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REPORT FROM THE COMMISSION TO THE COUNCIL

Monitoring of Article 95 ECSC Steel Cases

No. 2 - 1st November 1994

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The Commission, based on the unanimous assent given by the Council at its meeting 22 December 1993, adopted on 12 April 1994[1] its decisions under Article 95 ECSC to authorize aid in favour of the following European steel companies:

Corporación de la Siderurgia Integral (CSI), Spain
Sidenor, Spain
Ilva, Italy
Siderurgia Nacional, Portugal
EKO Stahl GmbH, Germany
Sächsische Edelstahlwerke GmbH, Freital/Sachsen, Germany

The Commission attached some general conditions to the authorization of aid. One of the conditions imposed in every case was strict monitoring, with which the Member States concerned must co-operate fully.

In accordance with the monitoring arrangements agreed, Member States concerned should supply the Commission twice a year, and not later than 15 March and 15 September respectively, with reports containing full information in accordance with the enclosed Annex 1 on each beneficiary company and its restructuring. The first reports were to reach the Commission by 15 March 1994 and the last report should reach the Commission by 15 September 1998 unless the Commission decides otherwise.

The Commission shall, on the basis of these reports, draw up half-yearly reports to be submitted to the Council not later than 1st May and 1st November respectively, in order to allow discussion in the Council if appropriate.

The Commission submitted its first report to the Council in May[2]. An updated report covering some supplementary information provided by the Governments concerned was submitted in June[3].

The purpose of this communication is to present the Commission's second monitoring report on the basis of the information provided by the Member States concerned by 15 September 1994. The material is intended essentially to reflect the situation as at 30 June 1994.

Separate reports on each company are attached as Annexes 2 - 7. **The information contained therein shall be treated in the strictest confidence in accordance with Article 47 ECSC.**

These reports should be seen within the context of a continuous and ongoing monitoring process whereby information received will be critically assessed and followed up as necessary.

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[1] see O.J. L 112 of 3 May 1994

[2] Document SEC (94) 725 final of 31 May 1994

[3] Document SEC (94) 903 final of 1 June 1994

ANNEX

The Commission's information requirements

(a) Capacity reductions

— date (or expected date) of cessation of production,

— date (or expected date) of dismantling (*) of the installation concerned,

— where installation is sold, date (or expected date) of sale, identity and country of purchaser,

— sale price;

(b) investments

— details of investments realized,

— date of completion,

— the costs of the investment, the sources of finance and the sum of any related aid involved,

— the date of aid payment;

(c) workforce reductions

— number and timing of job losses,

— the total costs,

— a breakdown of how the costs are being financed;

(d) production and market effects

— monthly production of crude steel and finished products per category,

— products sold, including volumes, prices and markets;

(e) financial performance

— evolution of selected key financial ratios to ensure progress is being made towards viability (the financial results and ratios must be provided in a way allowing comparisons with the company's financial restructuring plan),

— level of financial charges,

— details and timing of aids received and costs covered,

— terms and conditions of any new loans (irrespective of source);

(f) Privatization

— selling price and treatment of existing liabilities,

— disposal of proceeds of sale,

— date of sale,

— financial position of company at time of sale;

(g) creation of a new company or new plants incorporating capacity extensions

— identity of each private and public sector participant,

— sources of their financing for the creation of the new company or new plants,

— terms and conditions of the private and the public shareholders' participation,

— management structure of a new company.

(*) As defined in Commission Decision No 3010/91/ECSC (OJ No L 286, 16. 10. 1991, p. 20).

Annex 2

Monitoring of Article 95 ECSC steel cases

Second Report

C.S.I.

Introduction

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

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

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

In the first monitoring report it was noted that 1993 losses were higher than forecast and that it was difficult to compare the actual losses with those estimated in the plan due to the non implementation of one of the key elements of the plan itself : the creation of the successor company to AHV and Ensidesa.
Following up this issue with the Spanish authorities the Commission found that a misunderstanding had led to a discrepancy in the calculation of the forecasted losses for 1992 and 1993. The reasons for this and the apparent divergence from the plan were explained to the Council working group on 19.7.94. A written note was, at the request of the Council working group, distributed later. This note is attached at Annex I.

Other outstanding issues arising from the first report will be addressed in the relevant sections of the present report.

Capacity Reductions

The capacity reduction programme started in March 1994. Under its schedule all the equipment involved had to be shutdown by 1996 and dismantled within two years after the closure.
As at 30.6.94 the following equipment was already closed and dismantled :

- blast furnace n° 2 at Sestao
- equipment to mould pig iron ingots at Sestao
- moulds workshop at Sestao
- slabs continuous casting equipment at Gijon
- conventional steel plant at Gijon
- rolling mill for sectional steel at Avilés
- reheating furnaces at Avilés

The closing and dismantling of the other facilities is expected to proceed according to schedule.

Investments

The Spanish authorities report no investments for the first six months of 1994.
Since the C.S.I. investment plan covers a period of three years (94-96), the Commission services will verify the impact of this on the realisation of the restructuring plan and its impact on the viability prospects of the company.

Workforce Reductions

By the end of June 1994, 417 more workers had left the company. This brings the total workforce reductions since 1991 to 6160 people, or nearly 700 more than scheduled under the plan.

Total social costs incurred during the first six months of 1994 amounted to 10.524 billions ptas. of which 7.266 billions ptas. related to payments to workers affected by previous restructurings.
These costs were covered by the Spanish Government under adapted general social security arrangements, not constituting state aids, and the company (3.917 billions ptas.).

Since at present no payment of aid has been made,the impact of the delays on the debt position and viability prospects of the company will have to be examined.

Production and Market Effects

Production for the first six months of 1994 and the comparison with the same period for 1993 can be summarized as follows :

	1st Half 1994	1st Half 1993	% increase
Liquid steel	2.6 m tons	2.7 m tons	(2.2)
Hot Rolled Coil	1.84 m tons	1.83 m tons	0.4
Heavy Plate	.30 m tons	.28 m tons	4.0
Wire Rod	.21 m tons	.21 m tons	0.8
Heavy sections	.11 m tons	.17 m tons	(28.8)

Variations between the two periods are quite small except for structural long products.
These figures, when annualized, seem generally to be in line with the plan.

Sales of finished products (including cold rolled products) in the first half of the year, totalled 2.66 millions tons, 1.1% above the level for the first half 1993.
If this trend is maintained for the full year it seems that sales will be above those planned, which were at the level of 4.8 millions tons.

First Half 1994 sales breakdowns by market compared with the equivalent period for 1993 and with the total years 1993 and 1992, were as follows :

	1st Half 94	1st Half 93	1993	1992
Spanish market	62.4%	62.3%	63.9%	69.1%
Other EC markets	18.3%	16.7%	15.6%	16.0%
Third countries	19.3%	21.0%	20.5%	14.8%

The trend, which was already clear in 1993, of a shift toward sales outside Spain and especially in countries outside of the EC, seems to be confirmed by the first half 94 figures.

The average prices provided by the Spanish authorities show a net increase in prices in practically all products when compared with the same period of last year.
The Commission services have examined this information and concluded that the prices charged are within the normal range.

Financial Performance

Since the new company successor of Ensidesa and AHV has not yet been created (see last paragraph of this report), it is impossible to compare directly the actual figures with those forecasted under the plan. Moreover the plan contained yearly figures only so that final conclusions will have to await the annual 1994 results when available.

For the present, an analysis has to be limited to comparison of the first half 1994 results with the results for the same period of 1993 as provided by the Spanish authorities and combined for the two companies.

(in billions ptas.)	1st Half 1994	1st Half 1993	% change
Turnover	149.8	124.5	20.3
Profits/(Losses)	(27.9)	(54.0)	48.3
Net Operating Results	(3.1)	(30.3)	89.8
Financial charges	15.8	2.0	(28.2)
L. & S. Term Debts	486.5	499.3	(2.0)

The improvements over the first half of last year are quite evident especially in the operating results. However, the total level of debts, even if decreased, still remain very high.

