EUROPEAN COMMISSION

Brussels, 2.7.2013
C(2013) 4041 final

PUBLIC VERSION

This document is made available for information purposes only.

Subject: State aid SA.36548 (2013/N) – Slovenia
Rescue Aid for Cimos

Sir,

I. PROCEDURE

(1) On 17 April 2013, Slovenia notified rescue aid for Cimos Group (hereinafter: "Cimos" or "the Company"). The Commission requested additional information on 18 April 2013, 29 April 2013, 8 May 2013 and 17 May 2013, to which Slovenia replied on 23 April 2013, 3 May 2013, 10 May 2013 and 4 June 2013. By a letter of 17 April 2013, the Slovenian authorities accept that the present decision be adopted in the English language.

II. DESCRIPTION

2.1 Beneficiary

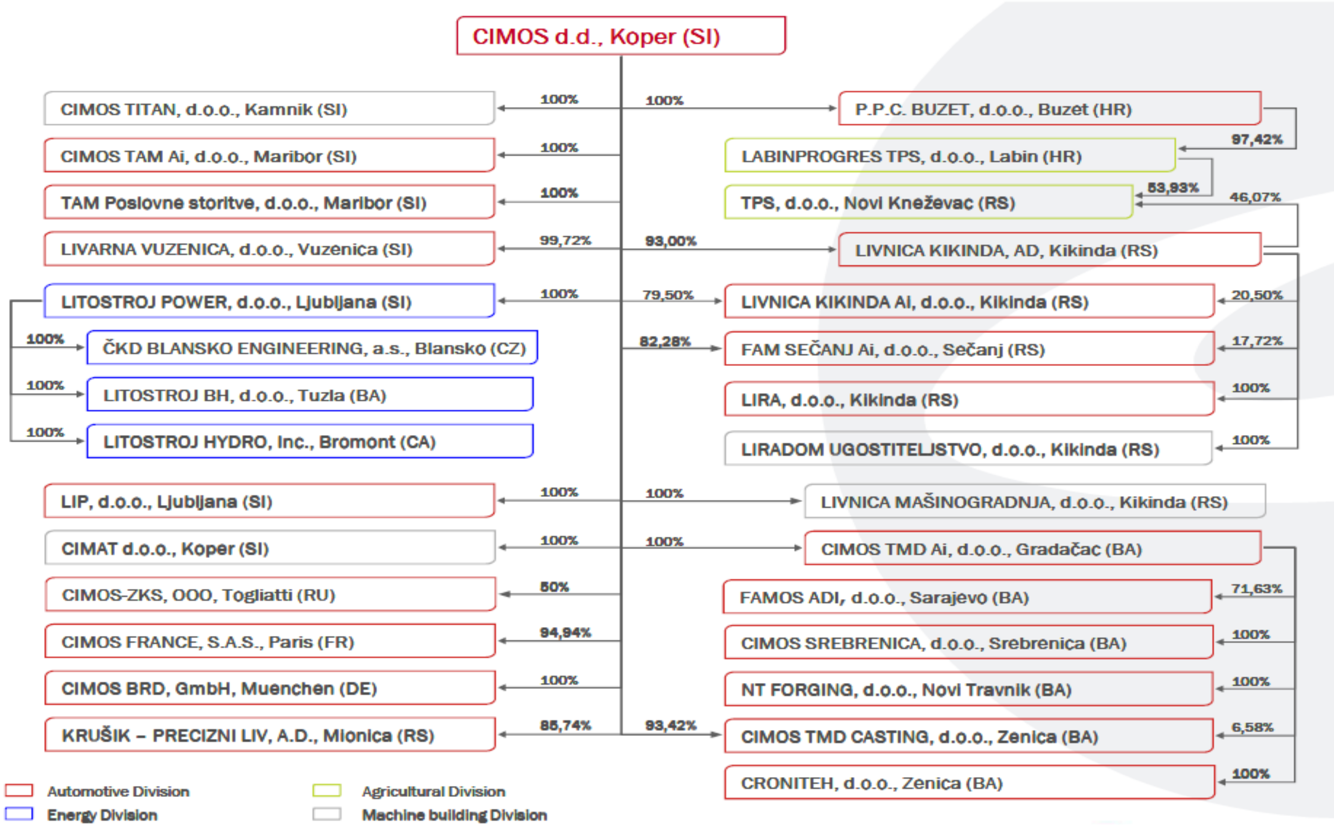
(2) Cimos is one of the largest Slovenian industrial companies. Its core business is manufacturing of automotive components (e.g. power train components, turbochargers, hinges, parking breaks, brake discs and drums, pedal boxes, flywheels). The Company supplies a number of major car brands including BMW, Citroen, Peugeot, Renault, Volkswagen, General Motors, Audi, Toyota, Saab, Opel and Daimler. The automotive segment accounted for more than 80% of the Company's total sales in 2012. Cimos is also active in other sectors, such as machine building and tooling, energy and agricultural machinery.

