COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.10.1998
SEC(1998) 1684 final

REPORT FROM THE COMMISSION TO THE COUNCIL

MONITORING OF ARTICLE 95 ECSC STEEL AID CASES
TENTH REPORT, NOVEMBER 1998

Monitoring of Article 95 ECSC steel aid cases
Tenth Report, November 1998

Summary

The Commission presents its Tenth 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.

For four of the monitored companies – CSI, Sidenor, Ilva and Sew Freital – this is the last of the reports that the Commission had the obligation to present to the Council. However, in certain cases some of the imposed conditions still remain to be fulfilled and not all of the aid has been paid. In these cases, here below identified, the Commission will continue to verify the fulfilment of all the conditions.

In addition while this was to have been the last monitoring report in respect of Siderurgia Nacional, there is now a need to continue the monitoring process for a longer period. This is because Siderurgia Nacional has suffered delays in the construction of a new electric furnace at SN Longos and the closing of the blast furnace at SN Serviçios. Consequently, in order to prevent the possible granting of new aid and to ensure a satisfactory resolution of the restructuring programme, the Commission has decided, on the basis of Article 4(1) of its decision of 12 April 1994, to extend the monitoring exercise in the present form beyond until 15 September 2000.

1. C.S.I., Spain

The privatisation of the former CSI-Corporación Siderurgica - now renamed Aceralia - was completed at the end of 1997.

The restructuring plan, that did not foresee the privatisation of CSI, has been completed as far as investments and capacity reductions are concerned. Only the reduction of the workforce, which is continuing on schedule, needs to be completed.

Viability was reached at the end of 1996, as requested by the decision, and the restructured company has positive results since. At the end of June 1998, Aceralia showed a net profit of 20,584 million ptas. only 4.6% lower than the profit for total year 1997.

About 20 billion ptas. of aid were paid in the first part of 1998 to AHV-Ensidesa Capital, the liquidating company. Total future needs of the company and amount of aid to be paid have been revised taking into account the incomes received from the sale of Aceralia.

This is the last monitoring report for CSI that the Commission has the obligation to present to the Council, however, reduction of workforce, payment of remaining aid and respect of the five years freeze of production capacity, are issues that the Commission will have to continue to verify in this case.

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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)

ACB continued its operations during the first part of 1998. Total production of marketable products during this period, all acquired by CSI, was 441,242 tons.

Aceralia now holds 66.2% of the capital of ACB.

2. SIDENOR, Spain

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

As for CSI, even if not initially foreseen by the restructuring plan, Sidenor was fully privatized by the end of 1995. Like in previous years since its privatisation, Sidenor obtained positive results in the first part of 1998.

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

Social aid reported during the monitoring exercise was revised by the Spanish authorities, after a complete audit of the figures, to exclude social aid concerning previous restructurings approved under Protocol 10 of the accession of Spain to the EU. Consequently social aid still to be paid to dismissed workers amounts to 13,242 million ptas.

The payment of outstanding social aid will be the only item that the Commission will have to verify after this tenth and last monitoring report for Sidenor.

3. ILVA, Italy

The restructuring plan approved by the Commission in 1993, has been completed and all the conditions : privatisation, reduction of production capacities and reduction of workforce have been respected. Privatized companies ILP and AST are viable and show positive results. Practically all the companies part of the former Ilva Group have been sold.

IRI has fulfilled its obligations as sole shareholder of Ilva in Liquidazione that is to cover Ilva's negative equity. The amount of aid used, once the income received from the sale of ILP and AST are deducted, are lower than the approved aid and are forecast to remain so. However, the arbitration of the dispute between Riva and IRI on the price paid for ILP, is not concluded yet Hopefully, a judgement will be given by the end of this year.

Ilva in Liquidazione has almost completed its own liquidation and after the covering of its negative equity by IRI, made at the end of last year, is in a position to cover its future needs with its own resources. They consist of assets still to be liquidated and debts to be collected Main liabilities are labour costs and possible disbursements due to the outcome of legal disputes still pending.

After this last monitoring report, the Commission will have to verify the respect by ILP and AST of the five years freeze on capacity for crude steel and hot rolled finished products, and to follow the result of the arbitration between Riva and IRI on the price paid for ILP.

4. IRISH STEEL, Ireland

Investments carried out at Irish Ispat up to 30.6.98 are in line with the planned ones. Planned workforce reductions were achieved by the end of 1996.

Reported production and sales for the financial year 1997/98 (from July 1997 to June 1998), are in line with the imposed limitations. Commission services visited Irish Ispat on 22.7.98 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 1998 to June 1998 show a profit for 1.4 million IR£.

This is the sixth of ten monitoring reports on Irish Steel that Commission has the obligation to submit to the Council.

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.*

The decision of the Portuguese government to privatise the operating companies was not foreseen in the initial restructuring plan. Therefore the approach of the authorities to leave the final investment decision to install the electric arc furnace to the new private shareholders of SN Longos has caused a delay of two years. This is mainly due to very complicated rules and procedures concerning privatizations in Portugal. Due to the need to retain the blast furnace in operation, the reduction in the workforce of *SN Servicos* is still behind the plan.

The restructuring can therefore not be considered as being complete before the investment decision regarding the installation of the electric arc furnace is carried out. Although there is currently no indication that the delay will lead to the necessity of further aid to *SN Servicos* 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 ECSC Treaty.

The Commission has therefore decided, applying Article 4(1)(a) of its decision of 12.041994[4], to extend the monitoring period until September 2000.

6. EKO Stahl, Germany

EKO Stahl GmbH was privatized (60%) at the beginning of 1995. The capacity reductions required were implemented by the end of February 1995. The investment plan has been implemented 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 excess amount of 9 mio DM is to be borne by the company. However in the first half of 1998 the company made a profit of 46 mio DM.

7. SEW Freital, Germany

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

4 Decision of 12.04.94 (OJ No L112/94, 3.05.94)

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. This development is caused by the restrictions in productivity related to the technical difficulties in the new hot-rolling mill.

The aid to cover old debts authorized under Article 95 was completely paid by the end of 1996. The final amount is 0.6% lower than authorized by the Commission. The current report for SEW Freital is the final report required.

8. VOEST ALPINE ERZBERG, Austria

Voest Alpine Erzberg is scheduled to cease its production of iron ore by 2002. The Commission authorized operating aid and aid for closure 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 being 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)	239.7 bn Pta° (1486MECU)	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
	° Taking into account the income received for the sale of Aceralia, these amounts become 255.4 bn ptas and 57.3 bn ptas respectively										
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)	11.3 bn Pta (70.0 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 30.6.98.
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	2.293 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	270,09 mio DM = 98.57 %	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	153 mio ÖS = 37,5 %	-	-	-	-	-	-	286	0	pricing in line with decision, first redundancies planned in 1998

Monitoring of Article 95 ECSC steel aid cases
Tenth Report, November 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** : at the end of 1997 see ninth monitoring report)
- 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 (i.e. from 31.12.95 up to the end of year 2000)
- 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 tenth, and last, monitoring report was received from the Spanish authorities on the 15th of September 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 restructuring plan regarding investments, capacity reductions and viability.
- Workforce reduction : dismissal of additional 138 workers; 571 people will have to be dismissed before the end of 1998 to achieve the plan.

Of the above listed conditions, still remain to be fulfilled :

- completion of workforce reductions,
- payment of the approved remaining aid,
- 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 are 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.

2. Investments

With the completion of the reconstruction of blast furnace n° 5 in November 1997, the investment programme, as it was foreseen in the restructuring plan, has been completed. Total amount spent was 100.6 billion ptas. versus 109 billion ptas forecasted.

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.

4. Production

Production of the group for the first halves of the years from 1994 to 1998 was as follows:

(thousands tonnes)

Aceralia Production	1st half 1994	1st half 1995	1st half 1996	1st half 1997	1st half 1998	1st half98/ 1st half 97 (% change)
Liquid Steel	2615	2675	2361	2006	2291	14.21
H. R. Coils	1836	1982	1462	1254	1156	(7.81)
Heavy Plates	295	322	273	281	319	13.52
Wire Rods	208	247	224	220	241	9 55
H. Sections	118	154	112	119	129	8 40

The lower production in liquid steel since 1996 is due to the reductions in capacity production at Sestao and Gijón. Lower production in coils is mainly due to the shut down of the Ansio plant in 1996. First half 1998 production, when annualized, was below plan for coils and long products, as it can be seen in the following table.

(thousands tonnes)

Aceralia Production	1998 Planned	1998 Actual (annualized)	Actual vs. Planned (per cent change)
Liquid Steel	3920	4200	7.15
Hot Rolled Coils	2300	2119	(7.86)
Heavy Plates	550	585	6.33
Long Products	700	679	(3.10)

5. Sales

Reported sales of finished products for the first half 1998 include for the first time the sales of long products made at Aristrain, now part of the Aceralia group. Therefore, in absolute terms they are not comparable with the ones reported in previous years.

Breakdown of sales by market during the first half of 1998 is also affected by the insertion of Aristrain products a larger proportion of which is exported either to the EU or to third countries as it can be detected from the following table.

(in % share of sales)

Markets	1992	1993	1994	1995	1996	1st H. 1997	2nd H. 1997	1st H 1998
Domestic	69.15	63.56	65.80	73.84	69.06	72.11	75 16	70 05
Other E.C.	16.03	15.73	17.40	18.05	18 03	16.57	14.99	17 26
O. Countries	14.82	20.72	16.80	8.11	12 92	11 32	9.84	12 69

The Spanish authorities have also provided average prices charged by Aceralia during the first half of 1998. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

During the first half 1998, Aceralia realized a turnover of 254,526 million Ptas. an increase of 30.6 % over the corresponding period of 1997 Thanks to proportionally lower operating expenses and in spite of higher depreciation, the provisional net results for the first half of 1998 are almost as big as the ones for the entire year 1997, as shown in the following table :

(millions ptas.)

ACERALIA	1995	1996	1997	1st half 1998
Turnover	361675	339366	393806	254526
Cost of Sales	222934	218091	263049	199199
Other operating expenses	63543	80787	81527	11935
Depreciation	22091	27003	30031	19960
Net Operating Result	52835	13406	19199	23432
Financial Charges	2627	(1001)	(609)	1046
Net Results	22864	15579	21572	20584
L/T Debts	15233	19462	14734	61568
S/T Debts	135566	103709	113525	153619

Comparison of first half 1998 annualized figures with the plan figures gives the following results :

(millions ptas.)