In table I (attached), the Commission services, after having estimated the economic results of AHV and Ensidesa for the full year 1994, have made a comparison with the performance forecasted in the restructuring plan.
Since the income from the sale of these two companies to the new company "V" have not been received as planned by the "dormant" AHV and Ensidesa companies, and since the forecast aid has not been paid yet to the same companies in order to balance their accounts, these amounts have to be deducted from the plan in order to make the figures comparable.

This operation done, it can be concluded, as shown by table I, that if C.S.I. losses remain at the estimated level, these losses will be in line with the financial performance forecasted under the restructuring plan.

Aid payments

Capitalisation

In February 1994 both Ensidesa and AHV proceeded with capitalisation operations for which provision had been made in their 1993 balance sheets.
Credits that were subject to capitalisation were (value 1.1.92) :

- For AHV: a total of 41.024 billions ptas which remained from 91.1 billions ptas. of credits authorized to be converted into capital under Protocol 10 of Spain Treaty of Accession.
- For Ensidesa: 35.5 billions of INI credits explicitly authorized under the art. 95 decision.

The total of these credits, plus reactualisations for 20.9 billions ptas., amounted to 97.4 billions. The total sum has been used for capitalisation operations for AHV of 38.8 billions ptas. and for Ensidesa of 58.6 billions ptas.

The Commission is examining further these operations.

Other Aids

According to the Spanish authorities no other aid has been received.

Terms and conditions of new loans

In the first monitoring report, the Commission identified various loans and convertible bonds used to cover the higher than forecast losses and the delays in aid payments. From an examination of the terms and conditions of these facilities and the associated state guarantees,where applicable, it appears that no state aid elements were involved since these facilities were at market rates.

During the course of the first half of 1994, CSI obtained further loans totalling 10.0 billions ptas. from various banks, supported by state guarantee. As for previous loans, the guarantee carried a premium of 0.125% per annum.
Also convertible bonds totalling 30.0 billions ptas. have been issued with a state guarantee carrying the same premium.
No changes were made to the loans covered by state guarantee reported in the previous monitoring report.
As far as the loans without state guarantee are concerned, there has been a net increase of 1.0 billion ptas compared with the previous monitoring report.

The Commission is examining these measures in order to assess whether they include state aid elements. The Commission is also examining their purpose, whether and to what extent they proved necessary because of the delays in the payment of aids and the impact that the resulting additional financial charges might have on longer term viability (in this connection, the Commission understands that a consultant has been mandated by the company to review and update the plan in the light of the delays and other changes (i.e. acceleration of Ansio closure)).

Privatisations

On the 27.7.94 the new company "Aceria Compacta de Bizkaia S.A." was created and registered. The object of this company is to construct and manage the new compact hot rolling facility at Sestao partially to replace the hot strip mill at Ansio.

Shareholders of the company are as follows

ACERIA COMPACTA DE BIZKAIA S.A.

SHAREHOLDER	%	SUBCRIBED CAPITAL	NATURE OF THE SHAREHOLDER*
C.S.I.	30	240.000	Public
Socade	10	80.000	Public
B.C.H.	7	56.000	Private
B.E.X.	7	56.000	Private
B.B.K.	7	56.000	Private
B.B.V.	7	56.000	Private
Bo. Urquijo	5	40.000	Private
G. Esp. Estampac.	5	40.000	Private
Tubo Consult.	5	40.000	Private
Fª Iribecampo	5	40.000	Private
Cosimet S.L.	2,500	20.000	Private
C.A.N.	2,860	22.800	Private
Cosim S.A.	1	8.000	Private
Ferroatlántica	1	8.000	Private
Prom.AC.Comp	1,140	9.120	Private
Cial. Laminados	0,500	4.000	Private
D.Javier Imaz	0,500	4.000	Private
Ingelectric S.A.	1	8.000	Private
Bac. Atlántico	1,500	12.000	Private
	100	**800.000**	

*according to the Spanish Authorities.

The composition of the Board of Directors is as follows :

C.S.I. 3 members
Socade 1 member
Private sector 5 members (including the president)
The decisions are taken by simple majority of the members.

According to the Spanish authorities the company is 40% public, through the shareholdings of CSI and Socade which is a public company representing the local Basque Government. The remaining 60% of the capital is held by the private sector. B.C.H., B.E.X., B.B.K., B.B.V. and Bo. Urquijo (33 % of capital) are banks, and the rest of the capital (27%) is held by various companies including the AC Sestao promotion company referred to in the first monitoring report (1.14%).

The Commission will be verifying the genuine private nature of these companies, the range of their activities and their participation in the new company in order to ensure that the requirements of the article 95 decision are met.

Creation of the new "V" company

According to the restructuring plan, the two companies Ensidesa and AHV should have ceased to exist and a new company temporally called " V" should have had been created at the beginning of 1993.
Due to the delays in the implementation of the plan, the creation of this company has been postponed and now the target is for it to be operational by the first of January 1995.

In order to meet this deadline the following steps have been taken or are in hand :

- Definition of the assets to transfer to the new company;
- the legal conditions for the transfers have been determined;
- negotiations with the creditors of the "dormant" companies have started;
- the group "V" has been defined by branches of production activity;
- the updating of the restructuring plan by independent consultants.

The new company "V" is expected to be formally created by mid october 1994.
By the end of the first quarter 1995 the final structure of the new group "V" should also be completed.

Financial Results

PLAN VS.ACTUAL
millions of pesetas

PLAN 1994

	"dormant" AHV	"dormant" ENSIDESA	"V"	TOTAL
Operating Results	-4228	-8915	13432	289
Financial Charges	-5740	-11560	-14054	-31354
Net Results	0	0	-2718	**-2718**

ESTIMATED 1994

	AHV	ENSIDESA	"V"	TOTAL
Operating Results	1160	-7115		-5955
Financial Charges	-8922	-19555		-28477
Net Results	-15730	-34945		**-50675**

VARIANCE

		TOTAL 1994
Operating Results		6244
Financial Charges		-2877
Net Results		**47957**
Explanation of difference :		
	AHV revenue from sale of shares	6746
	AHV foreseen aids	8872
	ENSIDESA revenue from sale of sh.	20238
	ENSIDESA foreseen aids	14839
total		**50695**
remaining difference		**-2738**

CSI

Financial Performance

In the first monitoring report the Commission stated that under the plan, combined 1992/93 losses were forecast to be 71.2 billion pesetas. This compared with actual losses incurred of 198 billion pesetas. However, our report noted that it was difficult to make comparisons because the key element of the plan (creation of the successor company to AHV and Ensidesa, which had been due to start operating as from 1 January 1993) has not yet been implemented.

In following up this issue with the Spanish authorities, it has been found that the Commission made an error in calculating the forecast losses for 1992 and 1993. The figure quoted should have been 62.4 billion pesetas. The basis for this figure, compared with our previous calculations, is set out at Annex 1.

The divergence between the forecast results and actual results (which remain unchanged) was therefore around 136 billion pesetas, slightly greater than the Commission originally stated. However, as previously noted, it needs to be borne in mind that the actual results are not comparable because of the non-implementation of the plan. Under the plan the 1993 forecast results for the dormant Ensidesa and AHV companies included aids totalling nearly 84 billion pesetas, mostly in the form of revenue from sale of shares in the new company and social aids which have not been paid. After taking this into account, there is a remaining difference of around 52 billion pesetas between the forecast and actual results. This closely corresponds to the additional aid authorised amounting to 53.153 billion pesetas in the form of loss compensation to cover the increased operating losses and financial charges incurred in 1992 and 1993.

The difference between the forecast and actual results can therefore be attributed to the delays in the plan's implementation and the associated aid payments. It is now expected that the new company will be established towards the end of this year and become operational as from 1 January 1995.

The higher than forecast losses were covered by the loans and convertible bonds identified in the first monitoring report. From an examination of the terms and conditions of these facilities, and the associated state guarantees where applicable, it appears that no state aid elements were involved.