Karl ERJAVEC
Minister za zunanje zadeve Republike Slovenije
Prešernova cesta 25
SI-1001 Ljubljana

(3) As of 31 March 2013 the Company had 6,950 employees, of which 2,632 were employed in Slovenia.

(4) Cimos Group consists of a parent company Cimos d.d. and 29 subsidiaries located in Slovenia and abroad, as shown in Figure 1.

Figure 1 - Cimos Group structure



(5) Between 2000 and 2008, Cimos recorded a growth of more than 20% annually but it was financing its operations mostly by short-term borrowings. This led to an unfavourable structure of its balance sheet as long-term assets were to a large extent financed by short-term liabilities. Additionally, due to the economic and financial crisis, the demand for new cars decreased which caused a reduction of orders for automotive components. As a result, despite a relatively high profitability at that time, the Company was unable to obtain the necessary funding on favourable terms which constituted a serious threat to its operations and further development.

(6) Initially Cimos managed to maintain the level of production and sales without external funding by a significant reduction of costs and investments, however, these internal sources soon became insufficient to meet the growing liquidity needs of the Company.

(7) In 2011 Cimos' bonds in the amount of EUR 20 million matured. The Company held talks with bondholders on the terms of repayment but no agreement was reached and finally it had to repay over 75% of its debt from the operating revenues. Banks' demands on the timely repayment of loans put additional pressure on liquidity. Unable to generate enough cash from

operations, Cimos had to delay payments to suppliers (payment terms increased on average from 90 to 153 days). This has led to a serious threat to the supply chain, whose smooth functioning is a crucial factor in the automotive industry.

(8) On 15 June 2012, Cimos signed an agreement with its banks by which they agreed to postpone the repayment of the outstanding debt amounting to more than EUR 230 million until 30 September 2012. This grace period was extended first to 31 Janaury 2013 and then again to 30 June 2013. According to the Slovenian authorities without the extension Cimos would have had to declare insolvency.

(9) On 31 March 2013 the balance of overdue trade payables amounted to almost EUR 49 million. Since the suppliers have already started to take steps to limit their exposure, Slovenia claims that the very existence of Cimos on the automotive market is threatened.

(10) The deteriorating financial situation of the Company is reflected in the financial data as summarised in Table 1 below. Having achieved small profits in 2011 and 2010, last year Cimos reported a significant net loss of EUR 97.9 million. As a result, net assets fell sharply and the debt to equity ratio increased from 4.2 in 2011 to 25.3 in 2012. Although the overall debt did not increase, its structure deteriorated as a relatively larger portion became due in the short term. The ratio of current assets to current liabilities which is measuring the liquidity situation fell from 0.85 in 2011 to 0.54 in 2012.

Table 1 – Selected financial data of Cimos Group in 2010-2012 (in EUR million)

	2012	2011	2010
Sales revenue	445.6	480.7	444.8
Net loss	-97.9	3.4	4.1
Net assets[1]	22.5	139.3	133.1
Debt	569.3	581.6	594.2
Current assets	206.7	265.3	263.5
Current liabilities	383.4	313.5	311.0

Source: Consolidated financial statements for the years: 2012, 2011, 2010

(11) In view of the above, the Slovenian authorities claim that Cimos urgently needs liquidity in order to maintain operations and gain necessary time to undertake a full-scope business and financial restructuring.