	1998 planned	1998 annualized	1998 Annualized vs Plan
Turnover	321007	466631	45.4
Cost of Sales & other operating expenses	263333	365198	38 7
Depreciation	33453	36593	9 4
Net Operating Result	24221	42959	77.4
Financial Charges	7380	1918	(74 0)
Net Results	13742	37737	174 6
L/T & S/T Debts	69965	215187	207 6

As it can be seen, if the same financial performance of the first half is mantained during the second part of the year, 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

No loans has been contracted by Aceralia during the first part of the year 1998.

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

As explained in the last monitoring report, Aceralia has been completely privatized by the end of 1997.

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

All the capacity reductions imposed by the Commission decision have been fulfilled. Details on the production capacities of the various installations are shown in Table I attached to this report.

2. Reduction of Workforce

In the first half of 1998, additional 138 workers were laid off bringing the total workforce reduction since the beginning of the restructuring to 9776 people. In order to accomplish the reduction foreseen by the plan (10347) 571 people more will have to be dismissed by the end of 1998.

Total cost for the workforce reductions during first half of 1998 was 15,830 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 that the companies will pay to the workers dismissed or retired during the elapsed restructuring period will be 205,868 million ptas. of which :

- 112,953 million 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.
- 92,915 million 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 01.01.95	Situation at 31.12.95	Situation at 31.12.96	Situation at 30.06.97	Situation at 31.12.97	Situation at 30.06.98
Fixed assets	8.0	6.9	7.0	6.6	5.8	5.6
Current Assets	19.5	13.8	15.9	12.0	3.6	44.6
Credit with new group	182.4	144.6	120.5	120.5	120.5	0
Total Assets	209.9	165.4	143.4	139.1	129.9	50.2
Equity	(97.3)	(27.8)	(24.7)	(17.3)	(18.8)	(16.9)
Provisions		13.4	9.4	9.4	5.4	5.4
Debts	307.2	179.8	158.7	147.1	143.3	61.7
Total Liabilities	209.9	165.4	143.4	139.1	129.9	50.2

(billions ptas.)

A.H.V.	Situation at 01.01.95	Situation at 31.12.95	Situation at 31.12.96	Situation at 30.06.97	Situation at 31.12.97	Situation at 30.06.98
Fixed assets	79.0	6.8	5.9	5.8	4.7	4.6
Current Assets	44.9	39.5	3.0	2.3	1.3	22.4
Credit with new group	23.6	18.9	15.6	15.6	15.6	0.9
Total Assets	147.5	65.1	24.5	23.7	21.6	27.9
Equity	9.8	(53.7)	(15.0)	(8.4)	(13.5)	(8.6)
Provisions	0.3	2.9	1.4	1.4	1.3	1.3
Debts	137.4	115.9	38.1	30.8	33.8	35.2
Total Liabilities	147.5	65.1	24.5	23.7	21.6	27.9

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. Following the privatisation of Aceralia, these amounts have been revised taking into account the incomes received by SEPI for the sale of the shares and the financial needs of AHV-Ensidesa Capital for the years to come as are now estimated. These changes are reflected in the balance sheets of the two companies.

4. Aid Payments

During the first half of 1998, AHV – Ensidesa Capital has received aid in the amount of 19.8 billion ptas to cover social costs.
On the other hand, from the privatisation of the Aceralia Group, which was not foreseen by the restructuring plan, SEPI received a total of 182.4 billion ptas which can be considered has a reimboursement of part of the aid paid.
Taking this into account, total aid paid is 134.6 billion ptas. These payments have covered capital injections previouly made, social costs and, in part, the capitalisation of the new group.

For memory, the following table summarizes the aid payments up to the end of June 1998 taking into account the described changes :

(billions ptas.)

CSI – Summary of approved aid and payments			
	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	41 1
Total under art. 95	437.8	437.8	239 7
Income from sale of Aceralia		(182.4)	(182 4)
New total under art. 95		255.4	57.3
Social aid under art. 56 ECSC, art. 4.1 SAC and general social measures	196.1	196.1	77.3
Total	633 9	451.5	134.6

Aceria Compacta de Bizkaia

1. Investments

During the first half of 1998, new investments for 536 million ptas. were realized bringing the total investments to 4,679 million ptas., in line with the planned schedule.

2. Financing

No additional financing has to be reported for the first six months of 1998.

3. Ownership

Aceralia has increased its share of the ACB capital from 39.6 % to 66.2 %. New ownership of ACB is now as follows :

SHAREHOLDER	Number of shares	Percentage
Aceralia	1158869	66.2
Sociedad de capital Desarollo de Euskadi, S.A.	175000	10.0
Bilbao Bizkaia Kutxa	156817	9.0
Banco Exterior de España	124496	7.1
Caja de Ahorros de Navarra	50050	2.9
Tuboconsult S.A.	40000	2.3
Ferroatlantica S.L.	18070	1.0
Ingelectric – Team S.A.	17500	1.0
Comercial de Laminados S.A.	9198	0.5
TOTAL	1750000	100.0

4. Production

During the first six months of 1998, ACB produced 441,242 tons of marketable products which have been acquired by Aceralia at market price.

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 30.6.98
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
Tenth Report, November 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 maximum of 7.79 billion pesetas as being compatible with Article 4.1 of the Steel Aids Code.

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

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

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

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

II. Key points from the last monitoring reports

Terms and conditions for new loans – Aid Payments. In order to fully answer the question put by the Commission on the granting of a loan to Acenor during the second half of 1997, as indicated in the last monitoring report, the Spanish authorities went through a complete audit of the social aid paid to redundant workers during the period 1992 – 1998 reported for the monitoring exercise. From this investigation resulted that 12,535 million ptas. of the reported figures,in fact, concerned social aid approved under previous restructurings. Namely the restructurings carried out in 1982 and 1984 and approved under the Protocol 10 of Spain's accession to the EU. Consequently, the amount of social aid paid following the Commission decision under art. 95 ECSC, as well as the ones granted under art. 56 2b ECSC, art. 4.1 SAC and related social general measures, must be corrected to reflect the results of this investigation. Revised figures are shown under « Aid payments » of the Acenor section of this report.

III. The new monitoring report

This tenth monitoring report on Sidenor/Acenor is based on information submitted on 15th of September 1998 in accordance with Commission decision 94/261/ECSC. It covers the period up to 30.6.98.

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 fulfilled :

- 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 completed 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 first half of 1998 and comparison with previous years is summarized as follows :

(thousands tonnes)

Actual Production	1993	1994	1995	1996	1st H 97	1997	1st H 98	1stH98/ 1stH 97 % change
Liquid Steel	480.7	587.1	725.4	675.3	413.2	797.2	492.0	19 09
Special Steels	381.7	489.7	592.4	511.2	332.3	649.7	408.6	22 98
Stainless Steel	19.8	14 9	0.0	0 0	0.0	0 0	0 0	0 0
Forge&Foundry	28.9	36.2	47.2	56.2	31.9	56.7	31 3	(1 81)

Production of liquid steel and special steels during the first part of 1998 scored even better results than the already excellent ones obtained in 1977. Production of forge and foundry products, on the contrary, is levelling off and slightly declining.

5. Sales

Total sales of Sidenor during first half of 1998 were 410.7 thousand tons, 18.7 % higher than corresponding 1997 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	1997	1st H 98
Domestic	53.9	52.0	57.3	57.4	56.9	54.6	54.4
Other EC	40.7	38.7	35.3	38.7	38.0	40.5	41.3
O. Countries	5.5	9.3	7.3	3.9	5.2	5.0	4.3

The breakdown by market does not show major variations during the first half of 1998 compared to previous periods.
The Spanish authorities have also provided average prices charged by Sidenor during the first half of 1998. The Commission examined the information given and concluded that the prices are within the normal range.

6. Financial Performance

The Spanish authorities supplied a full range of financial data and financial ratios covering the period up to 30.6.98. The Commission has analyzed such data, but, in line with what announced in the occasion of the presentation of the seventh monitoring report, the semestrial results of privatized companies, like Sidenor, are not disclosed in the monitoring report any more to avoid undue business disadvantages.

7. Terms and conditions of new loans

No new loans have been obtained by Sidenor during the first half of 1998.

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 30.6.98 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 aid.

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 consist essentially in the payment of social benefits to dismissed people as explained above.

Up to the 30.6.98, the total social payments made by Acenor/Foarsa on behalf of the state amounted to 27,976 million ptas. of which 12,535 million ptas. concerning previous restructurings and 15,441 million ptas. the monitored restructuring plan, as explained above. All these payments have been 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 30.6.98 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	Acenor 30 6.98
Fix assets	0.25	0.64	0.07	0.01	0.01	0 01
Deferred expenses	54.5	49.2	52.62	50.08	65.4	63 0
Current assets	0.26	1.15	1.71	0.14	3 7	2.5
Total assets	55.018	50.98	54.41	50.24	69 2	65.5
Equity	(46.04)	(23.98)	(8.18)	(7.50)	(2.6)	(4.2)
Equity loans	16.15	0.00	0.0	0 0	0 00	0.00
Provisions	41.50	41.25	45.25	42 62	58 4	55.5
L/T Debts	10.29	6.51	12.80	12.80	10 2	10 2
S/T Debts	33.11	27.18	4.54	2.32	3.2	4.1
Total Liabilities	55.01	50.98	54.41	50.24	69.2	65.5

Costs borne during the first six months of 1998 have been covered with the liquidation of current assets and with a minor increase in the S/T indebtedness. Result was a loss for the period of 1.6 billion ptas.

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.
This loan has and will be used to pay social costs. Repayment will be made in five years with the approved aid payments still to be made .
No new loans have been obtained by Acenor since 1996.

4. Aid payment

During the first half of the year 1998, Acenor has not received any further aid payment.

As explained under section II (« Key points from the last monitoring reports «), past aid payments must be revised to allow for the payment of social costs relevant to previous restructurings. Outstanding aid payments, therefore, amount to 13,242 million ptas.

Following table summarizing the aid payments takes into consideration this revision.