At this stage it is unclear precisely what impact these credit facilities will have on the longer term viability of the plan. We shall be keeping this question under close review in subsequent monitoring reports. The Commission understands that independent consultants will be reviewing and updating the plan in the light of the delays and other changes (e.g. acceleration of the Ansio closure) prior to the establishment of the new company. The Commission expects to receive the fullest information on this to assist it in its monitoring task.

Forecast Net Results under CSI Plan

	AHV/Ensidesa 92	Dormant AHV 93	Dormant Ensidesa 93	New Company 93	Total 92+93
Previous calculation from first monitoring report	-60812	-	-	-10408	-71220
Correct figures	-86994	28295	6687	-10408	-62420
Variance	-26182*	+28295**	+6687**	-	+8800

* Previous calculation was based on summary table from consultant's report which contained this error.

** Under the plan 1993 results of the dormant AHV and Ensidesa companies also need to be taken into account.

Annex 3

Monitoring of Article 95 ECSC steel cases

Second report

SIDENOR

Introduction

On 12 April 1994 the Commission authorised aids under Article 95 ECSC totalling 80.052 billion pesetas, made up as follows:

up to 26.3 billion pesetas for debt write-offs;

up to 7.79 billion pesetas social aids;

up to 20.2 bilion pesetas in the form of new paid-in capital; and

up to 25.762 billion pesetas in the form of loss compensation to cover additional operating losses and financial charges in 1992 and 1993.

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

This second monitoring report on Sidenor is based on information contained in the third quarterly report by the Spanish authorities, submitted on 15th September 1994 in accordance with Commission decision 94/261/ECSC.

The following analysis by the Commission services also draws on the data provided by the Spanish authorities in their second quarterly report of 15th of June 1994, as required under the Article 95 decision.

Outstanding questions remaining from the first monitoring report (SEC(94)903) are covered in the relevant sections of this report.

Capacity Reductions

With the sale of the Larrondo plant (which is reported further below), the production capacity of Sidenor has been reduced by 90,000 tons/year in liquid steel production and by 60,000 tons/year in hot rolling production.
This however has no effect on the overall reduction capacities required by the Art. 95 decision which had already been achieved during 1993.

Investments

No further investments foreseen under the plan have been performed during the first six months of 1994.

Workforce reduction

The total workforce of Sidenor at 30.6.94 totalled 2422 people. During the first six months of this year 485 people left the company (29 in the first quarter and 456 in the second quarter including 413 transferred to Larrondo); in the same period 65 people were hired, bringing the total net workforce reductions since 1991 to 2303 people, 123 above plan.

Social costs for the first and the second quarter were 849 and 655 millions ptas. respectively, bringing the total social costs paid up to now under the restucturing plan to 7.4 billions ptas. (all covered by loans).

Production and Market Effects

Average monthly production for 1993 and the 1st and 2nd quarter 1994 was as follows :

000s Tonnes	1993	1st Q. 94	2nd Q. 94	1st Q.94/ 1993	2nd Q.94/ 1st Q.94	1994est./ 1993
Liquid steel	43.7	53.4	56.4	22.3 %	5.5 %	14.2 %
Products						
Special Steel HR	34.7	44.1	46.1	26.9 %	4.6 %	18.1 %
Stainless Steel HR	1.8	2.1	2.1	17.7 %	0.7 %	7.3 %
Forge & Foundry	31.5	9.3	10.0	18.4 %	7.6 %	11.7 %
Yearly/ Quarterly Totals	1993	1st Q. 94	2nd Q. 94			
Liquid Steel	524.4	160.3	169.1			
HR Products	438.0	138.5	144.7			
Forge & Foundry	31.5	9.3	10.0			

Sales during the 1st and 2nd Quarters of 1994 totalled 111,896 tons and 170,166 tons respectively. If we annualize these figures taking into account seasonal factors the total 1994 estimated sales are of the order of 512,000 tons. This forecast compares with previous years' sales and those forecast under the plan as follows :

000s Tonnes	Actual Sales	Planned Sales	% variation
1994 estimated	512	550	(7.0)
1993	402	516	(22.0)
1992	439	548	(20.0)
1991	542	542	-------

The breakdown of sales by market was as follows :

	1992	1993	1st Qtr 94	2nd Qtr 94	1st Half 94
Spain	53.9 %	52.0 %	55.9 %	57.2 %	56.7 %
Other EC	40.7 %	38.7 %	34.2 %	34.5 %	34.4 %
Oth. World	5.5 %	9.3 %	9.9 %	8.3 %	8.9 %
Total Sales (tonnes)	438932	402168	111896	170166	282062

The domestic share of sales shows a definite increase during the first half of this year mainly at the expense sales to other EC countries.

According to the average prices reported by the Spanish authorities, there has been an upward movement in prices throughout the first half of 1994. The Commission services have examined this information and concluded that the prices charged are within the normal range.

Financial Performance

After the first monitoring report questions were raised about the viability of the restructuring plan for Sidenor given the divergence beween the actual 1993 results and those forecast under the plan. After discussion with the Spanish authorities, due to the relatively small difference (6 %) between the actual net results for 1993 (42.0 billions ptas.) and the planned results (13.8 billions ptas.), after taking into account the compensation aid approved in the Art. 95 decision to cover additional losses because of the delay in the plan implementation (25.8 billions ptas.), the Commission concluded that no changes to the plan were necessary at that stage.

The Sidenor plan foresaw the acquisition by Sidenor of the activities of both Acenor and Foarsa. This should have occurred in 1993. According to the Spanish authorities this operation will be performed by the end of 1994. In their view therefore the combined results of Acenor and Foarsa at this stage are still not very meaningful for the purposes of comparison with the plan.

The Commission services have nevertheless analyzed the financial data provided and will continue to take all necessary steps to ensure the conformity of Sidenor's activities with the provisions of the Article 95 Decision.

The Spanish authorities have reported the following actual results for the first two quarters of 1994 which, when annualized, compare as follows with 1993 and the plan for 1994 :

(M PTAS)	1st Qtr. 94 (annualized)	2nd Qtr. 94 (annualized)	1993	1994 plan*
Turnover	44444	48138	31514	43953
Losses	14876	15136	22379	1871
Net Op. Result.	5000	4830	11667	7340
Finan. Charges	8420	8776	8523	2951
Finan. Debts	54804	59997	48301	21719

*plan figures do not include Larrondo

The figures for 1994 show improvements compared with the 1993 results especially at the level of losses and operating results. However, indebtedness has increased. Moreover the actual results look set to be substantially worse than those forecast for 1994 under the plan. However, a comparison with the planned figures for 1994 is difficult for two reasons:

1) Larrondo is not included in the plan forecasts;
2) Sidenor has not taken over the activities of Acenor and Foarsa as was planned, as explained above.

Due to the importance of these differences, the Commission services will have to investigate further in order fully to assess the extent of the apparent divergences in the figures and their impact on plan viability.

Aid payments

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

Capitalisations

In the first monitoring report it was stated that the Commission was seeking clarifications from the Spanish authorities about a capital injection of 8.2 billions pesetas into Acenor made last Autumn.

The Spanish authorities confirmed that the capital injection for 8.224 billions ptas. shown in the Acenor balance sheet was an anticipation of the approval of the restructuring plan and that it is part of the 20.2 billions ptas. aid in the form of new paid-in capital.
The schedule for the other capitalisations identified in the first report is not known yet.

Terms and conditions of new loans

In the first monitoring report the Commission identified various loans used to cover the higher than forecast losses and the delays in aid payment. From an examination of the terms and conditions of these loans, and the associated State guarantees where applicable, it appears that no State aid elements were involved since these were in line with market rates.

During the first quarter 1994 Sidenor obtained further short term loans for 8.7 billions ptas. from the majority public shareholders of Acenor and Foarsa : INI and ICO (5.3 and 3.4 billions ptas. respectively). In the same period a loan for 2.0 billions ptas. has been reimbursed.