2.2 The aid measure

(12) The notified aid consists of a State guarantee to be granted by the Ministry of Finance of Slovenia with the aim to cover a 6-month loan in the amount of EUR 35 million. The collateral for the guarantee will consist of promissory notes issued by Cimos d.d. for the benefit of the Republic of Slovenia.

---

1 Assets minus liabilities; corresponding to the equity capital.

(13) The underlying loan will be be provided by:

- The bank creditors: Gorenjska banka, d.d. Kranj, Nova Kreditna Banka Maribor d.d., Nova Ljubljanska banka, d.d., SID- Slovenska izvozna in razvojna banka, d.d., Sberbank Banka d.d., Abanka Vipa d.d., Banka Celje d.d., Probanka d.d., LHB Internationale Handelsbank AG – EUR 24 million
- Modra zavarovalnica d.d. (existing shareholder of CIMOS d.d.) - EUR 4.915 million
- Banka Koper d.d. (existing shareholder of CIMOS d.d.) – EUR 4.5 million
- D.S.U. d.o.o. (existing shareholder of CIMOS d.d.) – EUR 1.585 million

(14) The essential terms of the loan were agreed on 21 May 2013 and are the same for all the loan providers. Two loan agreements (with Modra zavarovalnica d.d. and D.S.U. d.o.o.) with a total amount of EUR 6.5 million were subsequently signed on 21 May 2013. Agreements with other lenders are supposed to be signed by 21 June 2013. As the loan was granted before the guarantee contract is signed, the initial interest rate has been set at a level corresponding to the sum of the 3-month EURIBOR and a margin of 5.5% p.a. The collateral for the loan includes (i) bills of exchange issued by the company, (ii) a directly enforceable lien over Cimos' unencumbered inventories, (iii) a directly enforceable lien over Cimos' share in its 100% owned subsidiary CIMOSPV and, once approved, (iv) the State guarantee. The loan margin will be lowered to 1.65% p.a. as soon as the rescue aid in the form of the guarantee will have been approved by the Commission and the guarantee contract will have been signed. As the current 3-month EURIBOR rate amounts to around 0.2%, the resulting interest rate for the loan covered by the guarantee will amount to around 1.85%, i.e. 129 basis points above the reference rate for Slovenia (currently 0.56%).

(15) The aim of the loan covered by the State guarantee is to provide Cimos with the necessary liquidity for its survival in the next 6 months and thus afford it sufficient time for preparing and launching a comprehensive business and financial restructuring plan.

III. ASSESSMENT

3.1 Existence of State aid

(16) Article 107(1) TFEU provides that any aid granted by a Member State or through State resources in any form whatsoever, which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods and affects trade among Member States, is incompatible with the internal market.

(17) The Commission has published detailed guidance on the application of the State aid rules of the EC treaty to guarantees[2], making it clear that the general criteria of Article 107(1) TFEU equally apply to guarantees. As indicated in the guarantee notice, the benefit of a State guarantee for the beneficiary is constituted by the fact that the risk associated with the guarantee is carried by the State.

(18) The guarantee is to be granted by the Ministry of Finance, therefore it clearly involves State resources and is imputable to the State. In the event the beneficiary defaults Slovenia would have to repay the loan from the State budget, which is consequently burdened by the financial risk linked to the guarantee.

(19) The guarantee is to be granted to one specific undertaking only, i.e. Cimos, at the discretion of the Slovenian government. Additionally, the guarantee will provide the beneficiary with access to liquidity that it would otherwise not be able to obtain on similar terms, given its difficult financial situation. This is confirmed by the Slovenian authorities who state in the notification that the Company is not able to repay its bank loans and trade payables on schedule, due to severe liquidity problems. The banks agreed several times to postpone the repayment of debt, recently - until 30 June 2013. According to Slovenia, if the agreement had not been reached, the Company would have had to declare insolvency. In addition, the fact that Cimos would not be able to obtain liquidity under better terms than without the guarantee is confirmed by the terms of the underlying loan: the initial interest rate of 3-month EURIBOR+5.5% p.a. will be reduced to 3-month EURIBOR+1.65% p.a. as soon as the guarantee will have been approved by the Commission. In view of the above, the Commission concludes that the measure provides the beneficiary with a selective advantage.

(20) Furthermore, the aid is apt to improve the competitive position of Cimos on the relevant markets (automotive, machine building and tooling, energy and agricultural machinery) which are open to competition from other Member States. Therefore, it distorts or threatens to distort competition and affects trade between Member States.

