI charge on a comparable basis with the one calculated in the plan.

Ilva in Liquidazione preliminary balance sheet at the end of December 1997 shows a total financial indebtedness of 6441[1] billion Lit. compared to a negative equity of 6794 billion Lit..
Tangible and financial assets still to be liquidated amount to 236 billion Lit.; they include 40 billion Lit. of land properties already sold and 119 billion Lit. to be received by Lucchini for the sale of land at Piombino previously owned by Ilva and approximately 40 billion lit. to be received from Bagnoli SpA for the old rolling mill to be sold or scrapped. Variance with the previous figure of 500 billion lit. at 30.6.97 is due to the payment by Dalmine of the last tranche for 233 billion lit. of the obligationary credit that Ilva in Liquidazione had with this company according to the sale contract.
Subsidiaries and shareholdings still in the group represent a value of about 20 billion Lit. half of which is the remaining 20 % of the capital of Bagnoli SpA , the rest is spread over several small companies most of them to be liquidated.
Commercial credits and other activities to be collected still amount to 227 billion Lit.
Provisions to cover costs and risks up to the end of the liquidation amount to 689 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 December 31, 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..

[1] This amount represent the net value of the aid paid by IRI (see below " Aid payments" section)

(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 estimate	31 12.97 prelimin
1	Total comparable Ilva indebtednss	(10067)	(10889)	(11426)	(11181)	(10473)	(10362)	(10047)
2	Incomes from the sales of ILP,AST,Sofin.	2806	2760	2960	4183	3932	3547	3547
3	Debts transf. to ILP,AST,Sofin	1897	2546	2546	2546	2546	2546	2546
4	Other debts to be transferred	1061	923	592	416	0	233	0
5	Expected incomes from sales of companies	1425	1425	1400	380	100	10	10
6	Expected incomes from the liquidation process	448	448	1253	1112	972	517	411
7	Foreseen disboursements during the liquidation	(645)	(645)	(616)	(590)	(474)	(364)	(339)
8	Expected liquidation costs	(1065)	(1065)	(640)	(376)	(79)	(36)	(31)
9	Total residual Indebtedness	(4140)	(4506)	(3931)	(3510)	(3478)	(3909)	(3903)
10	Var. from plan		366	(209)	(630)	(662)*	(231)*	(237)*

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

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

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

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

row (4): Estimate of the debts that will be trasferred with the sale of the other subsidiaries. It varies according to the companies left to be transferred. After having cashed in the last tranche of the obligationary credit with Dalmine, no other debt will be transferred to subsidiaries sold.

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 represent the expected income from the sale of the 20 % share of the Bagnoli SpA capital.

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. In the last column are included the expected payments for the sale of assets as mentioned above when commenting the balance sheet (see Annex I).

rows (7)&(8): Represent liquidation expenses (trade paylables, payments of pension funds) or liquidation costs (financial charges, dismantling costs, restructuring costs) estimated at any given time to be borne until the end of the liquidation process. Decreases are due to foreseen costs already paid, while increses are due to unforeseen expenses or costs occurred. Figure in last column is maily the estimate of the portion of the provisions for risks and liquidation expenses that will be utilized (see Annex I).

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 estimated level of residual indebtedness at the end of 1996 and the new estimate of 3903 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 237 billion Lit. less than the amount approved under the art. 95 decision, not including the 163 billion lit. approved under SAC. and the result of the arbitration for ILP price.

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.

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

(in billion lit.)

	1993	1994	1995	1996	1997	1998
Funds provided by IRI	1538	2156	1670	1104	326	0
cumulative total (A)	1538	3694	5364	6468	6794	6794
Prices cashed-in by IRI for :						
AST	0	0	300	321	1	0
ILP	0	0	1685	120	120	120
cumulative prices cashed-in (B)	0	0	1985	2426	2547	2667
Cumulative aid received by Ilva in Liquidazione (A-B)	1538	3694	3379	4042	4247	4127

Therefore, the funds provided by IRI to Ilva in Liquidazione between 1993 and 31.12.97 were 4247 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).
With the payment of the last tranche for the ILP's base price for 120 billion Lit. scheduled for 28.4.98, the aid actually paid by IRI so far will be 4127 billion lit., just below the amount of aid approved under art. 95 ECSC.
Since IRI fulfilled its obligations under the Italian law in line with the requirements of the art. 95 decision, no more aid will be paid to Ilva in Liquidazione. Therefore, Ilva in Liquidazione will have to carry out the remaining liquidation activities only with the its own means which, according to the data provided by the Italian authorities, will generate a "saving" of aid of about 230 billion lit.. The amount of aid actually paid should be further reduced when the results of the arbitration on ILP price will be known since we used the most prudential option.

5. Privatisations

After the sale to Riva of the 40.9 % of the shares that Ilva in Liquidazione owned in Acciaierie di Cornigliano and of 80 % of the capital of the Bagnoli SpA, the privatisation program is pratically finished. During the second part of 1997 two more companies have been put into liquidation (Gescon and Icrot). Only substancial shareholding to be sold is the remaining 20 % in Bagnoli SpA for a value estimated at approximately 10 billion lit.

Following table, unchanged 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.. 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.

Subsidiaries and shareholdings sold by Ilva in Liquidazione, 1993 - 1997					
Companies	Buyer	Price		Debts transferred (applies only to companies fully owned)	
(billions lit.)		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 Eaucheevalkul	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	
IILIC		80	0	0	
Other shareholdings		(10)	7 1	0	2.5
TOTAL		1425	1554.2	1061	1055.4