During the second quarter 1994 Sidenor obtained from the same majority shareholders, short term loans for 10.0 billions ptas. : 4.2 INI and 5.8 ICO (the latter with a State guarantee). Short term debts for 5.5 billions ptas. have been reimbursed during the same period.

The loans without guarantee appear to be at market conditions, while the loan with a state guarantee will require further investigation to determine whether or not it contains any element of aid. The Commission will also examine to what extent the resulting increase in financial charges is likely to affect viability.

Privatisations

On the 3rd of May 1994, the Sidenor's Board of Directors approved the sale of the Larrondo plant to the private consortium formed by the Basque group Digeco and Clorimax, a subsidiary of the Italian steel group Roda. This decision concluded an open bid procedure started in 1992.

The sale was authorized by the Spanish Government in the month of July 1994.

The price was 100 millions ptas. free of any charge, mortgage, guarantee, limitations and encumbrances of any kind.

The starting balance sheet for the company "Aceros Inoxidables Olarra S.A." is as follows:

Assets	
Fixed Assets	3,168,150,925
Stocks	1,679,360,276
Cash	740,000,000
Credits	700,000,000
Total Assets	6,287,511,201 pesetas
Liabilities	
Net brought in capital	950,805,000
Provisions	139,195,000
Public Debts	5,197,511,201
Total Liabilities	6,287,511,201 pesetas

The Commission will be examining this sale in more detail to establish the possible impact of the transfer of debts to the new company on the level of aid authorised for debt write-offs.

The Spanish autorities also reported with reference to this sale that it was agreed between the buyer and the seller that social costs to reduce the workforce from 413 people to 320 will be borne by Acenor. These costs will amount to 1.3 billions ptas.

The Commission will be seeking more information on this aspect to determine the possible impact on the approved social aids, since the level for these was based on thé assumption that Larrondo woud be closed down with the loss of all 413 jobs.

Monitoring of Article 95 ECSC steel cases ANNEX 4

Second Report

ILVA

Introduction

On 12 April 1994 the Commission authorised aids under Article 95 ECSC totalling 4790 billions lit. in the following forms :

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

This second monitoring report on ILVA is based on the information submitted by the Italian authorities on 15th September 1994 in accordance with Commission decision 94/259/ECSC.

Since as of the 1.1.94 the group Ilva was split in three distinct entities (ILP, AST and Ilva in Liquidazione) in some cases the Commission's analysis will treat them separately and whenever possible reference will be made to the past situation.

Outstanding questions remaining from the first monitoring report are covered in the relevant sections of this report.

Capacity reductions

- **Ilva in Liquidazione.** The dismantling of the Bagnoli rolling mill started on 30.6.94. Negotiations for the sale of this equipment are under way with parties outside of the Community.The schedule for dismantling will be done in accordance with the needs of the future buyer.
  The Commission services will follow very closely these developments.
- **ILP.** On 30.6.94 the reheating furnaces for the heavy plate and for the hot- rolled wide strip n° 1 mill were disactivated and the dismantling operations started.
  These operations include the removal of the burners and the dismantling of the charging and discharging equipment. This phase of the dismantling operations was concluded by the end of August 1994.
  The result of these operations is the reduction of the Taranto production capacity of 1.2 millions tonnes as required in the art. 95 decision.

Investments

Investments of general maintenance or investments aimed at environmental or technological improvements, were foreseen both by ILP and AST as reported in the first monitoring report. At the 30.6.94, ILP had undertaken expenditures of 35.5 billion lit. out of the foreseen

investments of 571 billions lit.; AST, at the same date, had spent 5.6 billions lit. out of the 46.8 foreseen.
Financing of these investments was done from resources.

Workforce reductions

Workforce reductions for the group Ilva are summarized in table I .
During the first six months of 1994 Ilva in Liquidazione dismissed 491 people.
Additional people should be made redundant during the course of this year in accordance with the plan.
Ilva management is waiting the issuing by the Italian Authorities of the appropriate legislation that will regulate the departure in preretirement of workers in the public and private steel industry.
The workforce reductions due to closures that had been notified to the Commission in January 1994, will also be subject to this new legislation. Social aid for these closure reductions is to be covered by aids under art. 4(1) of the Steel Aid Code and under the art. 95 Decision.
Due to these changes in the legislation, the Commission is waiting for further information in order to examine the notified aids in the light of the new situation.

Production & Sales

Production and sales levels of ILP and AST only are covered by this report since the corresponding data for the other companies left in Ilva in Liquidazione relate mainly to non ECSC products.

Production

ILP Production figures are reported in table II.
Liquid steel and hot rolled products show a small increase in the first half 1994 vs. the same period of last year : 1.7% for both.
The yearly trend is 6.7 % above plan for liquid steel production and 6.6 % under plan for coils production.

AST Production figures are reported in table III.
First half 1994 liquid steel production was 16 % above the level of the corresponding 1993 period. The yearly trend is 2.6 % above plan.
Hot rolled stailess steel production was 10% higher than the production during the same period last year. The yearly trend is 5.9 % above plan.

Sales

ILP First half 1994 sales of finished products totalled 3.8 millions tons up 1.7 % compared with the same period 1993.
The trend of sales is in line with the planned sales at the end of the year.
The split by market is :

	1992	1993	1st Half 1993	1st Half 1994
Italy	71.8 %	66.8 %	66.7 %	69.4 %
Other EC	13.9 %	13.8%	12.5 %	15.0 %
Third Countries	14.3 %	19.5 %	20.8 %	15.6 %
000s tonnes	6,986	7,015	3,733	3,798

Data for the second half 1994 show a strengthening on the domestic market and in other EC markets with a corresponding decrease in the other world markets.

Reported prices for the first half 1994 are from 10 to 20 % higher than those in the 1993 corresponding period in almost all products. The Commission services have examined this information and concluded that the prices charged are within the normal range.

AST Sales for the first half 1994 totalled 423.2 thousands tonnes with an increase of 19.6% over the same period in 1993. The split by market was as follows :

	1993	1st Half 1994
Italy	60.8 %	64.7 %
Other EC + EFTA	15.8 %	14.6 %
Third Countries	23.4 %	20.7 %
000s tonnes	683.2	423.2

Data for the first half 1994 show a strengthening in the domestic market and a decrease in exports.

Reported prices for stainless steels show decreases of the order of 4 to 12 % mainly in the austenitic steels.
The Commission services have examined this information and concluded that the prices charged are within the normal range.

Financial performance

Questions outstanding from the first monitoring report included ILP and AST ratios between financial charges and turnover at the outset of the companies.

Upon reception of more detailed information it can be stated that the above mentioned ratios at the beginning of the year were as follows :

ILP : 3.5 % with a 1993 turnover of 7898 billions lit and financial charges for 274 billion lit.

AST : 4.4 % with a 1993 turnover of 1524 billions lit. and financial charges for 67 billions lit.

The condition on financial charges specified in the art. 95 Decision have therefore been fulfilled.

The need for an examination of loans obtained during 1993 was also identified.
Since the first monitoring report detailed information have been obtained about these loans and their conditions; although the analysis of these data has not yet been completed, no indication has so far been found that the loans were not provided under market conditions.

The financial data received with the second monitoring report refers to the three companies separately, therefore in many instances it is impossible to compare the figures with those reported in the first report. The comparison has been done wherever it was possible.

Ilva in liquidazione

The structure of this company having significantly changed since the spinning off of the two other companies, it is not possible to compare previous economic results with those for the first half 1994, however,

- **turnover** for the first half of 1994 was 1439 billions lit. and the forecast until the end of the year is 2639 billions lit. (a comparable figure for 1993 would be 2187 billions lit.);
- **losses** for the first half of 1994 were 659 billions lit. and they are forecast to reach 1091 billions lit by year end. 1993 losses of Ilva in Liquidazione at the end of the year included also ILP and AST; therefore they are not comparable.
- **financial charges**, for the same period were 223 billions lit. or 15.5 % of the turnover.
- **Indebtedness**

  In accordance with the art. 95 Decision, Ilva is entitled to receive aid to cover indebtedness up to a maximum of 2943 billions lit. This aid, together with the income received from the sales of the companies being privatized, is intended to cover a total indebtedness of 10067 billions lit. less the debts transferred to the companies being sold, estimated to be 2958 billions lit. at 31.12.93. Additional aid up to 750 billions lit. can be allowed as compensation if lower than forecast receipts are obtained from the sales.