Summary of aid payments to SIDENOR		
(in billion ptas)	aid approved	aid payments at 30.6.98
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	19.028
total art. 95 ECSC aid	80.052	
Grand total	122.547	109.305

Monitoring of Article 95 ECSC steel cases
Tenth Report, November 1998

ILVA, Italy

I. Introduction

On 12 April 1994 (Commission Decision 94/259/ECSC) the Commission authorised aids under Article 95 ECSC totalling 4,790 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 tenth monitoring report on ILVA is based on the information submitted by the Italian authorities on 15th September 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 fulfilled 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 up to the end of December 1998 for AST).

ILP

1. Capacity reductions

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

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

2. Investments

ILP Group's investments during the first half of the year 1998 totalled 149 billion Lit. They were utilized to continue the revamping of one of the blast furnaces(21 billion lit.), the continuous casting plant (5 billion Lit), and the hot rolling mills (10 billion Lit) at Taranto., cold rolling and hot coating equipments (40 billion Lit.). Also, out of this total, 59 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 were achieved by the end of 1996 as reported in the seventh monitoring report.
Total ILP's workforce at the end of June 1998 was 17942 people (453 people more than at the end of 1997), including workers at the Cornigliano and Icmi plants in Genoa.

4. Production

Production for the monitored period is summarized and compared with previous period in the following table :

(thousands tonnes)

ILP Production	1994	1995	1996	1st H 1997	1997	1st H 1998	1st H 98 / 1st H 97
Pig Iron	8208	8546	7546	3909	7880	4604	17.8
Liquid Steel	8457	8783	7731	3951	8008	4750	20 2
H. R. Coils	6500	6855	6405	3489	6822	3637	4 2
Plates	1155	1105	1100		1256	594	

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

5. Sales

Sales of finished products during the first half of 1998 totalled 3.9 million tons, about 0 3 % lower than corresponding 1997 sales.

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

(in % share of sales)

Markets	1992	1993	1994	1995	1996	1997	1st H 1998
Domestic	71.8	67.9	68.9	73.1	55.5	59.1	58.1
Other EC	13.9	12.7	15.1	12.4	19.7	25.1	29.1
O. Countries	14.3	19.4	16.0	14.5	24.9	15.8	12.8

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

The Italian authorities supplied a full range of financial data and financial ratios covering the period up to 30.6.98. The Commission has analyzed such data, but, in line with what was announced on the occasion of the presentation of 7th monitoring report, the semestrial results of privatized companies, like ILP, are not disclosed in the monitoring report any more to avoid undue business disadvantages.

7. Terms and condition of new loans

No new loans are reported for the first half of 1998.

8. Privatisations

The last tranche of the base price for ILP for 120 billion Lit., plus interest was 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, has not been settled yet ; expectations are still for a settlement before the end of the year.

Following table (updated 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 30.06.98	Price claimed by IRI	Price claimed by Riva	Price used in last monitoring reports
Base Price	1460	1340	1460	1460	1460
1994 prelim. dividend	585	585	585	405	405
1994 final adjustment	240		240		
1995 adjustment	228		228		
Total Price	2513	2045	2513	1865	1865

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 frozen it waiting for the results of the arbitration. Base price of 460 billion lit was paid to IRI in four tranches as by contract. Therefore, total price already paid is 2045 billion lit.

For reasons of prudence, the Commission is using in all its analyses, since the 8th monitoring report, the figure of 1865 billion Lit. as the price that it will be finally paid by Riva for ILP.

AST

1. Capacity reductions

In accordance with the approved restructuring plan, no capacity reductions have been made during the first half of 1998.

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

2. Investments

Investments during the first six months of 1998 amounted to 25.1 billion lit.
Areas of intervention were the hot strip mill (2.0 billion lit.), the stainless steel plant (9.8 billion lit.) and cold strip mill in Terni (3.3 billion lit.). Remaining investments were divided among various projects in different locations.
Total investments in 1997 were 58.1 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.
At the end of June 1998, workforce of AST was 4108 people, 84 people less than at the end of 1997.

4. Production

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

(thousands tonnes)

	1994	1995	1996	1st H 1997	1997	1st H 1998	1998 / 1997
Liquid Steel	954	1037	1050	627	1193	653	4 2
H. Rolled Coils	970	1077	1049	613	1166	636	3 7
Cold R. Sheets	527	599	608	342	675	377	10.1
Stainless Steel	399	469	478	255	512	295	15 8
S.S. Hot Rolled	60	69	80	33	73	40	21.2
S.S. Cold Rolled	339	401	398	222	439	255	15.0

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

5. Sales

Sales of finished products during the first half of 1998 totalled 568.4 thousands tons, 1.2% above the sales of corresponding period in 1997. Cold rolled stainless steel sales were 250.5 thousands tons, 11.3% above 1997 corresponding sales.

Shares of sales by market show an increase of the share of sales into the domestic market, as shown in the following table :

(in % share of sales)

Markets	1993	1994	1995	1996	1997	1st H 1998
Domestic	60.8	64.7	62.3	61.5	59.0	62.5
Other EC	15.8	15.2	15.6	13.2	18.1	15.4
O. Countries	23.4	20.2	22.1	25.4	22.9	22.0

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

6. Financial Performance

The Italian authorities supplied a full range of financial data and financial ratios covering the period up to 30.6.98. The Commission has analyzed such data, but, in line with what was announced on the occasion of the presentation of seventh monitoring report, the semestrial results of privatized companies, like AST, are not disclosed in the monitoring report any more to avoid undue business disadvantages.

7. Privatisations

As reported in the third monitoring report, the privatisation of AST was finalized on 23.12.94 with the approval of the Commission and the transfer of the share to the new owner. The price finally paid to IRI was 622 billion Lit. (600 billion Lit. contract price - 22 billion Lit. adjustments) plus interest for 60.3 billion Lit.

ILVA in Liquidazione

1. Capacity reductions

Ilva in Liquidazione has performed all capacity reductions 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 June 1998, 383 people were left in the books of Ilva in Liquidazione group of which 193 in « Cassa d'integrazione ».Corresponding figures at the end 1997 were 490 and 277 people.

3. Financial Performance

For the reasons explained in 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 annexed 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.

IRI having covered completely the negative capital of Ilva in Liquidazione at the end of December 1997, the new balance sheet for 1998 shows a zero capital and a negative financial indebtedness for 376 billion Lit.
Tangible and financial assets still to be liquidated amount to 232 billion Lit.; they include 40 billion Lit. of land 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. 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 191 billion Lit.
Provisions to cover costs and risks up to the end of the liquidation amount to 685 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 forecast final balance of the debts to be taken over by IRI at the end of Ilva's liquidation, reduced by the income arising from the sale of ILP, AST and some other subsidiaries and the debts transferred along with their sale,

3. keeping in mind that additional aid to cover social costs for an amount of 163 billion lit. was approved on 14.9.1995 under art. 4.1 of the Steel Aid Code,

the following table provides preliminary estimations of the coverage of Ilva indbtedness until the end of the liquidation process based on the preliminary results at June 30, 1998 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 (622 billion Lit.).

(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	31.12.97 final	30.6.98 prelimin.
1	Total comparable Ilva indebtednss	(10067)	(10889)	(11426)	(11181)	(10473)	(10035)	(10024)
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	0	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	411	381
7	Foreseen disbursements during the liquidation	(645)	(645)	(616)	(590)	(474)	(339)	(324)
8	Expected liquidation costs	(1065)	(1065)	(640)	(376)	(79)	(31)	(30)
9	Total residual Indebtedness	(4140)	(4506)	(3931)	(3510)	(3478)	(3891)	(3870)
10	Var. from plan		366	(209)	(630)	(662)*	(249)*	(246)

* 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 income than planned was expected. In the last column are included the expected payments for the sale of assets as mentioned above when commenting on 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 increases are due to unforeseen expenses or costs incurred Figure in last column is mainly the estimate of the portion of the provisions for risks and liquidation expenses that will be utilized (see Annex I).

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

row (10): Variation from planned residual indebtedness to be covered by aid. It represents 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 differences between the estimated level of residual indebtedness at the end of 1996 and the estimates at the end of 1997 and at the end of 1[st] H 1998 are 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 246 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 provided funds to Ilva in Liquidazione in order to carry out its activities. These funds had 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 received, since 1995, the payments for the sale of ILP and AST which, by contract, were spread over a number of years. These amounts have to be deducted from the funds provided by IRI to Ilva.

Amounts provided and cashed-in by IRI are summarized in the following table (unchanged since last monitoring report):

(in billion lit.)

	1993	1994	1995	1996	1997	1998	Total
Funds provided by IRI	1538	2156	1670	1104	326	0	6794
cumulative total (A)	1538	3694	5364	6468	6794	6794	
Prices cashed-in by IRI for :							
AST	0	0	300	321	1	0	622
ILP	0	0	1685	120	120	120	2045
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 30.6.98 were 4127 billion Lit., net of the incomes already received from the sale of ILP and AST. This amount is still below the approved amount of 4140 billion lit. under art. 95 ECSC (not including the 163 billion lit. approved under SAC).

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 its own means which, according to the data provided by the Italian authorities, will generate a "saving" of aid of 246 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

The privatisation or the sale of shareholdings of all the companies formerly part of the Ilva Group (over 100 companies) is now pratically completed. The only substantial shareholding to be sold is the remaining 20 % in Bagnoli SpA for a value estimated at approximately 10 billion lit. and Vetroresine Tubi Pont St. Martin ; its sale is now under negotiation.