STEEL MONITORING REPORT No. 9, May 1998, ILVA

ANNEX I

1 BALANCE-SHEET of ILVA SpA	PLAN	Balance Sheet at 31.12.93 (final)	Balance Sheet at 31.12.94 (final)	Balance Sheet at 30.6.95 (final)	Balance Sheet at 31.12.95 (final)	Balance Sheet at 31.12.96 (final)	Balance Sheet at 30.6.97 (estimated)	Balance Sheet at 31.12.97 (preliminary)
Non-Current Assets (Net)								
Intangible assets	107	1	0	0	0	0	0	0
Property.Plant and Equipment	327	275	248	255	277	187	47	47
Financial assets	850	1053	1369	1158	555	463	453	189
total	1284	1329	1617	1413	832	650	500	236
Net Working Capital								
Inventories	17	147	136	131	26	19	0	0
Trade accounts receivables	26	517	322	249	649	100	113	43
Trade accounts payables	-1153	-1324	-360	-232	-154	-100	-73	-57
Provisions for contingencies and exp.		-1267	-1583	-1390	-1182	-790	-755	-689
Other activities	-364	628	458	394	248	300	222	170
Other liabilities		-193	-183	-78	-80	-80	-31	-42
total	-1474	-1492	-1210	-926	-493	-551	-524	-575
Severance payments fund (TFR)	-172	-141	-73	-45	-74	-24	-14	-14
Net Invested Capital	-362	-304	334	442	265	75	-38	-353
Covered by :								
Equity	-5477	-5472	-6794	-6799	-6794	-6794	-6794	-6794
Net Financial Indebtedness	5115	5169	7128	7241	7059	6869	6756	6441
Total Funds	-362	-303	334	442	265	75	-38	-353
2. CONSOLIDATED INDEBTEDNESS OF ILVA IN LIQUIDAZIONE								
Net Financial indebtedness Ilva s.p.a.	5115	5169	7128	7241	7059	6869	6756	6441
Debts of companies to be liquidated				49	-45	0	0	0
Debts of companies to be sold	1061	923	592	546	461	0	0	0
total	6176	6092	7720	7836	7475	6869	6756	6441
Debts of Cogne in Liquidazione	228	291	0	0	0			
Total consolidated indebtedness	6404	6383	7720	7836	7475	6869	6756	6441
3 INDEBTEDNESS AT IRI's CHARGE								
Ilva in Liquidazione	6404	6383	7720	7836	7475	6869	6756	6441
ILP	1298	1885	1885	1885	1885	1885	1885	1885
AST	474	536	536	536	536	536	536	536
SOFINPAR (Debts to be transferred)	125	125	125	125	125	125	125	125
SOFINPAR (Income from sale)	1106	1060	1060	1060	1060	1060	1060	1060
Trade accounts payables (*)	660	900	100	100	100	0	0	0
Total indebtedness at IRI charge	10067	10889	11426	11542	11181	10475	10362	10047
variance from plan		822	1359	1475	1114	408	295	-20

(*) physiologic amount to be covered by financial facilities.

Monitoring of Article 95 ECSC steel aid cases
Ninth Report, May 1998

Irish Steel, Ireland

I. Introduction

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)[2] to approve aids under Article 95 ECSC linked to the sale of Irish Steel Ltd (ISL) to Ispat International amounting to a maximum of IRL£ 38.298 million, serving the following purposes:

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

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

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

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

(thousands tonnes)

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

OJ L121 of 21/5/1996, p. 6

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

(thousands tonnes)

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

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

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

II. Key points from the last monitoring reports

No points were outstanding since the last monitoring report

III. The new monitoring report

The fifth monitoring report on Irish Ispat Ltd. (formerly Irish Steel Ltd.) covers the period up to 31.12.97, based on information submitted by the Irish authorities on 15 March 1998 in accordance with the Commission's decision.

Commission representatives visited Irish Ispat on 25.2.98 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.

In the past, Irish Steel Ltd. operated on a financial year from July 1st to June 30th.. This is now been changed to the normal calendar year. Therefore the financial year presently monitored ended at 31.12.97.
Production and sales reports still cover the period from July to June of any given year in order to be able to confront them with the limitations imposed by the Commission decision.

Main events since the last monitoring report are :

- continuation of the investment program according to the plan
- 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

The Irish Steel restructuring plan, as revised at the time of the acquisition by Ispat, foresaw total capital expenditure for 20 billion IRL over six years, starting from May 1996. Breakdown by year of planned and actual capital expenditures is as follows :

(million IRL)

Years :	96/97	97/98	98/99	99/00	00/01	01/02	IRL total
Melt Shop	0.65	0.55*					1.20
Mill	1.15	1.35*					2.50
Central	0.59	0.40*					0.99
Others	0.06	0.12*					0.18
Total actual	2.45	2.42*					4.87
Plan	2.00	4.00	4.40	3.70	3.00	2.90	20.00

* Up to Jan. 1998

Before May 1996, capital expenditures accounted for 1.1 billion IRL.

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 December 1997 was 367, 4 workers more since June 1997. This level is in line with their engagement to mantain the workforce at an average level of 331 people during the monitored period.

4. Production

Actual production of finished products in the period from the end of June 1997 up to the end of December 1997 was 145,312 tonnes. or 5.0 % above the level of production during the corresponding previous period. To remain within the production limitation of 350,000 imposed by the decision, production during the first six months of 1998 should not exceed 205,000 tonnes. 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
97/98	145		145	350

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. 1997 to Dec. 1997, was 156,484 tonnes. Production of billets for sale outside the company for the same period was 908 tonnes (the limitation laid down by the Commission decision for the total 97/98 period is of 70,000 tonnes).

5. Sales

Sales of finished products in the monitored period totalled 141,126 tonnes compared with total sales in corresponding previous period of 133,025 tonnes (5.74 % higher).

The breakdown of sales by market for the period Jul. 1997/ Dec. 1997 shows that approximately 96% of sales or 135,147 tonnes went to European markets as defined under the decision (i.e. Community, including domestic market in Ireland, plus Switzerland and Norway); sales during the first six months of 1998 should not exceed 176,853 tonnes in order to remain below the 312,000 tons limitation imposed by the Commission decision for the 97/98 period.

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 second half of 1997, was 14,662 tonnes. Production for sale of these products during the first half of 1998 should not exceed 20,338 tonnes in order to stay within the annual limitation of 35,000 tons as laid down in the decision.