  The net financial debts as reported by the Italian authorities in their two reports, have been adjusted to make them comparable with the plan figures (this exercise has altered the presentation of the figures reported in the first monitoring report, but not the substance).

  The results are shown in table IV. The following variations can be detected :

	Plan	1st Monitoring Report	2nd Monitoring Report
Situation at :	31/12/93 estimated	31/12/93	30/6/94
Total comparable Indebtedness	10067	10251	11378
Variation from plan %	0 0	184 1.8	1311 13.0

The small variation from the plan at the end of last year is now increased to 13 % at the end of the first half.
According to the Italian Authorities the increase of the indebtedness is due to increases in interest rates. More details have already been requested by the Commission from the Italian Authorities so that investigations can be carried out with regard to the causes and the financing of this situation.

In Table V an attempt is made to estimate the amout of aid needed taking into account the realized transfer of debts, an estimate of the debts still to be transferred and again an estimate of the receipts to be obtained from the sale of the companies being privatized.

As can be seen, actual transfers of debts to ILP and AST higher than forecasted in the plan, had decreased the amount of aid needed as of the final results for 1993. However, the high amount of debts incurred in the first half of this year, even if offset in some extent by the debts transferred to Cogne, has increased to the maximun the level of aid needed to cover the indebtedness of Ilva. .

For ILP and AST the level of indebtedness used for the Commission analysis is that at the moment these companies were set up.

ILP

- **turnover** for the first half 1994 was 4676 billions lit. and is forecast to be 8568 billions lit. at the end of the year, an increase of approx. 25 % over plan; estimated 1993 turnover was 7898 billions lit.;
- **operating results** of 396 and 624 billions lit. for the first half 1994 and as a forecast for year 1994 as a whole respectively, show an increase over the planned results (17.5 % for 1994);
- **net results** for the first half of 1994 were 219 billions lit. and they are expected to increase to 316 billion lit. by the end of the year (4.7 % and 3.7 % of turnover respectively);
- **financial charges** for the first six months of 1994 were 117 billions lit. and due to the increased turnover and lowering interest rates they now represent only 2.5 % of the turnover versus the 3.5 % at the outset of the company;

- **indebtedness** of the company after six months of operations shows a decrease mainly in short term debts (1067 billion lit. vs. 1169 billion lit. at the begining of the year : 8.7 % decrease);
  forecasted total indebtedness for the year is higher than planned (1813 billion lit. vs. 1609 billion lit. in the plan) because ILP started with higher than planned debts (1886 billion lit. vs. 1312 billion lit.).

AST

- **turnover** for the first half of 1994 is 904 billions lit. and the forecast for the year is 1690 billions lit or 9.6 % over plan;estimated 1993 turnover was 1524 billions lit.;
- **operating results** are 45 billions for the first six months of 1994 and forecasted to reach 100 billions by the end of the year or a decrease vs. plan of 12 %;
- **net results** for the first semester 1994 were 17.2 billion lit. (1.9 % of turnover) and are forecasted to increase to 38.9 billion lit. (2.3 % of turnover) by year end.
- **financial charges** during the first half of 1994 were 22.9 billions lit and the forecast for the year is 46 billions lit.; which represent 2.5 % of turnover at 30.6.94 and 2.7 % at the end of the year;
- **indebtedness** of the company which was 536 billions at the beginning of the year was 485 billions at the 30.6.94 and it is expected to stay at the same level until the end of 1994; planned figures were 336 billions lit and 340 billions lit at the beginning and at the end of the year respectively.

Aid payments

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

Terms and conditions of new loans

ILP and AST have not contracted any new loans during the first six months of 1994.

As regards Ilva in liquidazione, the Commission, as already stated above, has requested further information on the amount of loans obtained during the first six months of 1994. These data, together with those already provided for last year, will constitute a matter requiring a global and thorough verification in the coming weeks..

Privatisations

During the year 1994 the following privatisations were performed :

- **Cogne.** This company was sold on 1.1.94, after the conclusion of an open bid procedure, to Geval (Gestioni Valdostanne srl) of the private group Marzorati for 100 % of its capital at a price of 7 billions lit. The financial debts transferred from Ilva in liquidazione were 75 billions lit.

- **AST .** On 1.1.94 this company was created and an open bid procedure started to sell 100 % of its capital. The Commission has examined this procedure and concluded that each potential bidder had access to the same information and was required to meet the same conditions in the time scale and thus met the Commission's equirements. The open bid procedure was closed on 13.5.94. On 30.6.95, Ilva's only shareholder IRI declared the KAI consortium (Krupp-Thyssen,Riva,Falck,Tedfin) winner of the bid and on 14.7.94 a sale contract was signed.
  The price was 600 billion lit. (or 200 billions more than forecasted). The buyer also took over 500 billion lit. of debts instead of the 474 billion lit. foreseen by the plan. The Commission received complete notification of this sale on the 21st of september 1994 and this is now under examination to see if it is in line with the Merger Regulations and with the related competition Articles of the ECSC Treaty.

- **ILP .** On the 1.1.94 the ILP company was created and an open bid procedure started for the sale of 100 % of its capital.
  At the closing of the procedure, no bid qualified according to the rules of the bidding process. IRI, therefore, closed the procedure and continued with individual negotiations which are still under way.
  Since according to the Decision 94/259 /ECSC the privatisation of this company has to be achieved by the 31.12.94, the Commission, on the 16th of September 1994, asked the Italian Authorities for more information on the status of this privatisation.

Negotiations are also underway for the sale of the following companies :

ISE	ICMI	Saster
Dalmine	TDI	Ilvanetwork
Dalmine Resine		

Finally, it is worth to recalling that as far as ILP and AST are concerned, the Commission will continue to monitor them in accordance with the requirements of the art. 95 Decision as long as their privatisations have not been finalized. Once privatisation happens, and it is estabilished to be in line with the Decision, these companies will no longer need to be monitored.

ILVA **Monitoring / 2** **TABLE I**

Workforce Reductions

PLANNED						
Workforce at :						
	31/12/92	**31/12/93**		**By :**	**31/12/96**	
	40562	39427			**11500**	**people will be dismissed**
Var. ——>		**1135**				**of which :**
		16450	ILVA in Liq.		4200	at ILP & AST
		18520	ILP		1920	at other companies to be sold
		4457	AST			
		22977	ILP+AST		5380	in CIG at 31/12/93
Of which CIG :						
	4935	5380			5380	

ACTUAL						**dismissals since 1992 to date :**
Workforce at :						
	31/12/92	**31/12/93**		**1/1/94**	**30/6/94**	
	40562	38613		38613	38122	
Var. ——>		**1949**	——————>		**491**	**2440**
			ILVA in Liq.	15939	14646	
			ILP	18219	18219	
			AST	4455	4455	
			ILP+AST	22674	22674	
			COGNE		802	

ILVA Monitoring / 2

PRODUCTION (thousands tonnes)

TABLE II

ILP

PLANNED

	1993	1994	1995	1996
Pig Iron	8400	7880	8315	8315
Liquid Steel	8600	7865	8210	8210
Wide Strip	6000	6400	6365	6365
Heavy Plate	1060	1005	1080	1080

ACTUAL VS. PLANNED

	1993	1994 est.	1995	1996
Pig Iron	(2.3)	3.5		
Liquid Steel	(4.0)	6.7		
Wide Strip	(2.0)	(6.6)		
Heavy Plate	(3.8)	6.5		

ILP

ACTUAL

	1992	1993	1st Half 93	1st Half 94	1994 est.
Pig Iron	7808	8203	4373	4348	8156
Liquid Steel	7843	8252	4441	4515	8390
Wide Strip	6361	5878	3331	3388	5979
Heavy Plate	1074	1020	566	594	1070

ACTUAL VS. PREVIOUS

	1993 / 1992	1st Half 94 / 1st Half 93	1994 est. / 1993
Pig Iron	5.1	(0.6)	(0.6)
Liquid Steel	5.2	1.7	1.7
Wide Strip	(7.6)	1.7	1.7
Heavy Plate	(5.0)	4.9	4.9

Note :

These figures give the picture of production as it was planned and as it is now reported by the Italian authorities.
Yearly estimates are from Commission services based on 1993 taking into account seasonal factors.
The Commission will be asking the Italian authorities questions about variations from the plan.