The following table, unchanged since last monitoring report, summarizes all the sales of subsidiaries and shareholdings and shows 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 income from the sale of ILP and AST which were owned and sold directly by IRI.
Total planned expected income was 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 - 1998					
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

ANNEX I

	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 31.12.97 (final)	Balance Sheet at 30.06.98 (preliminary)
1 BALANCE SHEET of ILVA SpA								
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	46
Financial assets	850	1053	1369	1158	555	463	187	186
total	1284	1329	1617	1413	832	650	234	232
Net Working Capital								
Inventories	17	147	136	131	26	19	0	0
Trade accounts receivables	26	517	322	249	649	100	47	21
Trade accounts payables	-1153	-1324	-360	-232	-154	-100	-63	-49
Provisions for contingencies and exp.		-1267	-1583	-1390	-1182	-790	-682	-685
Other activities	-364	628	458	394	248	300	155	170
Other liabilities		-193	-183	-78	-80	-80	-42	-51
total	-1474	-1492	-1210	-926	-493	-551	-585	-594
Severance payments fund (TFR)	-172	-141	-73	-45	-74	-24	-14	-14
Net Invested Capital	-362	-304	334	442	265	75	-365	-376
Covered by :								
Equity	-5477	-5472	-6794	-6799	-6794	-6794	0	0
Net Financial Indebtedness	5115	5169	7128	7241	7059	6869	-365	-376
Total Funds	-362	-303	334	442	265	75	-365	-376
2 CONSOLIDATED INDEBTEDNESS OF ILVA IN LIQUIDAZIONE								
Net Financial indebtedness Ilva s.p.a.	5115	5169	7128	7241	7059	6869	-365	-376
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	-365	-376
Debts of Cogne in Liquidazione	228	291	0	0	0			
Total consolidated indebtedness	6404	6383	7720	7836	7475	6869	-365	-376
3 INDEBTEDNESS AT IRI's CHARGE								
Ilva in Liquidazione	6404	6383	7720	7836	7475	6869	-365	-376
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
				Iri covering of negative capital-------------------->			6794	6794
Total indebtedness at IRI charge	10067	10889	11426	11542	11181	10475	10035	10024
variance from plan		822	1359	1475	1114	408	-32	-43

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

Monitoring of Article 95 ECSC steel aid cases
Tenth Report, November 1998

Irish Steel, Ireland

I. Introduction

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)[5] 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 IR£ £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

[5] 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 sixth monitoring report on Irish Ispat Ltd. (formerly Irish Steel Ltd.) covers the period up to 30.6.98, based on information submitted by the Irish authorities on 15 September 1998 in accordance with the Commission's decision.

Commission representatives visited Irish Ispat on 22.7.98 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 has now been changed to the normal calendar year. Therefore the present report covers the financial year 1998 up to the end of June.
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 programme according to the plan
- economic results for the monitored period showing a profit

The 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 million IR£ over six years, starting from May 1996. Engaged expenditures during the first six months of 1998 were 403,606 IR£. Total investments during the first two years of privatisation are 5.27 million IR£, 12 % behind the planned ones.

Breakdown by year of planned and actual capital expenditures is as follows :

(million IR£)

Years :	96/97	97/98	98/99	99/00	00/01	01/02	Total
Melt Shop	0.65	0.60					1.25
Mill	1.15	1.67					2 82
Central	0.59	0.42					1.01
Others	0.06	0.13					0.19
Total actual	2.45	2.82					5.27
Plan	2.00	4.00	4.40	3.70	3.00	2.90	20.00

Before May 1996, capital expenditures accounted for 1.1 million IR£.
A detailed list of all performed investments was supplied by the Irish Authorities.
These investments were funded from the company's internal resources.

3. Workforce Reductions

Planned workforce reductions were achieved by 31.12.96.
The total number of workers employed by Irish Ispat at the end of June 1998 was 386, 19 workers more since December 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 December 1997 up to the end of June 1998 was 330,098 tonnes. or 10.8 % above the level of production during the corresponding previous period. The production limitation of 350,000 imposed by the decision, has been respected. 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	185	330	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 Jan. 1998 to Jun. 1998, was 193,571 tonnes : production of billets for 1997/98 was 350,055. Production of billets for sale outside the company for the monitored period was 3,183 tonnes and for the total 97/98 period 4,191 tonnes (the limitation laid down by the Commission decision is of 70,000 tonnes).

5. Sales

Sales of finished products in the monitored period totalled 183,503 tonnes compared with total sales in corresponding previous period of 167,329 tonnes (9.7 % higher).

The breakdown of sales by market for the period Jan.98/Jun.98 shows that approximately 98% of sales or 176,377 tonnes went to European markets as defined under the decision (i.e. Community, including domestic market in Ireland, plus Switzerland and Norway); total 97/98 sales to European markets totalled 311,524 tonnes just 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 first half of 1998, was 19,646 tonnes. Total production for sale of these products into the European Community plus Switzerland and Norway during the period 1997/1998 was 30,803 tonnes, 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 first half of 1998, on a turnover of IR£ 41 million, Irish Ispat Ltd. made a net operating loss of IR£ 0.4 million (0.9%). Net final results, however, show a profit for 1.43 million IR£ taking into account gains on exchange rates and by drawing one fifth of the aid received in cash. In fact, this aid is considered as deferred income to be distributed over the five year period to compensate for the non realized gains due to the limitations on production and sales.
A comparison with recent past performance can be seen in the following table:

(million IR£)

	1992/93	1993/94	1994/95	1996	1997	1997 (1st H)	1998 (1st H)
Turnover	58.8	62.3	67.0	59.3	61 4	32 4	41,0
Net Profit/(loss)	(13.0)	(18.8)	(5.8)	(0.4)	(3.8)	(0 4)	1 4
as % of turnover	(22)%	(30)%	(8.7)%	(0.7)%	(6 2)%	(1 2)%	3 4%

7. Terms and conditions of new loans

During the first part of 1998, no new loans were contracted by Irish Ispat.

8. Aids

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

Monitoring of Article 95 ECSC steel aid cases
Tenth Report, November 1998

Siderurgia Nacional, Portugal

I. INTRODUCTION

On 12 April 1994 the Commission approved[6] the following aid to the Portuguese public steel undertaking *Siderurgia Nacional* under Article 95 of the ECSC Treaty:

- a capital injection of PTE 38 billion,[7]
- a debt write-off amounting to PTE 22.12 billion.

This aid was **paid** in 1994 and 1995.

In September 1994 the Commission approved under the Fifth Steel Aid Code:[8]

- PTE 4.925 billion in social aid,
- PTE 1.000 billion in aid for environmental protection.

Social aid amounting to PTE 2.293 billion was paid. The remaining social aid and the environmental aid may still be disbursed.

Authorisation of the aid was subject *inter alia* 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 at Seixal by an electric arc furnace (**outstanding**),
- total workforce to be reduced by 1 798 employees by the end of 1996 (**delayed**),
- level of net financial charges incurred by the companies to be at least 3.5% of turnover (**achieved**: see fourth and fifth monitoring reports).

The outcome of the privatisation process undertaken in 1995 has been explained in previous monitoring reports. The Portuguese State still holds 10% of the shares in *SN Longos* and intends to sell them only once the restructuring plan has been completed, i.e. after the new electric arc furnace has been installed at Seixal.

6 OJ L 112, 3.5.1994, p. 52.

7 PTE 1 billion (10^9) = ECU 4.964 million (1.8.1998).

8 OJ C 390, 31.12.1994, p. 18.

II. KEY POINTS FROM THE LAST MONITORING REPORT

The main issue of concern was the delay in installing the new electric arc furnace at *SN Longos*, which remains a key question to be followed closely.

III. THE NEW MONITORING REPORT

The present report covers developments up to 30 June 1998 on the basis of information provided by the Portuguese Government in its tenth monitoring report, which was submitted, in line with the Commission's request, on 15 September 1998. The liquidation of *SN SGPS* can be considered complete: the committee of liquidators submitted its final report on 13 March. Only a few administrative formalities remain to be settled.

1. CAPACITY REDUCTIONS

The light section mill at 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; the required total capacity reduction of 140 kt/y was therefore achieved in line with the Commission Decision. Since the restructuring of the company, both these plants have belonged to *SN Serviços*. The medium section mill was sold on 9 September 1996 for export to Brazil; a purchaser has not so far been found for the light section mill.

2. INVESTMENTS

(A) *SN LONGOS*

During the first half of 1998 *SN Longos* carried out a number of small investments to modernise its plant. Total investments planned for 1998 will be PTE 1.5 billion, of which PTE 0.520 billion have already been carried out. No capacity increases have resulted from these investments.

Under the initial restructuring plan (*PERG*), the blast furnace was to be replaced by an electric arc furnace by the beginning of 1996. The Portuguese Government's decision to privatise the operating companies immediately, which was not envisaged by the initial restructuring plan, and the approach taken by the authorities of leaving the final investment decision to the new private shareholders in *SN Longos* have led to a two-year delay, chiefly due to the complexity of privatisation rules and procedures in Portugal.

During the discussions it held with the Portuguese authorities for the purposes of preparing the ninth monitoring report, the Commission again asked to be kept regularly informed of the different steps that were to be taken to complete this investment. When the derogation was granted under Article 95 of the ECSC Treaty, replacement of the blast furnace by an electric arc furnace was regarded, in the light of an expert report, as a key feature of the necessary industrial restructuring of *Siderurgia Nacional*. The restructuring cannot therefore be regarded as complete until that investment has been carried out. Although there is currently no indication that the delay will make it necessary to grant further aid to *SN Serviços*, the Commission has 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 has therefore decided, in pursuance of Article 4(1) of its Decision of 12 April 1994,[9] to extend the monitoring period until 15 September 2000.

(B) ***LUSOSIDER***

In line with its investment plan, *Lusosider* is to make investments amounting to PTE 1.4 billion in 1998, of which PTE 0.533 billion were carried out in the first half of the year. These investments did not lead to any increase in capacity.

(C) **SN SERVIÇOS**

In view of the forthcoming closure of the blast furnace, *SN Serviços* did not make any significant investment.

9 OJ L 112, 3.5.1994, p. 52.

3. EVOLUTION OF WORKFORCE

Reduction of the workforce is still lagging behind the initial plan. This delay affects only *SN Serviços* and will therefore have no impact on the viability of the privatised companies. The 447 workers still kept on by *SN Serviços* are necessary to operate 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 to be installed by *SN Longos* at Seixal enters into operation. Allowing for this factor, the delay in implementing the initial plan concerned 147 workers as at the end of 1998. The following tables show the evolution of the workforce and the forecasts:

	1992	1993	1994	1995	1996
Privatised 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 Serviços	(a)	(a)	1423	1216	1204
SN SGPS	(a)	(a)	36	25	(b) 7
SN Serviços + SN SGPS	**(a)**	**(a)**	**1459**	**1241**	**1211**
Actual figures					
Total workforce	3208	3015	2777	2590	2236
Reduction per year	-	193	238	187	354
Comparison with plan					
Planned total workforce	3208	2925	2380	1682	1410
Deviation without delay in replacing blast furnace	-	90	397	461	379
Deviation from plan	-	90	397	908	826

(End-of-year figures)
(a) Before restructuring.
(b) In liquidation.