6. Financial Performance

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

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

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

In the second half of 1997, on a turnover of IR£ 29 million, Irish Ispat Ltd. made a net operating loss of IR£ 4.8 million (16.5%)[3]. Net operating losses for the total year 1997 were 7.4 million IR£ on a total turnover of 61.1 million IR£ (12.1 %).This amount was finally reduced to an after taxes loss of 3.8 million IR£ taking into account losses on exchange rates and by drawing one fifth of the aid received in cash and considered as deferred income to be distributed over the five year period to compensate for the non realized gains due to the limitations on production and sales.
A comparison with recent past performance can be seen in the following table:

(million IRL£)

	1992/93	1993/94	1994/95	1996	1997	1997 (1st H)	1997 (2nd H)
Turnover	58.8	62.3	67.0	59.3	61.4	32.4	29.0
Net Profit/(loss)	(13.0)	(18.8)	(5.8)	(0.4)	(3.8)	(0.4)	(3.4)
as % of turnover	22%	30%	8.7%	0.7%	(6.2)%	(1.2)%	(11.7)%

7. Terms and conditions of new loans

During the second part of 1997, the shareholder injected US$ 13.3 million in the company as a new loan.

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.

[3] The amount of 1.65 million IR£ reported in the 8th monitoring report referred to "Gross Operating Losses" and not to "Net Operating Losses" as erronously indicated

Monitoring of Article 95 ECSC steel aid cases
Ninth Report, May 1998

Siderurgia Nacional, Portugal

I. Introduction

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

- 38.00 billion Esc[2] 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 Code[3]

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

2.25 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).

The result of the privatization in 1995 was explained in the previous monitoring reports. The Portuguese State still keeps 10% of the shares in *SN Longos* and intends to sell them only after the completion of the restructuring plan, i.e. after the installation of a new electric arc furnace in Seixal.

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

2 1 billion (10^9) Esc = 4.933 MECU (1.3.1998)

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

The Portuguese authorities decided at the end of 1996 to liquidate the former holding *SN SGPS*. Currently, the final clearing of accounts is under way. Some remaining legal questions are expected to be settled by mid 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 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 31 December 1997 based on the information provided by the Portuguese Government in its ninth monitoring report which was submitted, in line with the request of the Commission, on 14 March 1998.

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 Serviços*. The medium section mill was sold for export to Brazil by contract of 9 September 1996. The light section mill is still offered for sale.

2. Investments

a) *SN Longos*

In 1997 *SN Longos* carried out investments of 2.9 billion Esc covering the modernization of the equipment and the installation of up-to-date data processing systems. 1.8 billion Esc were spent in Maia, 1.1 billion Esc in Seixal. No capacity improvements were created through these investments.

On 7 May 1997 the administrative council of *SN Longos* decided formally to proceed towards the installation of a **new electric arc furnace** with a capacity of 100 t/h in Seixal. The company filed the request for approval of the investment with the authorities on 17 June 1997. An investment notification under the Decision 3010/91/ECSC of 15 October 1991 was filed with the Commission. The administrative authorization was granted in November 1997. The electricity supplier *REN* (*Rede Eléctricia Nacional*, a privatized company), after difficult negotiations finally submitted its offer regarding the installation of a new 220 kV connection to the plant of *SN Longos* in Seixal on 9 February 1998. The offer, including an investment contribution of the company of 417.5 million Esc, was accepted by *SN Longos* on 13 February 1998. *REN* promised to finalize the necessary installations during a period of 12 months. *SN Longos* intends to sign the contract with the supplier of the furnace by the end of March so that the investment could be completed in the first semester of 1999. Production would consequently start in June 1999.

This timetable represents an additional delay of six months compared to the plan presented in the previous monitoring report. The Portuguese authorities explained that this additional delay was caused by the duration of the negotiations with the electricity supplier on which the Government had no influence. *SN Longos* was not prepared to sign the contract for the new furnace before the conditions of electricity supply would not be agreed.

It should be recalled that the initial restructuring plan *PERG* provided for the replacement of the blast furnace by an electric arc furnace by the beginning of 1996. The decision of the Portuguese Government to immediately privatize the operating companies, which was not foreseen by the initial restructuring plan, and the approach of the authorities to leave the final investment decision to the new private shareholders of *SN Longos* caused a delay of 2 years, mainly due to the very complicated rules and procedures for privatizations in Portugal and partly due to the time needed by the new management to analyze the technological options and possibilities. The additional delay announced in the current report is solely caused by the unexpectedly difficult negotiations with *REN*, to which the private shareholders already took contact before privatization. It has to be noted, however, that the implementation of the current timetable depends on *REN* to fulfill its contractual obligation to complete the new electricity link in 12 months.

The Commission services, during the discussions to prepare the current monitoring report, again requested regular information on the different steps to be taken to finalize this investment. The replacement of the blast furnace by an electric arc furnace was, based on an expert study, considered to be a crucial element of the necessary industrial restructuring of the old *Siderurgia Nacional* when the derogation under Article 95 of the ECSC Treaty was granted. The restructuring can therefore not be considered completed before this investment is carried out. Although there is currently no indication that the delay might lead to the necessity of further aid to *SN Serviços* (see below III.6.), the Commission is obliged to monitor the completion of the aided restructuring because this was the justification for the exceptional derogation from Article 4 c) of the Treaty. The Commission therefore considers the extension of the monitoring up to report No 12 in November 1999.

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 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 1997 1.5 billion Esc were spent. No capacity improvements were created through these investments.

c) SN Serviços

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

3. Evolution of workforce

The reduction of workforce is still behind the initial plan. This delay affects only *SN Serviços* and would therefore have no impact on the viability of the privatized companies. 447 workers still kept by *SN Serviços* 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 affected 146 workers by the end of 1997. The following tables show the evolution of workforce and the forecast:

	1992	1993	1994	1995	1996
Privatized companies					
SN Longos Seixal	2070	2056	445	509	269
SN Longos Maia	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	908	826

figures by end of the year

a) before the creation of the new corporate structure

b) in liquidation

1997 and Forecast 1998 - 2000

	1997	1998	1999	2000
SN Longos + Lusosider	925	775	a)	845
SN Serviços	1078	965	-	63
Total workforce	2003	1740	-	908
Reduction per year	233	263	-	b) 832
Plan total workforce	1410	1410	-	1410
Deviation without delay regarding blast furnace	146	- 117	-	-
Deviation from plan	593	330	-	- 502

a) Due to unpredictable elements there is currently no forecast for the end of 1999

b) Expected reduction during the years 1999 and 2000

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 initial target figure of the restructuring plan of 1410 employees is expected to be achieved during the course of 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 500 persons less than initially planned.