ILVA Monitoring / 2

PRODUCTION
(thousands tonnes)

TABLE III

AST

PLANNED

	1993	1994	1995	1996
Liquid Steel	827	917	926	980
HR wide stri	855	846	855	907
CR sheet	471	477	486	495
Stainless :	376	375	365	410
HR	70	65	50	90
CR	306	310	315	320

ACTUAL VS. PLANNED

	1993	1994 est.	1995	1996
Liquid Steel	(1.9)	2.6		
HR wide stri	0.6	5.9		
CR sheet	(1.7)	7.4		
Stainless :	(6.1)	(1.5)		
HR	0.0	(12.3)		
CR	(7.5)	0.7		

AST

ACTUAL

	1992	1993	1st Half 93	1st Half 94	1994 est.
Liquid Steel	775	811	430	499	941
HR wide stri	1042	860	477	497	896
CR sheet	448	463	245	271	512
Stainless :	341	353	198	206	369
HR	53	70	43	35	57
CR	288	283	155	171	312

ACTUAL VS. PREVIOUS

	1993 / 1992	1st Half 94 / 1st Half 93	1994 est. / 1993
Liquid Steel	4.6	16.0	16.0
HR wide stri	(17.5)	4.2	4.2
CR sheet	3.3	10.6	10.6
Stainless :	3.5	4.0	4.6
HR	32.1	(18.6)	(18.6)
CR	(1.7)	10.3	10.3

Note :

These figures give the picture of production as it was planned and
as it is now reported by the Italian authorities.
Yearly estimates are from Commission services based on 1993 taking into account seasonal factors.
The Commission will be asking the Italian authorities questions about variations from the plan.

Ilva Indebtedness			**TABLE IV**
Reconciliation with the plan	**Plan**	**1st Report**	**2nd Report**
(figures provided are in bold)			
Situation at : billions lit.	31/12/93 est.	31/12/93	30/6/94
Total Indebtedness	**10067**	**8114**	9166
Debts transferred	**0**	**2137**	**2212**
Total comparable Indebtedness	**10067**	**10251**	11378
Variation from plan		**184**	1127

Estimation of needed aid			**TABLE V**
(figures provided are in bold)	**Plan**	**1st Report**	**2nd Report**
Situation at : billions lit.	31/12/93 est.	31/12/93	30/6/94
Total comparable Indebtedness	**10067**	**10251**	11378
Debts to be transferred :			
ILP	**1298**	**1701**	**1701**
AST	**474**	**436**	**436**
Sofinpar	**125**	125	125
Cogne and Others	**1061**	1061	1061
Total Debts to be transferred	**2958**	**3323**	**3323**
Total remaining indebtedness	**7109**	**6928**	**8055**
Estimated income from sales	**4166**	4166	4366
of which :			
ILP	**1300**	**1300**	1300
AST	**400**	**400**	**600**
Sofinpar	**1106**	1106	1106
Others	**1425**	1425	1425
Other net incomes/(costs)	**-65**	-65	-65
Aid needed to cover indebtedness	**2943**	2762	3689
Variation from plan	0	-181	746
NOTE			
Aid foreseen by the plan			
Aid to cover indebtedness	**2943**		
Aid for restructuring & liquidation	**1197**		
Total indebt. to be covered by IRI	**4140**	+ 750 billions *	
capital injection	**650**		
Total aid foreseen by the plan	**4790**		

* Under the art. 95 Decision, Ilva is entitled to an additional amount up to 750 billions lit "if the revenue received from the sale of the undertakings concerned is less than the amounts anticipated".

Annex 5

Monitoring of Article 95 ECSC steel cases
Siderurgia Nacional, Portugal

Second Report

I. Introduction

The Commission decided on 12 April 1994 to approve aids totalling 60.12 bn Esc under Article 95 ECSC Treaty[1] (303 MECU) of which 38 bn Esc (191.5 MECU) are earmarked for a capital injection and 22.12 bn Esc (111 MECU) for debt write-off. The Commission approved in September 1994 social and environmental aids of 5.925 bn Esc (30.06 MECU) under the Steel Aids Code[2].

The present report covers some outstanding questions from the first monitoring report that had been discussed with the Portugese Government in the meantime and the information provided by the Portugese Government in its second monitoring report, which was submitted on 15 September 1994.

II. Outstanding questions from the first monitoring report

In its first monitoring report, the Commission identified two issues of concern: the deteriorating financial performance of the company compared to that forecasted under the plan and some discrepancies between the report of the Portugese Government and the information provided by the responsible Directorate General concerning ECSC loans granted to Siderurgia Nacional (SN). The Commission has followed up these issues with the Portugese authorities.

Regarding the first question, the Portugese Government was of the opinion that the deteriorating financial performance should not cause too much concern since it was purely due to a very weak market in 1993, which all steel undertakings had to suffer. The forecasts under the plan had been based on the assumption of an earlier implementation of the restructuring plan than had proved possible. It is intended to examine these questions on the basis of figures covering the first half of 1994. The Portugese Government presented a full range of key financial ratios covering this period in its report submitted on 15 September 1994. The detailed examination and discussion of these figures will take place shortly.

The second question concerned some discrepancies between the information given by the Portugese Government and the information available to the responsible services of the Commission on ECSC loans granted to SN when the first monitoring report was examined. Following discussions it emerged that the discrepancies arose from the fact that the Portugese Government presented loans of the ECSC as already granted while they were de facto only agreed but not forwarded at that time.

The Commission also questioned the exact nature of several *Carta de Conforto* granted by the Portugese Government in order to allow financing to be raised in the market. They were explained as a guarantee to pay the intended aid once it would be approved by the Commission. It is still to be examined whether these *Carta de Conforto* as to the purpose of the financing concerned are to be replaced by already approved aid.

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

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

III. The new monitoring report

The Portugese Government presented a full range of information in line with the request of the Commission. It also submitted a copy of the Annual Report of Siderurgia Nacional covering the year 1993.

1. Capacity reductions

The production of the light section mill and the continuous casting installations (Seixal) had been stopped by 31 October 1993. These measures provided the first part (60 kt/y) of the total capacity reduction required (140 kt/y). Negotiations to sell the installations to a third country are still not completed.

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

2. Investments

The company spent 279.2 mio Esc on small maintenance measures. The company started to prepare the Master Plan for the investment in a new electric arc furnace with a German consortium that has been chosen after an open tender procedure.

The Portugese Government submitted a provisional investment plan that provides for the completion of the investment in the electric arc furnace in mid 1996 with a subsequent experimental and introductory phase of 6 months. This timetable is, in its main elements, in line with the business plan submitted in 1993. The continuous casting installation in Maia will be installed in 1995, with a subsequent experimental and implementation phase up until mid 1996. This time table shows a 6 months delay compared to the business plan submitted in 1993. It is to be examined whether this delay will have an impact on viability of the company.

The environmental investments are intended to be carried out in 1995 (40%) and 1996 (60%). The related environmental aid of up to 1.0 bn Esc was approved by the Commission in September 1994.

The total costs of investments as in the plan are estimated as follows:

Technological investments and maintenance	13.65 bn Esc
Environmental investments	5.30 bn Esc
Commercial investments	1.70 bn Esc
TOTAL	**20.65** bn Esc

There is an increase in costs for environmental investments due to a reevaluation carried out, which is balanced by a reduction in commercial investments.