1997 and forecasts for the period 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
Planned total workforce	1410	1410	-	1410
Deviation without delay in replacing blast furnace	146	- 117	-	-
Deviation from plan	593	330	-	- 502

(a) Owing to unforeseen circumstances there is currently no forecast for the end of 1999.
(b) Expected reductions during the years 1999 and 2000.

SN Longos is likely to increase its workforce once the new electric arc furnace is put into service, so that the total workforce of the privatised companies will increase slightly after the closure of the blast furnace. The initial target of 1 410 employees set by the restructuring plan is expected to be achieved during 1999, after closure of the blast furnace. A further reduction in the workforce, also resulting from the plan for restructuring the Portuguese steel industry (*PERG*), is foreseen in the year 2000. The final total workforce of the companies succeeding the old *Siderurgia Nacional* is expected to be 500 lower than initially planned.

SN Serviços is keeping up its efforts to reduce its workforce:

- the negotiated redundancies scheme is continuing and is now offering more advantageous conditions than at the outset;
- special incentives and support measures are offered to workers wishing to set up their own business;
- training is offered in areas such as motor mechanics, catering and civil construction, to prepare redundant workers for alternative employment;
- an office has been set up to help employees find a new job, in particular by contacting potential employers.

Financing of redundancies

	Nature	Number of workers	Art 56 ECSC	State (Art 56 ECSC)	Company[1]	Total
			Costs in PTE million			
1993	Early retirement	138	52.8	52.8	-	105.6
	Redundancy[2]	28	17.1	17.1	8.3	42.5
	Other	27	-	-	-	-
	Total	**193**	**69.9**	**69.9**	**8.3**	**148.1**
1994	Early retirement	111	43.6	43.6	0	87.2
	Redundancy[2]	114	67.3	67.3	245.0	379.6
	Other	20	0	0	0	0
	Total[3]	**245**	**110.9**	**110.9**	**245.0**	**466.8**
1995	Early retirement	133	52.0	52.0	34 3	138.3
	Redundancy[2]	51	29.7	29.7	136 9	196.3
	Other	11	-	-	-	-
	Total[3]	**195**	**81.7**	**81.7**	**171.2**	**334.6**
1996	Early retirement	128	26	26	-	52
	Redundancy[2]	249	152	152	596	900
	Other	9	-	-	-	-
	Total[3]	**386**	**178**	**178**	**596**	**952**
1997	Early retirement	140	25.8	26.3	1.5	53.6
	Redundancy[2]	119	23.4	23.4	1086.2	1133
	Other	20	-	-	-	-
	Total[3]	**279**	**49.2**	**49.7**	**1087.7**	**1186.6**
1st half 1998	Early retirement	70	14.1	14.1	-	28.2
	Redundancy[2]	70	14.2	14.2	658 9	687.3
	Other	5	-	-		
	Total[3]	**145**	**28.3**	**28.3**	**658.9**	**715.5**
Total		**1443**	**518.0**	**518.5**	**2761.1**	**3803.6**

1 In accordance with Article 4(1) of the Fifth Steel Aid Code, a contribution from the State defrays 50% of these costs.

2 Through mutual agreement (negotiated redundancy).

3 These figures do not correspond to the net reduction in the workforce given in the previous table because the companies have hired some new employees.

In the first half of 1998 PTE 43 million in social aid authorised under Article 4 of the Fifth Steel Aid Code was disbursed.

4. PRODUCTION

Evolution of production

(thousand tonnes)	1997	1st half 1997	1st half 1998
Crude steel	879.1	410.1	483.5
Finished products *SN Longos*	790.8	375.4	402.3
Finished products *Lusosider*	226.0	116.7	125.1

Evolution of annual production

(thousand tonnes)	1993	1994	1995	1996	1997
Total crude steel	**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 in 1998

First half of 1998

(thousand tonnes)	JAN	FEB	MARCH	APRIL	MAY	JUNE	TOTAL
Crude steel							
SN Serviços	44.4	37.2	42.0	38.7	26.8	39.5	228.6
SN Longos	35.7	47.1	49.4	34.5	45.2	43.0	254.9
SN Longos	69.2	74.2	84.3	40.0	68.3	66.3	402.3
Lusosider							
Cold rolled sheet	2.6	1.8	2.1	2.5	2.1	1.6	12.7
Galvanised sheet	11.2	11.8	13.1	13.3	11.1	13.0	73.5
Tinplate	5.1	6.6	6.2	7.5	7.3	6.4	39.1
Total flat products	18.9	20.2	21.4	23.3	20.5	21.0	125.3

Comparison of first-half figures

(thousand tonnes)	1st half 1998	1st half 1997	Change
Crude steel			
SN Serviços	228.6	236.8	- 3.5%
SN Longos	254.9	173.3	+ 47.0%
SN Longos	402.3	375.4	+ 7.2%
Lusosider			
Cold rolled sheet	12.7	25.2	- 49.7%
Galvanised sheet	73.5	56.6	+ 29.9%
Tinplate	39.1	34.9	+ 12.0 %
Total flat products	125.3	116.7	+ 7.4 %

The above figures reflect an overall increase in the output of finished products of around 7.4%.

5. SALES

Sales in 1997 by product category

	Portugal		EU 14		Third 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
- Galvanised sheet	47.9	44.3	37.2	34.4	23.1	21.3	108.2
- Tinplate	34.3	45.9	38.2	51.0	2.3	3.1	74.8
Total flat products	**121.6**	**52.6**	**84.2**	**36.4**	**25.4**	**11.0**	**231.2**

Sales in the first half of 1997 by product category

	Portugal		EU 14		Third countries		Total
	kt	%	kt	%	kt	%	kt
SN Serviços							
- Billets	198.7	84.2	21.8	9.3	15.4	6.5	235.9
SN Longos							
- Rebars	367.3	99.1	3.2	0.9	-	-	370.5
- Wire rod	26.9	49.5	27.4	50.5			54.3
- Sections							
Total long products	**394.2**	**92.8**	**30.6**	**7.2**			**424.8**
Lusosider							
- Cold rolled sheet	21.3	84.2	4.0	15.8			25.3
- Galvanised sheet	27.0	46.9	20.4	35.4	10.2	17.7	57.6
- Tinplate	17.4	42.9	21.7	53.6	1.4	3.5	40.5
Total flat products	**65.7**	**53.2**	**46.1**	**37.4**	**11.6**	**9.4**	**123.4**

Sales in the first half of 1998 by product category

	Portugal		EU 14		Third countries		Total
	kt	%	kt	%	kt	%	kt
SN Serviços							
- Billets	148.1	81	29.2	16	5.3	3	182.6
SN Longos							
- Rebars	334.4	98	12.3	2			346.7
- Wire rod	34.4	41	47.8	59			82.2
Total long products	**368.8**	**86**	**60.1**	**14**			**428.9**
Lusosider							
- Cold rolled sheet	11.2	90	1.2	10	0.0		12.4
- Galvanised sheet	30.6	44	31.3	45	7.2	11	69.1
- Tinplate	20.2	56	16.9	42	0.7	2	37.8
Total flat products	**62.0**	**52**	**49.4**	**41**	**7.9**	**7**	**119.3**

Evolution in the first half of 1998 as compared with the first half of 1997

	Portugal	EU 14	Third countries	Total
SN Serviços	- 25.5	+ 33.9	- 65.6	- 22.6
SN Longos	- 6.4	+ 96.4	-	+1.0
Lusosider	- 5.6	+ 7.2	- 31.9	- 3.3

Comparison between the first half of 1998 and the first half of 1997

		1st half of 1998	1st half of 1997
SN Serviços	Portugal	81 %	84 %
	EU 14	16 %	9 %
	Third countries	3 %	7 %
SN Longos	Portugal	86 %	93 %
	EU 14	14 %	7 %
	Third countries	0.0%	0.0 %
Lusosider	Portugal	52%	53 %
	EU 14	41%	37%
	Third countries	7%	10 %

The sales of billets on the Portuguese market by *SN Serviços* go exclusively to *SN Longos*. The average prices achieved by the different product groups were given in the monitoring report. The Commission has 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 set of financial data and financial ratios in line with the Annex to the Commission's Decision.

(A) *SN Serviços*

(PTE million)	1997	30 June 1998*	30 June 1997
Sales and services performed	24 044	9 855	11 028
Other income	31	16	12
Cost of sales	14 389	7 231	6 885
Personnel costs	4 280	2 163	2 173
Depreciation + provisions	1 161	657	688
Net financial charges	807	102	436
Other costs	4 291	2 062	1 846
Operating result	6	-168	- 592
Gross profit	509	- 163	- 583

* Provisional figures.

The positive development in 1997, with the company returning a profit, was achieved thanks to higher market prices for billets, lower costs for primary products and improvements in the internal organisation of *SN Serviços*. Performance in the first half of the year confirms this positive trend.

7. Aid

The aid authorised under Article 95 of the ECSC Treaty (see above I.1) has been paid in six instalments between March 1994 and June 1995 as explained in the fourth monitoring report. The aid approved under Article 3 of the Fifth Steel Aid Code has not so far been paid. The use of the social aid approved 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

Tenth Report, November 1998

EKO Stahl GmbH, Germany

I. INTRODUCTION

On 21 December 1994 the Commission authorised[10] the following state aid to *EKO Stahl GmbH* under Article 95 of the ECSC Treaty:

- DEM 362.6 million[11] for compensation of losses accumulated before privatisation,
- DEM 220 million for compensation of losses during the restructuring period,
- DEM 314 million for investments and repairs,
- DEM 4.02 million 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 was limited to DEM 100 million per year over the period 1995-97. The total amount authorised was used up to the end of 1997.

On 21 December 1994 the Commission further approved[12] regional investment aid of DEM 385 million under Article 5 of the Fifth Steel Aid Code.

Authorisation of the aid was subject *inter alia* 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**),
- a total capacity reduction in eastern Germany between 1 July 1990 and 31 December 1996 of at least 10%, excluding the capacity reductions at 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 to reach a capacity of 900 kt/y by the end of 1997 and to be kept at that level until the end of February 2000 (**achieved**, see III.1),
- the output of the new hot-rolling mill to be used only for further processing in the company's own cold-rolling facilities (so far **observed**),

10 OJ L 386, 31.12.1994, p. 18.

11 DEM 1 million = ECU 508 065.54 (1.8.1998).

12 OJ C 18, 17.1.1997, p. 7.

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

II. KEY POINTS FROM THE LAST MONITORING REPORT

During the period covered by the ninth monitoring report, the main developments at *EKO Stahl* were the entry into service of the new blast furnace No 5 A in August. The startup tests on the new hot-rolling mill were completed and the facilities accepted and put into service for the first time on 22 July 1997. Losses amounted to some DEM 109 million in 1997, to which the BvS contrilbuted DEM 100 million.