SN Serviços continue its efforts to reduce workforce:

- the scheme for mutual agreements is continued and allows for improved conditions compared to the initial arrangement;
- special insentives and support is offered to those workers which intend to set up an own small business;
- training is offered in certain areas, e.g. automotive mechanics, gastronomics and civil construction, to promote alternative employment;
- an office to help employees finding new jobs was established, which also contacts possible new employers.

Financing of redundancies

	nature	number of workers	Art 56 ECSC	State (Art 56)	company[1]	Total costs
			costs in million 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	early ret.	140	25.8	26.3	1.5	53.6
	releases[2]	119	23.4	23.4	1086.2	1133
	others	20	-	-	-	-
	Total[3]	279	49.2	49,7	1087,7	1186.6
Total		1298	500.3	490,2	2108.2	3088.1

1 to which the State contributes up to 50% authorized under Art 4.1 of the Fifth Steel Aid Code
2 through mutual agreements
3 these figures do not correspond to the net reduction of workforce given in the previous table because the companies hired some new employees

In 1997 480 million Esc social aid authorized under Art. 4 of the Fifth Steel Aid Code was disbursed. The total amount of social aid granted until the end of 1997 amounts to 2.25 billion Esc. 4.925 billion Esc were authorized in total.

4. Production

Evolution of production

in kt	1995	1996	1997	1997/1996 (%)
crude steel	796.3	839.6	879.1	+ 4.7
finished products *SN Longos*	704.8	655.4	790.8	+ 20.7
finished products *Lusosider*	217.4	194.7	226.0	+ 16.1

Evolution of annual production

in kt	**1993**	**1994**	**1995**	**1996**	**1997**
Crude steel total	**745.3**	**722.8**	**796.3**	**839.6**	**879.1**
SN Serviços		439.4	443.6	453.7	473.7
SN Longos		283.4	352.7	385.9	405.4
total finished products	**919.6**	**930.4**	**922.2**	**850.1**	**1116.8**
SN Longos	709.9	701.0	704.8	655.4	790.8
Lusosider	209.7	229.3	217.4	194.7	226.0

Evolution of monthly production 1997

1st semester 1997

in kt	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
crude steel							
SN Serviços	39.3	33.0	40.0	38.3	43.8	41.5	236.8
SN Longos	0.8	16.3	36.7	42.2	37.9	39.3	173.3
SN Longos	45.3	46.5	65.1	73.3	71.5	73.7	375.4
Lusosider							
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

2nd semester 1997

in kt	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
crude steel							
SN Serviços	89.0	44.0	35.1	41.8	35.9	41.4	236.9
SN Longos	32.8	27.5	43.7	44.4	43.8	40.0	232.1
SN Longos	63.5	65.1	57.2	77.2	73.9	78.5	415.4
Lusosider							
cold rolled plate	5.4	3.6	4.5	3.3	2.7	3.4	22.9
galvanized sheet	9.1	2.4	4.4	10.5	14.3	10.8	51.5
tinplate	7.2	7.1	6.4	7.0	5.4	1.8	34.9
Total flat products	21.7	13.1	15.3	20.8	22.4	16.0	109.3

Comparison of semesters

in kt	1. sem. 96	1. sem. 97	evolution
crude steel			
SN Servicos	228.9	236.8	+ 3.5%
SN Longos	196.6	173.3	- 11.8 %
SN Longos	333.8	375.4	+ 12.5%
Lusosider			
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%

in kt	2. sem. 96	2. sem. 97	evolution
crude steel			
SN Servicos	224.8	236.9	+ 5.4 %
SN Longos	189.3	232.1	+ 22.6 %
SN Longos	321.6	415.4	+ 29.1 %
Lusosider			
cold rolled plate	22.2	22.9	+ 3.1 %
galvanized sheet	52.4	51.5	- 1.7 %
tinplate	31.6	34.9	+ 10,4 %
Total flat products	106.2	109.3	+ 2 9 %

The above figures reflect an increase of production in 1997 of around 18% compared to 1996 due to 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 Serviços							
- 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 1997 per product category

	Portugal		EU 14		3rd Countries		Total
	kt	%	kt	%	kt	%	kt
SN Serviços							
- billets	400.6	83.5	31.5	6.6	47.7	9.9	479.8
SN Longos							
- rebars	719.8	99.1	6.3	0.9	-	-	726.1
- wire rod	61.8	52.1	56.8	47.9	-	-	118.6
Total long products	**781.6**	**92.5**	**63.1**	**7.5**	**-**	**-**	**844.7**
Lusosider							
- cold rolled sheet	39.3	81.7	8.8	18.3	-	-	48.1
- galvanized sheet	47.9	44.3	37.2	34.4	23.1	21.3	109.2
- tin plate	34.3	45.9	38.2	51.0	2.3	3.1	74.9
Total flat products	**121.6**	**52.6**	**84.2**	**36.4**	**25.4**	**11.0**	**231.2**

Evolution 1997 compared to 1996

	Portugal	EU 14	3rd Countries	Total
SN Serviços	+ 27.3 %	- 30.2 %	- 48.9 %	+ 5.9 %
SN Longos	+ 6.7 %	+ 5.0 %	- 100.0 %	+ 5.7 %
Lusosider	+ 19.4 %	+ 66.7 %	- 40.1 %	+ 18.7 %

Comparison between 1996 and 1997

		1996	1997
SN Serviços	Portugal	69.5 %	83.5 %
	EU 14	10.0 %	6.6 %
	3rd Countries	20.5 %	9.9 %
SN Longos	Portugal	91.6 %	92.5 %
	EU 14	7.5 %	7.5 %
	3rd Countries	0.9 %	0.0 %
Lusosider	Portugal	52.3 %	52.6 %
	EU 14	25.9 %	36.4 %
	3rd Countries	21.8 %	11.0 %

The sales of billets in the Portuguese market by *SN Serviços* 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 Serviços* reduced the percentage of export to 16.5 % of its production in 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.