3. Reduction of workforce

Redundancies

	1993	1994 1. half	1994 2. half*	1995*	1996*
early retirement	138	59			
releases	28	8			
other	27	13			
TOTAL	193	80	300	635	590

* forecast

Forecast of evolution of workforce

	1992	1993	1994	1995	1996	1997
long products, of which in *Seixal*	2070	2056	455	455	580	580
in *Maia*	478	429	420	420	380	380
TOTAL long products	2548	2485	875	875	960	960
flat products	660	530	485	440	440	440
TOTAL	3208	3015	1360	1315	1400	1400
SN Services *	-	-	1235	465		
SN SGPS **	-	-	40	40	10	10
TOTAL SN	3208	3015	2635	2000	1410	1410
Reduction per year		193	380	635	590	0
Total planned before	3208	2925	2380	1682	1410	1410
Deviation from previous plan	-	+ 90	+ 255	+ 318	+/- 0	+/- 0

* The newly created service company, see III.7.
** The holding for all 3 companies created to prepare privatization of SN.

It shall be noted that the current forecast for the evolution of workforce deviates remarkably from the previous business plan submitted by the Portugese Government. The retention of 255 employees more in 1994 and 318 employees more in 1995 would cause costs that were not expected when the business plan was drafted. It is to be examined whether such deviation will affect viability of the company.

Financing of redundancies 1993

nature	no of workers	56 ECSC	State*	company	TOTAL
early ret.	138	52.8	52.8	-	105.6
releases	28	17.1	17.1	8.3	42.5
others	27	-	-	-	-
TOTAL	193	69.9	69.9	8.3	148.1

Financing of redundancies 1994

nature	no. of workers	56 ECSC	State*	company	TOTAL
early retir.	59	23.2	23.2	-	46.4
releases	8	4.7	4.7	6.5	15.9
others	13	-	-	-	-
TOTAL	80	27.9	27.9	6.5	62.3

costs in mio Esc
*State contributionmatched to Article 56 ECSC means.

4. Production

Product	TOTAL 1. half 1993	TOTAL 2. half 1993	TOTAL 1. half 1994
Crude steel	382.6	362.7	309.5
long products	369.7	340.2	318.9
flat products	110.3	99.4	106.5
Total finished products	480.0	439.6	425.4

in kt/month

The company had to deal with some technical problems in the electric arc furnace in Maia, resulting in a lower production of crude steel in January - April 1994.

5. Sales

	1993	1. half 1994
Portugal	70 % = 653 kt	74.35 % = 296.6 kt
EU 11	12 % = 112 kt	14.89 % = 59.4 kt
3rd Countries	18 % = 168 kt	10.76 % = 42.9 kt
total	100 % = 933 kt	100% = 398.9 kt

Comparison to forecasts

deliveries in kt	reported	forecast	deviation
1993	933	1013	- 80
1994 extrapolation	797.8	1004	- 206.2

The comparison between the sales reported and the forecasts of the business plan show a significant deviation. The extrapolation of the sales figures of the first half of 1994 may be misleading because the company suffered some technological problems during that period which might have resulted in lower sales as well. However, it shall be examined whether the deviations would affect the viability prospects of the company.

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

6. Financial Performance

The company improved its financial performance slightly compared to the situation at the end of 1993 (the main financial ratio turnover/profit improved from - 45.54 to - 32.7), but did not attain business results that were to be expected according to previous studies (- 26.7). The business plan submitted by the Portugese Government in 1993 foresaw a small net profit of 0.1 bn Esc in 1994. During the first half of 1994, the company already suffered operating losses of 7.86 bn Esc. According to the Portugese Government, the deviation was caused by the weak steel market which affected every European steel company and the fact that the implementation of the restructuring plan started later than expected when setting up the business plan. This explanation shall have to be discussed in detail. The question of whether or not it would be necessary to require appropriate measures to reinforce the restructuring measures may also be considered.

7. Privatization

Regarding privatization, the Portugese Government informed the Commission that the creation of three separate companies (SN Planos, SN Longos and SN Servicos) under the holding SN SPGS was completed by 31.3.1994. It expects a privatization of SN Planos and SN Longos during the second half of 1994. The announcement of the privatization programme of SN should reinforce the credibility of the financial restructuring of the company.

8. Aid

The Commission approved aids of up to 38 bn Esc (191.5 MECU) for capital injection and 22.12 bn Esc (111 MECU) for debt write-off under Article 95 ECSC. The Portugese Government informed the Commission that SN received until 30 June 1994 50 bn Esc for its financial restructuring. This represents 83% of the aid approved by the Commission under Article 95 ECSC.

Annex 6

Monitoring of Article 95 ECSC steel cases

EKO Stahl GmbH, Germany

Second Report

In May 1994, the Riva group withdrew from the privatization contract. Treuhandanstalt (THA) decided that EKO Stahl should continue normal operations and initiated talks to find a new purchaser for the company.

The Commission decided on 6 July 1994 to initiate the procedure provided for in Article 6.4 Steel Aids Code with respect to the financing of EKO Stahl by THA. On 27 July 1994, it initiated proceedings with respect to the intention of the German Government to grant investment aid of up to 300 Mio DM under general regional investment aid schemes.

In view of the interruption of the restructuring efforts caused by Riva's withdrawal and the continuing negotiations with possible purchasers the German Government did not submit a monitoring report on EKO Stahl GmbH.

It is expected to receive up to date information on the company's situation together with the notification of the new privatization concept, probably in October.

Annex 7

Monitoring of Article 95 ECSC decisions

Sächsische Edelstahlwerke GmbH, Freital/Sachsen

I. Introduction

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

The present report covers some outstanding questions from the first monitoring report which had been discussed with the German Government in the meantime; and the information provided by the German Government in its second monitoring report, which was submitted on 14 September 1994.

II. Outstanding questions from the first monitoring report

In its monitoring reports covering the period up until end 1993, the Commission identified two issues of concern regarding SEW Freital:

1. Excess aid

In its first monitoring report, the Commission calculated, based on information provided by the German Government, a total amount of loss compensation of 200 Mio DM, while only 189 Mio DM were approved by the Commission's Decision of 12 April 1994.

a) The explanation of the German Government

After discussions with the German Government, the position can be explained as follows:

The Commission approved 189 Mio DM loss compensation for the period up until 1.1.1993 and a max. 9 Mio DM guarantee of THA covering the existence of a certain amount of claims of SEW Freital and the value of the existing stocks. THA guaranteed that the stocks would amount to 64 Mio DM and the claims would amount to 33.8 Mio DM at 1.1.1993. In case the value of the stock and the claims proved to be lower, THA would have to cover the difference up to 9 Mio DM.

The German Government informed the Commission that this guarantee was only used to cover 2.9 Mio DM. The stock, however, was increased before 1.1.1993 by a value of at least 6.1 Mio DM under the responsibility of the management provided by Boschgotthardtshütte, the purchaser. These purchases were financed by debts, so that the estimated 189 Mio DM debts increased by this amount. If the stocks would not have been increased, THA would have had to pay 6.1 Mio DM more than was finally paid on the basis of the above guarantee. According to the German Government, 6.1 mio DM of the total loss compensation as presented by the German Government in its first monitoring report should consequently be treated as part of the 9 Mio DM guarantee. Loss compensation and the guarantee for a certain value of the

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

present stock on 1.1.1993 are economically interconnected so that both elements could be taken together.

In addition, the German Government explained that a part, amounting to at least 5 Mio DM, of the total amount of 200 Mio DM cannot be regarded as aid because it represents the purchase price THA would have had to pay for land of SEW Freital under the privatization contract.

THA decided to transfer the company with the land that would not be necessary for its operations but with the right and the obligation to re-purchase this land. This is in line with normal privatization practice of THA. It was not possible to transfer the land to THA before privatization because the exact areas had first to be defined and registered in the public records. The necessary procedures last some time due to insufficient administrative capacities in the territory of the former GDR and particular difficulties in any land transfer arising from the law concerning restitution.