III. THE NEW MONITORING REPORT

The present report covers developments up to 30 June 1998 on the basis of the information provided by the German Government in its seventh monitoring report on the new privatisation and restructuring plan being implemented with the participation of *Cockerill Sambre S.A.* The report was submitted, in line with the Commission's request, on 15 September 1998.

EKO Stahl made a profit of DEM 46 million in the first half of 1998. Contracts concluded for the third quarter and particularly for the fourth quarter of the year indicate a slackening of demand for semi-finished products on the European and American markets and for cold-rolled thin sheet. For surface-treated products, demand is expected to stabilise in the third quarter at a high level.

Hot-rolled strip produced in the new hot-rolling mill is used exclusively in the cold-rolling mill.

The upward trend in the company's performance observed in the first half of 1998 is not likely to be kept up in the second half of the year because of changing market conditions. The company can nevertheless be expected to return a profit for the year as a whole.

1. INVESTMENTS

The investment programme of *EKO Stahl* has been implemented according to plan. By the end of June 1998, 99.3% of the orders had been given out. Only a few minor investments have to be carried out in the second half of 1998 in order to complete the facilities.

Commissioning tests on the new hot-rolling mill have been completed and the facilities were accepted by *EKO Stahl* in February 1998.

As part of the modernisation of the cold-rolling mill, technical improvements have been made to the galvanising line, and a new roll-texturing plant and a new cross-rolling unit have been put into service.

The restructuring of *EKO Stahl* and its transformation into an integrated steelmaking and rolling plant has been successfully completed, thereby creating the technical conditions for a return to economic viability from 1998 onwards.

During the first half of 1998 investments amounting to DEM 42.8 million were carried out. Since the beginning of 1995, a total of DEM 1 060.8 million has been spent on investments. Orders given out amounted to DEM 1 092.8 million by the end of June 1998, representing 99.8% of the total investment programme of DEM 1.1 billion.

The following tables show the details of the revised plan and its implementation since the beginning of 1995:

Investments (first half of 1998)

(DEM million)	Total (plan)	Plan 1998	Orders given	Investments made
Modernisation of sinter facilities*	66.4	0.8	0.0	0.6
Construction of blast furnace*	294.7	20.5	7.6	15.6
New hot-rolling mill	630.9	40.4	7.9	12.3
Modernisation of cold-rolling mill	108.0	20.3	3.7	14.3
TOTAL	**1100.0**	**82.0**	**19.2**	**42.8**

* Revised budget: + DEM 3.5 million for the sinter facilities; - DEM 3.5 million for the blast furnace.

Investments (second half of 1997)

(DEM million)	Total (plan)	Plan 1997	Orders given	Investments made
Modernisation 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
Modernisation of cold-rolling mill	108.0	43.2	5.0	13.1
TOTAL	**1100.0**	**556.3**	**64.8**	**244.9**

* Revised budget: + DEM 3.5 million for the sinter facilities; - DEM 3.5 million for the blast furnace.

Investments (1997)

(DEM million)	Total (plan)	Plan 1997	Orders given	Investments made
Modernisation 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
Modernisation of cold-rolling mill	108.0	43.2	10.7	22.9
TOTAL	**1100.0**	**556.3**	**148.9**	**474.3**

Investments (1995 – 30 June 1998)

(DEM million)	Total (plan)	1995-1998 (plan)	Orders given	Investments made
Modernisation of sinter facilities	66.4	66.4	66.4	66.2
Construction of blast furnace	294.7	294.7	294.4	289.8
New hot-rolling mill	630.9	630.9	624.9	602.8
Modernisation of cold-rolling mill	108.0	108.0	107.1	102.0
TOTAL	**1100.0**	**1100.0**	**1092.8**	**1060.8**

Investments (1995 – 1998)

(DEM million)	1995	1996	1997	1998 (1st half)	1998 (plan 2nd half)	1995 – 1998
Modernisation of sinter facilities	2.5	30.6	32.5	0.6	0.2	66.4
Construction of blast furnace	18.0	126.7	129.5	15.6	4.9	294.7
New hot-rolling mill	84.7	216.4	289.4	12.3	28.1	630.9
Modernisation of cold-rolling mill	25.0	39.8	22.9	14.3	6.0	108.0
TOTAL	**130.2**	**413.5**	**474.3**	**42.8**	**39.2**	**1100.0**

2. CAPACITY LIMITATION

Limitation of the capacity of the new hot-rolling mill to 900 kt/y up until the end of February 2000 and thereafter to 1.5 million t/y up until the end of February 2005 is guaranteed by an electronic device that makes it technically impossible to exceed those ceilings. This technical solution was accepted in principle by the Commission in early 1996. For further details on the system, see the fifth monitoring report. The system was put into service in November 1997, at the beginning of the second phase of rolling-mill trials; it has operated reliably and provided proof of the quantities produced.

3. EVOLUTION OF WORKFORCE

As at 1 July 1998, *EKO Stahl GmbH* had 2 820 employees (including trainees), the same number as on 1 January 1998.

The number of trainees fell from 171 to 127 as traineeship contracts came to an end. New trainees will be hired in the autumn of 1998, when a new traineeship period begins.

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
1.7.1998	2693	127	2820

4. Production, Sales, Turnover

First and second halves of 1997

	Production (kt)		Sales (kt)		Turnover (DEM million)	
	1st half 1997	2nd half 1997	1st half 1997	2nd half 1997	1st half 1997	2nd half 1997
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 wide strip	0.0	293.0	0.0	0.0	0.0	0.0
Cold-rolled strip	22.9	25.5	24.1	21.5	14.7	14.2
Cold-rolled thin sheet	339.6	364.0	345.3	346.1	244.0	253.2
Electrical sheet	16.6	19.6	17.3	18.7	13.6	14.9
Galvanised thin sheet	137.2	125.3	139.4	131.7	120.2	121.8
Coated thin sheet	49.6	54.5	47.1	56.9	55.6	68.6
Total finished cold-rolled products	**565.9**	**588.9**	**573.2**	**574.9**	**448.1**	**472.7**
Miscellaneous					40.1	54.7
Total turnover					**747.7**	**803.5**

Second half of 1997 and first half of 1998

	Production (kt)		Sales (kt)		Turnover (DEM million)	
	2nd half 1997	1st half 1998	2nd half 1997	1st half 1998	2nd half 1997	1st half 1998
Pig iron	938.8	983.8	0.3	0.6	0 1	0.2
Slabs	1.051.4	1094.4	652.1	503.4	276.0	234.3
Hot-rolled wide strip	293.0	570.2	0.0	0.0	0.0	0.0
Cold-rolled strip	25.5	20.2	21.5	23.2	14.2	16.8
Cold-rolled thin sheet	364.0	400.8	346.1	393.3	253.2	302.4
Electrical sheet	19.6	21.9	18.7	21.9	14.9	18.7
Galvanised thin sheet	125.3	142.4	131.7	139.3	121.8	139.1
Coated thin sheet	54.5	53.7	56.9	53.0	68 6	71.6
Total finished cold-rolled products	**588.9**	**639.0**	**574.9**	**630.7**	**472.7**	**548.6**
Miscellaneous					54.7	66.7
Total turnover					**803.5**	**849.8**

5. Sales and markets

Sales of finished products in the first half of 1998

(DEM million)	1st quarter	2nd quarter	Total
Germany	165.9	177.8	343.7
Exports (total)	98.4	106.6	204.9
EU 14	71.7	73.9	145.6
Eastern Europe	26.6	32.7	59.2
Other countries	0.1	0.0	0.1
TOTAL	264.3	284.3	548.6

Comparison of sales in the first half of 1997 and the first half of 1998

(DEM million)	1st half 1997	1st half 1998	Percentage change
Germany	317.6	343.7	8.2
Exports (total)	130.5	204.9	57.0
EU 14	95.8	145.6	52.0
Eastern Europe	32.8	59.2	80.5
Other countries	1.9	0.1	-94 7
TOTAL	448.1	548.6	22.4

Increased demand for flat products resulted in full capacity utilisation across the entire product range and led to a 9% increase in output from the cold-rolling mill in comparison with the second half of 1997. Strong growth has been achieved, particularly in deliveries of flat products for the motor industry.

Owing to the 36% increase in exports, turnover rose by 16% on the second half of 1997.

Following a check on its quality management system by Lloyds Register Quality Assurance, the company's certification was extended to cover the special quality requirements of the motor industry.

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

6. FINANCIAL PERFORMANCE

The German authorities provided a full set of financial data and financial ratios in line with the Annex to the Commission Decision of 21 December 1994.

(DEM million)	1994	1995	1996	1997*	Plan* 1998	1st half 1998
Turnover	1 092	1 440	1 483	1 551	1 589	850
Gross margin	80	138	119	135	134	56
Depreciation	25	34	42	73	86	46
Net operating result	- 17	21	- 98	- 76	52	63
Net financial charges	29	21	27	34	42	17
Net result	- 48	2	- 124	- 109	9	46

* Provisional figures.

The turnover of DEM 850 million in the first half of 1998 is higher than the company's internal forecast. Although sales of semi-finished products were down on the previous year, as a result of a fall in in-house requirements, turnover was higher than in the second half of 1997 and than expected in the business plan.

The business upturn during the first half-year was also underpinned by stable market prices for flat steel and semi-finished products and led to a net profit of DEM 46 million.

The improvement on the previous year's performance can chiefly be ascribed to the completion of restructuring, the clear increase in prices and the impact of the rationalisation measures taken under the profitability optimisation programme.

7. AID

The aid authorised by the Commission under Article 95 of the ECSC Treaty and Article 5 of the Fifth Steel Aid Code was granted by the end of 1994 in the manner explained in the third monitoring report. The BvS and the *Land* of Brandenburg instructed independent chartered accountants to check that the funds were used in accordance with contractual obligations. The obligations attached to the Commission Decision were written into the contract.