a) *SN Serviços*

in mio Esc	1996	1997 *
Sales + services performed	21145.3	24044
other products	67.7	31
costs of sales	13516.6	14389
personnel costs	4222.3	4280
depreciation + provisions	1064.5	1161
net financial charges	361.7	807
other costs	4934.3	4291
operating result	- 2927.1	6
gross benefit	- 3218.9	509

* provisional figures

The positive development in 1997, showing a positive operating result, was achieved due to increased market prices for billets, lower costs for primary products and improvements of the internal organization of *SN Serviços*. Since March 1997 the company operates at a positive cash flow.

b) *SN Longos*

in mio Esc	1996	1997 *
Sales + services performed	37596	48482
other products		
costs of sales	27191	36648
personnel costs	2578	2298
depreciation + provisions	2572	3135
net financial charges	923	975
other costs	6033	5824
operating result	- 1701	- 398
gross benefit	- 2867	- 560

* provisional figures

While the operating result of *SN Longos* is still negative it achieved a positive cash flow in 1997. The positive trend indicates the break even to be expected in 1998.

c) ***Lusosider***

in mio Esc	1996	1997 *
Sales + services performed	18017	23203
other products		8
costs of sales	16186	19768
personnel costs	1752	2059
depreciation + provisions	1697	1170
net financial charges	420	- 385
other costs	67	65
operating result	- 2106	- 246
gross benefit	- 1527	352

* provisional figures

Also *Lusosider* shows a positive development and achieved a positive cash flow while the operating result is still slightly negative.

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 III.3. (financing of redundancies).

Monitoring of Article 95 ECSC steel aid cases
Ninth 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 Treaty[1] as follows:

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

The aid was **paid** before the end of 1994. The aid for compensation of losses during the restructuring period is limited to 100 mio DM per year in 1995 - 1997. The entire amount authorized was used up until the end of 1997 (see III.7.).

On 21 December 1994 the Commission further approved regional investment aid of 385 mio DM under Article 5 of the Fifth Steel Aid Code[3] (see 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 (**achieved,** 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 (so far **observed**),
- the level of net financial charges of the company should be at least 3.5 % of turnover (**achieved**, see the third monitoring report).

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

2 1 mio DM = 506,101.04 ECU (28.2.1998)

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

II. Key points from the last monitoring reports

During the previous moitoring period, the most important developments at *EKO Stahl* were the entering into operation of the new blast furnace in April 1997 and of the renovated sinter in January 1997. The new hot-rolling mill was close to its completion. Already in the first semester of 1997 the management expected losses exceeding 100 mio DM during the entire year 1997.

III. The new monitoring report

The present report covers the developments up until 31 December 1997 based on the information provided by the German Government in its seventh 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 13 March 1998.

1. Investments

The investment plan of *EKO Stahl* is implemented in line with the plan. Up until the end of December 1997 97.6% of the orders were given out. Only some minor investments are still to be carried out in 1998.

The renovated sinter entered into operation in January 1997, the new blast furnace N° 5A started trial production on 28 April 1997 and entered 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*, started 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.

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 *	66.4	33.3	6.8	22.1
construction of blast furnace *	294.7	150.0	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**	**229.4**

* revised budget: + 3.5 mio DM for sinter; - 3.5 mio DM for blast furnace

Investments 2nd semester 1997

in mio DM	Total plan	plan 1997	orders	realized
modernization of sinter facilities*	66.4	33.3	4.8	10.4
construction of blast furnace *	294.7	150.0	13.3	54.2
new hot-rolling mill	630.9	329.8	41.7	167.2
modernization cold-rolling mill	108.0	43.2	5.0	13.1
TOTAL	**1100.0**	**556.3**	**64.8**	**244.9**

* revised budget: + 3.5 mio DM for sinter; - 3.5 mio DM for blast furnace

Investments 1997

in mio DM	Total plan	plan 1997	orders	realized
modernization of sinter facilities*	66.4	33.3	11.6	32.5
construction of blast furnace *	294.7	150.0	35.3	129.5
new hot-rolling mill	630.9	329.8	91.3	289.4
modernization cold-rolling mill	108.0	43.2	10.7	22.9
TOTAL	**1100.0**	**556.3**	**148.9**	**474.3**

Investments 1995 - 1997

in mio DM	Total plan	plan 95 - 98	orders	realized
modernization of sinter facilities	66.4	66.4	66.4	65.6
construction of blast furnace	294.7	294.7	286.8	274.2
new hot-rolling mill	630.9	630.9	617.0	590.5
modernization cold-rolling mill	108.0	108.0	103.4	87.7
TOTAL	**1100.0**	**1100.0**	**1073.6**	**1018.0**

Investments 1995 - 1998

in mio DM	1995	1996	1997	1998 plan	1995 - 98
modernization of sinter facilities	2.5	30.6	32.5	0.8	66.4
construction of blast furnace	18.0	126.7	129.5	20.5	294.7
new hot-rolling mill	84.7	216.4	289.4	40.4	630.9
modernization cold-rolling mill	25.0	39.8	22.9	20.3	108.0
TOTAL	**130.2**	**413.5**	**474.3**	**82.0**	**1100.0**

2. 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 is ensured by an electronic device that makes it technically impossible to exceed these thresholds. The technical solution was in principle accepted by the Commission in early 1996. For details regarding this system see the fifth monitoring report. The system was fully set in operation in November 1997 at the beginning of the second phase of trial rolling.

3. Evolution of workforce

On 1 January 1998 *EKO Stahl GmbH* had 2820 employees (including trainees) compared to 2776 on 1 January 1997. In 1997 the company hired 73 new employees for the hot-rolling mill. The number of trainees increased to 171.