Consequently, it was agreed in the privatization contract that THA would have to pay the market value, assessed by independent experts, of the land not necessary for the company's operations. Although the definition of areas affected by this agreement is not yet terminated, it is, according to the German Government, clear that a minimum amount of 5 Mio DM would have to be treated as purchase price for land. This amount would not represent State aid.

The total amount of 6.1 Mio DM plus 5 Mio DM would cover the apparent excess aid of 11 Mio DM, so that the German Government is of the opinion that there is no deviation from what was approved.

b) Appraisal

The Commission will be examining the details of the facts explained by the German Government in particular in order to ensure that the interconnection between guarantee and loss compensation was really as presented.

The information concerning the implementation of the land purchase agreement is still rather incomplete because necessary procedures are, according to the German Government, still pending. A final conclusion of the Commission that an amount of 5 Mio DM of the total amount of 200 Mio DM presented in the first monitoring report should not be regarded as aid can therefore only be taken after a close examination of the facts, in particular the setting of the purchase price to be paid by THA, taking into account the Commission's general approach in the field of State aid and land transfer contracts between the State and particular companies.

2. Minimum financial charges

In its first monitoring report, the Commission concluded that the net financial charges of SEW Freital would not comply with the condition in Article 3 (1) of its April Decision (minimum 3.5%).

a) The position of the German Government

During the subsequent discussions with the German Government, the latter explained that the privatization and restructuring concept was designed to transfer the shares of the company to the private purchaser after a complete privatisation with the obligation of the purchaser to carry out an investment programme which would lead de facto to the complete renewal of the company's installations.

When the German Government notified the concept for SEW Freital, the privatization contract was concluded subject to the condition that the Commission would approve the related aid. This condition was cancelled by agreement of 8 November 1993, when the Council's assent on the basis of the Communication of the Commission dated 28 April 1993 was expected (but not granted), so that the shares of SEW Freital were transferred in November 1993. The Commission was not aware of this development when it drafted its final decision approving the aid connected to the privatization concept. This is the reason why Article 3 (1) of the decision specifies minimum financial charges of 3.5% at the date of the privatization of the company. It was impossible to fulfill that provision because the company was already privatized at the time the decision was adopted. The German Government is responsible for this situation because it did not inform the Commission that the privatization had already taken place in November 1993 and it did not react when the Commission announced in December 1993 to include this condition in all 6 decisions under Article 95 ECSC.

The German Government is of the opinion that the ratio presented under the said condition is to ensure that the recipient firm would not receive aid to an amount that would create a financial situation of the company that was out of line with the normal financial ratios of other competitors. It is of the opinion that the technological situation of the company combined with the contractual obligation of the purchaser to carry out investments covering total investments of at least 170 Mio DM (out of a total programme of 250 Mio DM planned) according to a strict time table would lead to a situation which provides comparable burdens for the company, although these burdens might not appear in a balance sheet.

In addition, it explains that the purchaser injected substantial amounts of finance without taking on bank loans because it was not possible to receive such loans before the Commission's approval of the aid connected with the privatization concept. It is of the opinion that it should not make a difference whether the necessary financial means are provided by the shareholder or by banks.

Furthermore, it should, according to the German Government, be taken into account that the company would take on a ERP loan of 100 Mio DM once the aid had been approved by the Commission. The loan, to be assessed under Article 5 Steel Aids Code, was notified by communication dated 28 July 1994. The necessary financial charges of 3.5% would be created only by this loan.

b) Appraisal

It should be noted that due to a shortcoming of the German Government in informing the Commission of the relevant developments in this case, a condition was included in the final decision under Article 95 ECSC that is apparently impossible for the company to fulfill.

Full compliance with the conditions of the Commission's decision under Article 95 ECSC would mean that the German Government would have to rescind the privatization. It would have to re-open negotiations with the purchaser concerning the conditions of a new privatization. Such negotiations would lead logically to a lower purchase price reflecting the extra financial burden imposed by the Commission's condition. Besides not having a major economic relevance as to the aid and competition situation of the buyer, such a procedure would cause enormous practical and legal difficulties and could allow the purchaser to take advantage of a very strong position in the negotiations.

However, according to the German Government, sufficient financial charges would appear in the company's accounts during the latter months of 1994, when it starts to take on loans to cover the extensive investment programme in line with the obligations of the purchaser following the privatization contract. The company would therefore operate without the requested minimum financial charges for less than eight months after being notified of the Commission's final decision.

This divergence from the conditions imposed by the Commission will be discussed with the Council, bearing in mind the rather limited economic relevance compared to the above mentioned scenario in which the conditions of privatizations would be brought in line with the economic impact of the condition in question. In this case, the Commission would have to carry out a close monitoring to ensure compliance with the condition by 31 December 1994 at the latest.

III. The new monitoring report

The German Government presented a full range of information in line with the request of the Commission. Already in June 1994, it presented the investment plan of the company as foreshadowed during the first monitoring phase.

1. Capacity reductions

The company closed and dismantled the medium section mill with a capacity of 170 kt/y by 30 June 1994, as stated in the previous monitoring report. Negotiations with possible purchasers outside Europe have not been terminated so far.

It is intended to close down the remaining light section mill with a capacity of 80 kt/y by the end of 1995. The remaining electric arc furnace will be closed down during the first half of 1996.

2. Investments

The company carried out the investments shown in the following chart. An important part of the investment planned for 1993/94 concerns the installations of a new merchant bar mill which will mainly be caried out during the second half of 1994. The mill will be fully operational by the end of 1995/beginning of 1996.

x 1000 DM	investments completed 31.12.1993	investments completed 1st half 94	total investments completed as per 30.6.94	total investment planned 1993/94
crude steel installations	1885	5355	7240	
forging & rolling installations	9977	26137	36114	
re-heating & adjusting inst.	4750	7392	12141	
environment, infrastructure, administration and marketing	1820	1565	3386	
polished steel installations, peeling and abrading installations (Lugau)	500	3210	3710	
drawn wire installations (Lugau)	189	705	894	
steam production installations, internal communication	3072	701	3773	
various	13312	6165	19477	
TOTAL	35505	51230	86735	167000

3. Reduction of workforce

The company carried out the following redundancies:

costs x 1000 DM	1993	1. half 1994	total	planned
no of redundancies	990	16	1006	1060
total costs	8776	132	8908	34000
covered by				
THA	7571	5	7576	
56 ECSC	1164	36	1200	
company	41	91	132	

The information shows that the company carries out the reduction of workforce in line with the plan.

4. Production

The company achieved the following production:

t/month average	1993	1. half 1994
crude steel	1990	4052
finished products	1635	3950

5. Sales

The company sold its products as follows on the different markets:

in %	1993	1. half 1994
Germany	89.6	92.2
EU 11	9.5	7.2
3rd countries	0.9	0.6
TOTAL (100 % = x kt)	19.6	8.7

The average prices were given in the report of the German Government. The Commission considers them to be within the normal range.

6. Financial Performance

The German Government provided a full range of key financial ratios as requested by the Commission. Concerning turnover and losses the following information was presented:

in Mio DM	1993 *	1993 **	1. half 1994	1994 annualised
turnover	71.1	70.5	42.36	84.7
losses	14.0	11.85	3.57	7.5
ratio turnover / losses		5.95		11.3

* estimated figures given in the first monitoring report

** finally approved figures

The figures show that the company is remarkably (by 90%) improving its financial performance in a very short time. The company appears to be on track towards viability.

7. Aid

The Commission approved 189 Mio DM loss compensation which has been granted by THA. The Commission also approved a 9 Mio DM guarantee coovering the value of stocks and claims of SEW Freital as by 1.1.1993. The surety obligation has been fulfilled by THA. In addition, it approved up to 34 Mio DM social aid to cover costs of redundancies, of which 15.16 Mio DM have been paid up until June 1994. The Commission further approved aid of up to 42 Mio DM for repair and maintenance which have been granted at the beginning of the restructuring.