The regular reports of the independent financial expert group are submitted to the Commission so that it can monitor the proper use of the aid in line with its Decision. The quarterly reports Nos 1 to 12, covering the period from 1 January 1995 to

30 June 1997, have been examined and discussed with the German authorities. The Commission did not make any particular comments.

The aim of the expert reports is *inter alia* to check that the investment aid granted by the THA/BvS is used in accordance with the privatisation plan. 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 authorised aid up to the end of 1997:

(DEM million)	Authorised	1994	1995	1996	1997	1st half 1998	Total
Compensation of losses up to end 1994	362.60	362.60	0.0	0.0	0.0	0.0	362.60
Compensation of losses 1995-1997	220.00	0.00	[1] 20.0	100.0	100.0	0 0	220.00
BvS contribution to investments	275.00		32.6	103.0	118.6	10 7	264.90
BvS contribution to repair and maintenance[2]	39.00	0.00	0.3	16.7	22.0	0.0	39.00
Aid element of guarantee[3]	4.02	4.02	0.0	0.0	0.0	0.0	4.02
Total aid under Article 95 ECSC	**900.62**	**366.62**	**52.9**	**219.7**	**240.6**	**-10.7**	**890.52**
Regional investment aid	380.00	0.00	45.0	142.3	163.9	14.8	366.00
Investment allowance	5.00	0.00	5.0	0.0	0.0	0.0	5.00

1 Calculated losses relate to the purchase of the hot-rolling mill from HES (see Article 1(2) of the Commission Decision of 21 December 1994).

2 Of which DEM 33 million cover the cost of a new sinter strand to replace one of the two old sinter strands that were initially to be repaired.

3 The aid element of the THA/BvS guarantee, which covers a DEM 60 million loan for financing modernisation of the cold-rolling mill, was calculated on the basis of a three-year period of validity. *EKO Stahl* consequently refinanced the loan on 31 December 1997, thereby terminating the guarantee.

One of *EKO Stahl*'s contractual obligations is to pay interest to the BvS on the amounts received until they are effectively spent for the contractual purposes, so as to avoid the aid exceeding the maximum amount authorised by the Commission. In order to comply with that obligation the company instructed the bank managing the separate accounts into which the aid is paid to transfer automatically to the BvS the interest received on maturing time deposits. During the first half of 1998, the BvS received DEM 0.387 million interest.

Monitoring of Article 95 ECSC steel aid cases
Tenth Report, November 1998

SEW Freital GmbH, Germany

I. INTRODUCTION

On 12 April 1994 the Commission decided,[13] under Article 95 of the ECSC Treaty, to allow aid totalling DEM 274 million[14] to be granted to *Sächsische Edelstahlwerke GmbH* at Freital, Saxony. It further approved, under Article 5 of the Fifth Steel Aid Code,[15] regional investment aid totalling DEM 60.6 million, an ERP loan and a Federal/*Land* guarantee covering 80% of an investment loan of DEM 100.8 million. Regional investment aid totalling DEM 11.6 million for investments relating to the non-ECSC activities of the company was approved under general aid schemes.[16] The aid was **paid**, except for a small portion of social aid which may still be disbursed.

Authorisation of the aid was subject *inter alia* to the following conditions:

- reduction of the company's hot-rolling capacity from 340 kt/y to 180 kt/y by the end of 1996 (**achieved**),
- reduction of crude steel production capacity from 300 kt/y to 200 kt/y by the end of 1996 (**achieved**),
- replacement of the old electric arc furnaces by a new furnace (**achieved**),
- no increase in the remaining capacity, other than through improvements in productivity, until the end of the year 2000 (so far **observed**),
- the level of net financial charges incurred by the company to be at least 3.5% of turnover (**achieved**, see the third monitoring report).

II. KEY POINTS FROM THE LAST MONITORING REPORT

The eighth report noted that technical constraints were limiting productivity of the new hot-rolling mill. This issue remains a major point of concern owing to its negative impact on the viability of the company. The ninth report explained the measures taken with a view to achieving the planned level of productivity.

13 OJ L 112, 3.5.1994, p. 71.

14 DEM 1 million = ECU 508 065.54 (1.8.1998).

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

16 OJ C 302, 9.11.1993, p. 6; OJ C 401, 31.12.1994, p. 10.

III. THE NEW MONITORING REPORT

The present report covers developments up to 30 June 1998 on the basis of information provided by the German Government in its tenth monitoring report, which was submitted, in line with the Commission's request, on 15 September 1998.

1. CAPACITY

In its Decision authorising the aid under Article 95 of the ECSC Treaty, the Commission required the hot-rolling capacity of *SEW Freital* to be reduced by 160 kt/y. That goal was achieved as stated in the seventh monitoring report.

The Commission further required that crude steel production capacity be reduced by 100 kt/y from 300 kt/y to 200 kt/y. One of the old electric arc furnaces with a capacity of 145 kt/y was kept in service until August 1997. Preparatory work for the installation of the new furnace (foundations and infrastructure) began in early 1997. By the summer of 1997, the old furnace had been dismantled and the new one set in place. The new furnace was brought into service at the end of September 1997. This marks the end of the investment programme for restructuring the company which began in 1993.

2. INVESTMENTS

The following investments were made up to 30 June 1998:

(DEM million)	Investments carried out as at 30 June 1997		Plan	
Installations	Total	ECSC	Total	ECSC
Crude steel production	48	45	48	45
Rolling and forging facilities	110	107	90	80
Reheating and finishing facilities	48	40	67	65
Environment, infrastructure, administration and marketing (Freital)	40	38	42	40
Polished steel production, pickling and abrading installations (Lugau)	21	0		
Wire drawing 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 issued by the rolling-mill suppliers also covered some infrastructure installations that were included in the plan under other items.

The investments were financed as follows:

(DEM million)	Total	of which investments in ECSC-related installations
Own capital after increase of equity	10.00	10.00
Shareholder loans	13.66	13.66
Loans by suppliers, company-manufactured assets	64.14	52.16
Bank loans	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	1998
Number of employees	1123	1061	1085	866	847	844

Financing of redundancies

(DEM thousand as at 30 June)	1993	1994	1995	1996	1997	30.6.1998	1993 – 30.6.98
THA/BvS contribution							
General	6 955	405	1 026	442	59	140	9 027
Management	1 595						1 595
Miscellaneous	4 000						4 000
Redeployment company	731						731
Total THA/BVS	13 281	405	1 026	442	59	140	15 353
Article 56 ECSC	1 164	144	505				1 813
SEW Freital	41	239	3 806	1 405			5 491
Total costs	**14 486**	**788**	**5 337**	**1 847**	**59**	**140**	**22 657**

The Commission approved aid from the THA up to a maximum of DEM 34 million to cover the costs of redundancies. This includes payments totalling DEM 15.974 million already disbursed by the THA before privatisation to cover redundancy costs. In 1998 the BvS had to pay DEM 10 000 for retirement pensions and DEM 130 000 for redundancy costs in line with the privatisation plan. It is highly unlikely that it will have to make any more payments.

The total contribution made by the THA towards covering redundancy costs, including payments before privatisation, therefore now stands at DEM 31.33 million, which is DEM 2.67 million less than the amount authorised.

4. PRODUCTION, SALES AND MARKETS

1997

(tonnes)	Production	Sales	Germany	Rest of EU	Third countries
Crude steel	55 854	8 801	8 801	-	-
Semi-finished products	25 800	5 344	4 834	456	54
Merchant bars, wire rod	29 572	30 477	28 501	1 787	189
Forgings	3 882	3 412	3 001	344	40
Polished drawn steel (Lugau)	7 880	8 091	7 015	354	722

First half of 1997

(tonnes)	Production	Sales	Germany	Rest of EU	Third countries
Crude steel	28 424	3 565	3 565	0	0
Semi-finished products	15 390	2 740	2 466	220	54
Merchant bars, wire rod	18 599	15 216	14 270	757	189
Forgings	2 042	1 696	1 473	156	40
Polished drawn steel (Lugau)	4 005	4 352	3 716	163	473

Second half of 1997

(tonnes)	Production	Sales	Germany	Rest of EU	Third countries
Crude steel	27 430	5 236	5 236	-	-
Semi-finished products	10 410	2 604	2 368	236	-
Merchant bars, wire rod	10 973	15 261	14 231	1 030	-
Forgings	1 840	1 716	1 528	188	-
Polished drawn steel (Lugau)	3 875	3 739	3 299	191	249

First half of 1998

(tonnes)	Production	Sales	Germany	Rest of EU	Third countries
Crude steel	38 949	8 577	8 577	-	-
Semi-finished products	20 404	4 896	4 388	508	-
Merchant bars, wire rod	18 047	19 089	18 012	1 077	-
Forgings	3 272	1 781	1 514	267	-
Polished drawn steel (Lugau)	4 899	4 837	4 075	279	483

Comparison of production in the first half of 1998 and the second half of 1997

(tonnes)	1st half 1998	2nd half 1997	% change
Crude steel	38 949	27 430	+42
Semi-finished products	20 404	10 410	+96
Merchant bars, wire rod	18 047	10 973	+64
Forgings	3 272	1 840	+78
Polished drawn steel (Lugau)	4 899	3 875	+26

Comparison of production in the first half of 1998 and the first half of 1997

(tonnes)	1st half 1998	1st half 1997	% change
Crude steel	38 949	28 424	+37
Semi-finished products	20 404	15 390	+33
Merchant bars, wire rod	18 047	18 599	-3
Forgings	3 272	2 042	+60
Polished drawn steel (Lugau)	4 899	4 005	+22

The average prices achieved by the different product groups were given in the monitoring report. The Commission has compared these prices with the average market prices 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 1998. The main reason for the delay in rectifying manufacturing defects is the dispute with the supplier, which is undergoing bankruptcy (*Gesamtvollstreckung*) proceedings. Repairs are to be carried out in three phases: the first in August 1998, the second in December 1998 and the third in February 1999.

The management is confident that these measures will allow the company to achieve the initially planned capacity level during the first quarter of 1999 and will enable it to return a profit.

5. FINANCIAL PERFORMANCE

The German authorities provided a full set of financial data and financial ratios in line with the Annex to the Commission Decision of 21 December 1994.