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
1.1.1998	2649	171	2820

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**

1st and 2nd semester 1997

	production in kt		sales in kt		turnover in mio DM	
	1. sem.	2. sem.	1. sem.	2. sem.	1. sem.	2. sem.
Pig iron	798.0	938.8	0.0	0.3	0.0	0.1
slabs	885.8	1051.4	657.1	652.1	259.5	276.0
hot - rolled coil	0.0	293.0	0.0	0.0	0.0	0.0
cold strip	22.9	25.5	24.1	21.5	14.7	14.2
fine plate cold-rolled	339.6	364.0	345.3	346.1	244.0	253.2
magnetic steel sheets	16.6	19.6	17.3	18.7	13.6	14.9
fine plate galvanized	137.2	125.3	139.4	131.7	120.2	121.8
fine plate coated	49.6	54.5	47.1	56.9	55.6	68.6
Total finished cold-rolled products	**565.9**	**589.0**	**573.2**	**575.0**	**448.1**	**472.7**
miscellaneous turnover					40.1	54.7
Total turnover					**747.7**	**803.5**

2nd semester 1996 and 2nd semester 1997

	production in kt		sales in kt		turnover in mio DM	
	7-12/96	7-12/97	7-12/96	7-12/97	7-12/96	7-12/97
Pig iron	808.1	938.8	0.0	0.3	0.0	0.1
slabs	895.0	1051.4	804.7	652.1	287.1	276.0
hot - rolled coil	0.0	293.0	0.0	0.0	0.0	0.0
cold strip	17.9	25.5	15.3	21.5	9.3	14.2
fine plate cold-rolled	310.4	364.0	303.6	346.1	219.2	253.2
magnetic steel sheets	17.5	19.6	17.0	18.7	13.9	14.9
fine plate galvanized	142.2	125.3	137.8	131.7	112.5	121.8
fine plate coated	50.3	54.5	53.3	56.9	60.1	68.6
Total finished cold-rolled products	**538.3**	**588.9**	**527.0**	**574.9**	**415.0**	**472.7**
miscellaneous turnover					39.9	54.7
Total turnover					742.0	803.5

Comparison 1996 and 1997

	production in kt		sales in kt	
	1996	**1997**	**1996**	**1997**
Pig iron	1672.1	1736.8	0.0	0.3
slabs	1866.3	1937.2	1674.3	1309.2
hot - rolled coil	0.0	293.0	0.0	0.0
cold strip	31.1	48.4	28.7	45.6
fine plates cold-rolled	601.8	703.6	588.9	691.4
magnetic steel sheets	35.1	36.2	34.4	36.0
fine plate galvanized	268.6	261.3	266.1	271.1
fine plate coated	81.4	104.1	86.2	104.0
Total finished cold-rolled products	**1018.0**	**1153.6**	**1004.3**	**1148.1**

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
Eastern Eur.	6.3	6.6	9.3	11.3	33.5
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 1997

in mio DM	1. quarter	2. quarter	3. quarter	4. quarter	TOTAL
Germany	**153.0**	**164.4**	**166.9**	**106.5**	**591.0**
Export total	**64.3**	**66.2**	**75.8**	**123.5**	**329.8**
EU 14	50.2	45.6	51.7	75.1	222.6
Eastern Eur.	13.3	19.5	22.2	47.5	102.5
Other countries	0.8	1.1	1.9	0.9	4.7
TOTAL	**217.3**	**230.8**	**242.7**	**230.0**	**920.8**

Comparison 1st semester 1997 and 2nd semester 1997

in mio DM	1. sem. 97	2. sem 97	evolution in %
Germany	317.6	273.4	- 13.9
Export total	130.5	199.3	52.8
EU 14	95.8	126.8	32.4
Eastern Eur.	32.8	69.7	112.5
Other countries	1.9	2.8	48.7
TOTAL	**448.1**	**472.7**	**5.5**

Comparison 1996 and 1997

in mio DM	1996	1997	evolution in %
Germany	**585.9**	**591.0**	0.9
Export total	**231.0**	**329.8**	42.8
EU 14	194.9	222.6	14.2
Eastern Eur.	33.5	102.5	206.0
Other countries	2.6	4.7	89.0
TOTAL	**816.9**	**920.8**	**12.7**

The year 1997 showed an increase of demand compared to 1996 with the result that the initial planning was significantly exceeded. During the second semester of 1997 the turnover in finished cold-rolled products increased mainly due to demand from foreign countries while the turnover in Germany decreased by 14%. The sales of slabs decreased compared to 1996 by 22% due to the entering into operation of the hot-rolling mill. The turnover in slabs decreased only by 10% due to increased prices achieved.

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	plan 1997	1. sem 1997	2. sem. 1997	1997*
turnover	1423	748	803	1551
gross margin	123	57	78	135
depreciation	64	26	47	73
net operating result	- 68	- 40	- 36	- 76
net financial charges	42	18	16	34
net result	- 109	- 57	- 52	- 109

* provisional figures

in mio DM	1994	1995	1996	1997*
turnover	1092	1440	1483	1551
gross margin	80	138	119	135
depreciation	25	34	42	73
net operating result	- 17	21	- 99	- 76
net financial charges	29	21	27	34
net result	- 48	2	- 125	- 109

* provisional figures

The turnover in 1997 increased by 5% compared to 1996 and by 7% during the second semester compared to the first semester 1997. The net financial charges are lower than expected due to the continued low interest rates. The total amount increased compared to 1996 due to the investments carried out. The net result in 1997 is in line with the plan. The losses were reduced by 12% compared to 1996.

7. Aid

The aid authorized by the Commission under Article 95 ECSC and Article 5 of the Fifth Steel Aid Code was granted before the end of 1994 as explained in the third monitoring report. BvS and the Land Brandenburg charged independent chartered accountants to supervise the use of the contributions in line with the contractual obligations. The obligations under the decision of the Commission were made part of the contract.

The regular reports of the independent financial expert group are submitted to the Commission to allow the monitoring of the use of the aid in line with its decision. The quaterly reports No 1 - 12, covering the time from 1 January 1995 to 31 December 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 1997:

in mio DM	authorized	1994	1995	1996	1997	total
compensation of losses.- 1994	362.60	362.60	0.0	0.0	0.0	362.60
compensation of losses 1995 - 1997	220.00		[1] 20.0	100.0	100.0	220.00
contribution BvS for investments	275.00		32.6	103.0	118.6	254.20
contribution BvS for repair and maintenance [2]	39.00		0.3	16.7	22.0	39.00
aid element of guarantee [3]	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**	**240.6**	**879.82**
regional investment aid	380.00	0.00	45.0	142.3	142.3	351.20
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

3 The aid element of the THA/BvS guarantee, covering a 60 mio DM loan for the modernization of the cold-rolling mill, was calculated on the basis of a 3 years period of validity. Accordingly, *EKO Stahl* refinanced, by 31 December 1997, the loan and thereby also terminated the guarantee.

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 year 1997 BvS received 18.8 mio DM interest.

Monitoring of Article 95 ECSC steel aid cases
Ninth Report, May 1998

SEW Freital GmbH, Germany

I. Introduction

The Commission decided on 12 April 1994 to approve aid totalling 274 mio DM[1] in favour of *Sächsische Edelstahlwerke GmbH*, Freital/Sachsen under Article 95 ECSC Treaty[2]. It further approved regional investment aid totalling 60.6 mio DM, an ERP loan and a Federal/Land guarantee covering 80% of an investment loan of 100.8 mio DM under Article 5 of the Fifth Steel Aid Code[3]. Regional investment aid totalling 11.6 mio DM for investments related to the non - ECSC activities of the company were approved under general aid schemes[4]. The aid was **paid**, except a small portion of social aid which may still be disbursed (see III.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 (**achieved**, see III.1.),
- 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 point of concern due to the negative impact on the viability of the company. The company is on track to introduce the necessary technical changes to arrive at the expected level of productivity.

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1 1 mio DM = 506,101.04 ECU (28.2.1998)

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

3 Decision No. 3855/91/ECSC of 27 November 1991, OJ L 362, 31.12.1991, p. 57

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

III. The new monitoring report

The present report covers the developments up until 31 December 1997 based on the information provided by the German Government in its ninth monitoring report which was submitted, in line with the request of the Commission, on 14 March 1998.

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. Until August 1997 an old electric arc furnace with a capacity of 145 kt/y was kept in operation. The preparatory works, such as founding and infrastructure, for the new furnace were started in beginning 1997. In summer 1997, the old furnace was dismantled and distroyed and the new furnace was put at place. It entered into opertation by the end of September 1997. The investments to restructure the company, started in 1993, are thereby completed.

2. Investments

The following investments have been carried out until the end of 1997:

in mio DM	carried out until 12/1997		plan	
installation	Total	ECSC	Total	ECSC
crude steel facilities	48	45	48	45
rolling + forging facilities	110	107	90	80
reheating + adjusting installations	48	40	67	65
environment, infrastructure, administration and marketing (Freital)	40	38	42	40
polished steel installations, peeling- and abrading installations (Lugau)	21	0		
drawn wire installations (Lugau)	6	0	33	0
environment, infrastructure administration and marketing (Lugau)	7	0		
TOTAL	280	230	280	230

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

The investments were financed as follows:

in mio DM	total	of which investments in ECSC related installations
own capital after increase of equity	10.00	10.00
loans of shareholders	13.66	13.66
loans of suppliers, own performances	64.14	52.16
loans of banks	120.0	93.58
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	1997
number of employees	1123	1061	1085	866	847

Financing of redundancies

in 1000 DM, per 31.12.:	1993	1994	1995	1996	1997	1993 - 1997
contribution THA/BVS						
general	6955	405	1026	442	59	8887
management	1595					1595
various	4000					4000
employment company	731					731
total THA/BVS	13281	405	1026	442	59	15213
Art 56 ECSC contr.	1164	144	505			1813
SEW Freital	41	239	3806	1405		5491
total costs	**14486**	**788**	**5337**	**1847**	**59**	**22517**

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 1997, BvS disbursed 10000 DM for old pension obligations and 49000 DM for redundancies in line with the obligations under the privatization contract. Only small remaining payments related to personnel reductions are to be expected.

Therefore, the contribution of THA to cover costs of redundancies now totals, including the payments before privatization, 31.19 mio DM, which is 2.81 mio DM less than authorized.

4. Production, sales and markets

1997

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	55854	8801	8801	-	-
semi-finished products	25800	5344	4834	456	54
merchant bars, wire rod	29572	30477	28501	1787	189
forged pieces	3882	3412	3001	344	40
polished steel drawn (Lugau)	7880	8091	7015	354	722

1st semester 1997

	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

2nd semester 1997

in tons	production	sales	in Germany	other EU	3rd countr.
crude steel	27430	5236	5236	-	-
semi-finished products	10410	2604	2368	236	-
merchant bars, wire rod	10973	15261	14231	1030	-
forged pieces	1840	1716	1528	188	-
polished steel drawn (Lugau)	3875	3739	3299	191	249

Comparison production 1st semester 1997 and 2nd semester 1997

in tons	1. sem. 97	2. sem. 97	%
crude steel	28424	27430	- 4
semi-finished products	15390	10410	- 32
merchant bars, wire rod	18599	10973	- 41
forged pieces	2042	1840	- 10
polished steel drawn (Lugau)	4005	3875	- 3

Comparison production 2nd semester 1996 and 2nd semester 1997

in tons	2. sem. 96	2. sem. 97	%
crude steel	20502	27430	+ 34
semi-finished products	11292	10410	- 8
merchant bars, wire rod	7474	10973	+ 47
forged pieces	2672	1840	- 31
polished steel drawn (Lugau)	3215	3875	+ 21

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 target production level of the new combined merchant bar / wire rod mill was still not achieved in 1997. The management of *SEW Freital* took appropriate measures to solve the problem. It hired a new technical director for the hot-rolling mill with particular experience in the type of flexible production intended. Specialized engineering consultants were charged to identify and implement the necessary additional investments worth some 10 mio DM. The initial plan designed in cooperation with the external engineers provides for the completion of the revamping by the end of 1997. Most of the additional investments were carried out by the end of 1997 but a remaining portion is delayed due to restrictions in availability of special parts needed. The management expects the full performance of the installation to be achieved by summer 1998.

5. Financial Performance

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

in mio DM	1994	1995	1996	1997 *
turnover	109.1	178.8	150.2	150.5
total performance**	138.4	207.2	164.5	176.3
total cost of sales ***	126.1	181.9	150.6	163.7
depreciation	14.0	19.7	28.0	24.7
net operating res.	- 4.3	0.1	- 18.8	- 12.8
long & shortterm debts	49.8	149.9	149.8	132.8

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

In the second semester of 1997 the company increased its production compared to the second semester of 1996 but did not achieve the planned figure due to the technical restrictions as explained above.