(DEM million)	1994	1995	1996	1997	30.6.1998
Turnover	109.1	178.8	150.2	150.4	97.0
Total result**	138.4	207.2	164.5	182.2	102.8
Total cost of sales***	126.1	181.9	150.6	163.5	94.8
Depreciation	14.0	19.7	28.0	24.8	12.6
Net operating result	- 4.3	0.1	- 18.8	-10.2	-7.4
Short- and long-term debt.	49.8	149.9	149.8	126.6	129.6

** Turnover plus increase in stocks plus work on own account plus miscellaneous income.
*** Cost of sales plus personnel costs.

In the first half of 1998, the company increased its output but did not achieve its target as a result of the technical problems outlined above.

6. AID

The following table gives an overview of the aid granted:

(DEM million)	Authorised	Granted
Loans waived (bank cash advances)		72.52
Loans waived (THA loans)		52 77
Total loans waived	147.00	125.29
Covering of suppliers' claims	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	31.33
Total	**274.00**	**270.09**

Monitoring of Article 95 ECSC steel aid cases
Tenth Report, November 1998

Voest Alpine Erzberg GmbH, Austria

I. INTRODUCTION

On 29 November 1995 the Commission approved[17] state aid to *Voest Alpine Erzberg GmbH* (VAEG) to enable it to close down its mining operations gradually up to the year 2002. Approved aid amounts to ATS 272 million[18] to cover operating losses over the period 1995-2002 and ATS 136 million to cover the costs of closing down mines safely and in an environmentally friendly manner.

The following annual ceilings were approved for the different types of aid:

	Total aid		Operating aid		Closure aid	
	ATS million	ECU million*	ATS million	ECU million*	ATS million	ECU million*
1995	50	3.61	45	3.25	5	0.36
1996	50	3.61	42	3.03	8	0 58
1997	50	3.61	39	2.81	11	0.79
1998	47	3.39	36	2.60	11	0.79
1999	57	4.11	34	2.45	23	1.66
2000	52	3.75	30	2.17	22	1.59
2001	52	3.75	26	1.88	26	1.88
2002	50	3.61	20	1.44	30	2.17
Total	**408**	**29.44**	**272**	**19.63**	**136**	**9.82**

* Amounts in ecus have been adjusted on the basis of the current exchange rate given below.

Authorisation of the aid was subject *inter alia* to the following conditions:

- the annual aid ceilings and the production ceiling as given in the table above were not to be exceeded (so far **observed**, see III.2),
- the amount of operating aid was not to exceed the difference between production costs and revenues (so far **observed**, see III.2),
- the price charged for iron ore was to be in line with market prices and was not to be lower than the price of imported iron ore (so far **observed**, see III.2).

17 OJ L 94, 16.4.1996, p. 17.

18 ATS 1 million = ECU 72 206.585 (1.8.1998).

II. KEY POINTS FROM THE LAST MONITORING REPORT

The company kept up its closure operations in accordance with the plan and observed the production limit laid down by the Article 95 ECSC Decision. The prices charged for iron ore deliveries were in line with market prices, so that there was no spillover of operating aid to the company's only customer, *Voest Alpine Stahl AG*. The aid paid to cover operating losses and closure operations remained lower than actual losses incurred and the level authorised.

III. SIXTH MONITORING REPORT

The present report covers developments up to 30 June 1998 on the basis of information provided by the Austrian Government in its sixth monitoring report, which was submitted, in line with the Commission's request, on 15 September 1998.

1. THE COMPANY

The company *Voest Alpine Erzberg Gesellschaft mbH* (VAEG) is held by *ÖIA Bergbauholding Aktiengesellschaft*, which in turn belongs to *Österreichische Industrieholding Aktiengesellschaft*, an industrial holding company wholly owned by the Austrian State. VAEG is involved in the mining of low-density iron ore (~32 % Fe). Its opencast mine consists of 23 seams approximately 24 m high and 860 m in length. The company has only one client, *Voest Alpine Stahl AG* (VASA), which was privatised in the autumn of 1995.

2. OPERATING AID

(A) PRODUCTION AND SALES

In the first half of 1998, VAEG produced 849 527.88 tonnes of iron ore with an average content of 33.00% Fe and 73 472.12 tonnes of low grade products which VASA can use for the blast-furnace burden (*Möllerzusatzmaterial*). VAEG sold VASA 799 998.00 tonnes of iron ore and 73 472.12 tonnes of low grade products.

(B) PRODUCTION COSTS

Production costs for the standard-grade iron ore totalled ATS 111.634 million, i.e. ATS 131.40 per tonne, 17.5% down on the first half of 1997. The production costs for the low grade products totalled ATS 4.324 million, i.e. ATS 58.86 per tonne, 11.97% up on the previous year. A detailed overview of production costs is given in the Annex.

(c) **PRICING**

In the first half of 1998, the standard-grade iron ore was sold at ATS 139.96 per tonne, slightly higher than in 1996 and 1997. This standard price was set in December 1997 for the whole of 1998.

The low-grade material (*Möllerzusatzmaterial*) was sold at ATS 78 per tonne, fixed on the basis of the market price for lime gravel (*Kalkschotter*).

The average price for deliveries of iron ore and low-grade material (*Möllerzusatzmaterial*) during the first half of 1998 thus works out at ATS 115.53 per tonne. Including the costs of transport to VASA/Linz, the price charged was ATS 658.47 per tonne Fe.

The above figures confirm the information given by *Voest Alpine Rohstoffbeschaffungs GmbH*, which stated that the ex-works price (including transport costs) paid for iron ore and low-grade material (*Möllerzusatzmaterial*) is higher than the comparable price payable for imported iron ore.

It may therefore be concluded that the prices charged in 1998 were not lower than required under Article 2 of the Commission's Decision of 29 November 1995.

(D) **OPERATING AID PAID IN THE FIRST HALF OF 1998**

The total losses incurred by VAEG in the first half of 1998 were ATS 15.211 million, considerably lower than in the first half of 1997 (ATS 24.567 million).

Of the total losses sustained in the first half of 1998, approximately ATS 5.661 million related to closure operations. The corresponding figure for the whole of 1997 was ATS 9.027 million. Further details on losses are given in the Annex.

The company requested ATS 49 million in aid to cover losses sustained in 1998. The Austrian Government granted aid the final amount of which is still to be determined; it has disbursed instalments amounting to ATS 10 million.

3. CLOSURE AID

The following table shows the planned total costs for the closure of operations, the planned total aid and the costs incurred by VAEG for its closure operations up to the first half of 1998.

(ATS million)	Planned cost up to 2002	Authorised closure aid	Plan 1998	Costs 1997	Costs 1-6/98	Total costs 1995- I/98
Securing of exposed seams	26.7	13.4	2.0	2.773		11.49
Securing of the edges of seams	41.7	8.3	1.6	0.963	0.501	2.639
Removal of roof rock	54.0		3.0	0.654	1.287	1.941
Creation of collection areas for scrap	4.5	3.8	1.0	0.833	0.226	3.423
Closure of opencast sites	1.0	0.1				
Diversion of surface water	3.5	1.4	0.4	0.506	0.160	0.666
Dismantling of processing plant, transport facilities and buildings	45.0	40.5	2.3		1.009	1.009
Demolition of equipment and buildings	25.0	18.3	1.5	1.378	0.411	1.789
Demolition of other mining facilities	16.2	2.4	0.2	0.295	0.065	0.36
Redevelopment of waste tips and silt basins	1.4					
Recultivation and replanting of trees	50.2	12.8	1.0	1.625	1.876	4.795
Reclamation of polluted land	35.0				0.126	
Reclamation of polluted slag heaps	10.0					
Welfare measures	140.3	35.4				
TOTAL	**454.5**	**136.0**	**13.0**	**9.027**	**5.661**	**28.238**

4. AID PAYMENTS IN RELATION TO AID AUTHORISED

	Total aid		Operating aid		Closure aid	
(ATS million)	Authorised	Paid	Authorised	Paid	Authorised	Paid
1995	50	47	45	42	5	5
1996	50	48	42	40	8	8
1997	50	48	39	39	11	9
1998	47	10	36	10	11	
1999	57		34		23	
2000	52		30		22	
2001	52		26		26	
2002	50		20		30	
Total	**408**	**153**	**272**	**131**	**136**	**22**

5. Evolution of Workforce

The plan for reducing the workforce is as follows:

Workforce	1995	1996	1997	1998	1999	2000	2001	2002
Production	280	276	273	273	254	242	210	181
Closure operations	6	10	13	13	20	20	31	34
Total	**286**	**286**	**286**	**286**	**274**	**262**	**241**	**215**

The first redundancies are therefore expected to take place before the end of 1998.

6. Development of the Area

The Commission, with the unanimous assent of the Council, approved aid to allow gradual closure of the mining activities so that the closure process would be environmentally friendly and the Austrian authorities could mitigate the social problems inherent in the ultimately inevitable job losses in the less favoured area of Eisenerz. /As at 30 June 1998, the average unemployment rate in the region was 7.8%, slightly higher than in 1997 (7.5%). The regional authorities are actively promoting the creation of new jobs. The region is losing population as a result of out-migration, particularly among young people. The availability of jobs in the region remains low.

Annex Comparison of production costs and revenues in the first half of 1998

	Iron ore		Low-grade product		Closure and securing	Total	
Production (tonnes)	849 527.88		73 472.12				
Costs	(ATS thousand)	(ATS/tonne)	(ATS thousand)	(ATS/tonne)	(ATS thousand)	(ATS thousand)	(ATS/tonne)
Production	20 695	24.36	1 572	21.40		22 267	24.12
Extraction	35 546	41.84	1 736	23.63	5 661	42 943	46.53
Processing	27 290	32.12	947	12.89		28 237	30.59
Quality control	5 483	6.45	33	0.45		5 516	5.98
Transport	6 725	7.92	36	0.49		6 761	7.33
Overheads	15 895	18.71				15 895	17.21
Total cost of sales	**111 634**	**131.40**	**4 324**	**58.86**	**5 661**	**121 619**	**131.76**
Revenue							
Sales (tonnes)	799 998.00		73 472.12				
Selling price	111 988	139.96	5 699	77.57		117 667	
Deduction for difference in quality	16 757					16 757	
Subtotal	95 211		5 699			100 910	115.53
Increase in stocks	5 498	111.00				5 498	
Total	100 709		5 699	77.57	0	106 408	
Difference							
Operating result	- 10 925		**1 375**		**- 5 661**	**-15 211**	
Aid							
	6 000				**4 000**	**10 000**	