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	31.19
Total	**274.00**	**269.95**

Monitoring of Article 95 ECSC steel aid cases
Ninth Report, May 1998

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 2002[1]. The aid approved totals 272 mio ÖS[2] 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	3.60	45	3.24	5	0.36
1996	50	3.60	42	3.02	8	0.58
1997	50	3.60	39	2.81	11	0.79
1998	47	3.38	36	2.59	11	0.79
1999	57	4.10	34	2.45	23	1.66
2000	52	3.74	30	2.16	22	1.58
2001	52	3.74	26	1.87	26	1.87
2002	50	3.60	20	1.44	30	2.16
Total	**408**	**29.36**	**272**	**19.58**	**136**	**9.79**

* the amounts in ECU were adapted to the current exchange rate as given below

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.).

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

2 1 mio ÖS = 71967 ECU (26.2.1998)

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 ECSC 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 fifth monitoring report

The present report covers the developments up until 31 December 1997 based on the information provided by the Austrian Government in its fifth monitoring report, which was submitted, in line with the request of the Commission, on 13 March 1998.

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 1997 VAEG produced 1.3 million tons iron ore with an average quality of 33.0 % Fe and 494,100 tons low quality products, usable for the burden (*Möllerzusatzmaterial*) of VASA. It sold 1.3 million tons iron ore and 530,400 tons low quality products to VASA.

b) Production costs

The production costs for the standard quality iron ore totalled 217.906 mio ÖS, i.e. 167.62 ÖS/ton which represents a decrease of 4 % compared to 1996. The production costs for the low quality products were 25.837 mio 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 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 22 mio ÖS for 1997, i.e. 16.9 ÖS/ton, so that the price finally paid for iron ore delivered in 1997 amounts to 122.3 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 648.62 ÖS/ton, i.e. 5% lower than in 1996.

This price is higher than the average price for iron ore imports to Austria in 1996: 2.4455 million tons of iron ore with an average of 64 % Fe were imported at a total purchase price of 960.98 mio ÖS[3] (CIF Austrian border). The average price at the Austrian border was therefore at 392.96 ÖS/ton. The average price per ton pure ferrum 613.99 ÖS/ton CIF Austrian border, including transport to Linz was therefore 637.56 ÖS/ton Fe. The statistical figures for 1997 were not available at the date of reporting. The Austrian Government announced to submit them in the next monitoring report.

The price paid is also higher than the general market prices in 1997. Published prices for iron ore CIF Rotterdam in October 1997 were at 37,19 US Cents/t Fe, i.e. 464.87 ÖS/ton Fe. Including transport the price in Austria for imported iron ore would be 614.54 ÖS/ton Fe.

It may therefore be concluded that the prices charged in 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 1997 were at 56.416 mio ÖS. In 1996 the company suffered losses of 50.75 mio ÖS, so that an increase by 11% is to be observed.

3 data of the Austrian Chamber of Commerce

9.027 mio ÖS of the total losses in 1997 were related to closing activities. In 1996 this figure was at 8.4 mio ÖS. 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 disbursed down payments of 15 mio ÖS in April and July respectively, of 10 mio ÖS in September and of 8 mio ÖS in October 1997. The total amount paid in 1997 is therefore at 48 mio ÖS. The remaining operating deficiency was covered by revenues from land sales, the truck repair service and touristic activities, such as the mining museum and tourist excursions in special vehicles to the ore mountain.

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 1997.

	planned cost - 2002	authorized closing aid	plan 1997	costs 1997	total costs 1995-97
securing of endangered layers	26.7	13.4	3.0	2.773	11.49
securing of the edges of layers	41.7	8.3	1.0	0.963	2.138
relief of the roofs of deposits	54.0	0		0.654	0.654
creation of collecting compartment for falling material	4.5	3.6	1.0	0.833	3.197
closure of open cast sites	1.0	0.1			
diversion of surfacial water	3.5	1.4	0.5	0.506	0.506
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	1.378	1.378
demolition of other mining facilities	16.2	2.4	0.6	0.295	0.295
redevelopment of dumphills and basins of mud	1.4	0			
recultivation and forestry activities	50.2	12.6	0.9	1.625	2.919
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	**9.027**	**22.577**

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	48	39	39	11	9
1998	47		36		11	
1999	57		34		23	
2000	52		30		22	
2001	52		26		26	
2002	50		20		30	
Total	**408**	**143**	**272**	**121**	**136**	**22**

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 1997 the average unemployment rate in the region was at 7.5% compared to 8.9% in 1996 and 9.5% in 1995. The decrease of the unemployment rate is mainly related to the fact that inhabitants leave the region. 3.5% of the inhabitants work in the mining of VAEG. The regional authorities are actively promoting the creation of new jobs.

Annex

Comparison of production costs and revenues in 1997

	iron ore		low quality material		closing and securing	total	
Production in tons	1 300 000		494 100				
Costs	In 1000 ÖS	in ÖS/ton	in 1000 ÖS	in ÖS/ton	in 1000 ÖS	in 1000 ÖS	in ÖS/ton
production	49052	37.73	4911	9.94		53963	30.08
extraction	67583	50.99	7965	16.12		64575	47.14
processing	47205	36.31	7298	14.77	9027	54503	30 38
quality control	12364	9.51	1359	2.75		13723	7.65
dispatch	10645	8.19	4304	8.71		14949	8.33
overhead	31057	23.89				31057	17.31
total cost of sales	**217906**	**167.62**	**25837**	**52.29**	**9027**	**252770**	**140.69**
Revenue							
sales in tons	1 300 000		530400				
sales price	181350	139.50	40310	76.0		221660	
quality deduction	22000					22000	
subtotal	**159350**	122.30	**40310**			**199680**	109 08
stock increase	- 3306	118.00				-3306	
Total	**156044**		40310	76.0	0	**196354**	
Difference							
Operating result	**- 61862**		**14473**		**- 9027**	**- 56416**	
Aid							
	39000				**9000**	**48000**	