(21) On the basis of the above, the Commission concludes that the notified measure constitutes State aid pursuant to Article 107(1) TFEU. The Slovenian authorities do not dispute the classification of the measure as State aid.

3.2 Eligibility for rescue aid

(22) According to points 12(a) and 14 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty[3] ("the Guidelines") only firms in difficulty are eligible for rescue aid. In order to qualify as a firm in difficulty

[2] Commission notice on the application of Article 87 and 88 of the EC Treaty to State aid in the form of guarantees (OJ C 155, 20.6.2008, p. 10).

[3] Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 244, 1.10.2004, p.2.

the company must fulfil the criteria listed in point 10 or point 11 of the Guidelines.

(23) Under point 10, a firm is considered to be in difficulty when:

(a) in the case of a limited liability company, more than half of its registered capital has disappeared and more than one quarter of that capital has been lost over the preceding 12 months;

(b) in the case of a company where at least some members have unlimited liability for the debt of the company, more than half of its capital as shown in the company accounts has disappeared and more than one quarter of that capital has been lost over the preceding 12 months;

(c) whatever type of company concerned, it fulfils the criteria under its domestic law for being the subject of collective insolvency proceedings.

(24) The Commission observes that Cimos, being a limited liability company, fulfils the criteria listed in point 10(a) of the Guidelines since, according to the consolidated financial statements, as of 31 December 2012, it has lost more than half of its registered capital (108%) and more than one quarter thereof over the preceding 12 months (137%)[4]. Therefore the Commission considers that Cimos qualifies as a firm in difficulty based on point 10(a) of the Guidelines.

(25) According to point 12 of the Guidelines, newly created firms are not eligible for rescue aid. A firm is in principle considered as newly created for the first three years following the start of operations in the relevant field of activities. Cimos started operations in 1972, was registered in its present form in 1975 and has been operating in the current field of activities ever since, therefore it cannot be considered as a newly created firm.

(26) Point 13 of the Guidelines establishes that a firm belonging to or being taken over by a larger business group is not normally eligible for rescue or restructuring aid, except where it can be demonstrated that the firm's difficulties are intrinsic and are not the result of an arbitrary allocation of costs within the group, and that the difficulties are too serious to be dealt with by the group itself.

(27) Cimos does not belong or is not being taken over by a larger business group therefore the criteria set out in Point 13 of the Guidelines do not preclude it from being eligible for rescue aid.

(28) On the basis of the above, the Commission concludes that Cimos is a firm in difficulty and is eligible for rescue aid.

---

[4] The loss of capital over the preceding 12 months is bigger than the total loss of capital as of 31 December 2012 because the Cimos Group reported accumulated profits in the past.

3.3 Legality of rescue aid

(29) In accordance with Article 3 of Council Regulation No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty[5], aid shall not be put into effect before the Commission has taken, or is deemed to have taken, a decision authorising such aid.

(30) The Commission notes that whereas the State guarantee will be granted only after the approval of the rescue aid by the Commission, two loan agreements were signed on 21 May 2013 and the remaining ones were to be signed by 21 June 2013, in accordance with the Terms Sheet agreed on 21 May. Slovenia claims that the terms of the loan are market-conform in view of the higher interest rate applied, the collateral for the loan and the presence of private creditors in the transaction. In view of the Commission, however, it cannot be excluded that the loan contains State aid as the majority of creditors (accounting for at least 69% of loan amount) are controlled by the State and as Slovenia has not provided sufficient information to demonstrate that the collateral is sufficient to justify the applied interest rate. The Commission has therefore doubts whether Slovenia respected the "stand-still" obligation, as far as the loan is concerned.

(31) The Commission nevertheless considers that it is not necessary to assess the loan on a stand-alone basis since if the guarantee fulfils all the criteria of compatible rescue aid, the underlying loan itself would also be compatible.

3.4 Compatibility of rescue aid

(32) Rescue aid must meet the conditions set out in point 25 of the Guidelines in order to be declared compatible with the internal market.

(33) According to point 25(a) of the Guidelines, rescue aid must consist of liquidity support in the form of a loan or a loan guarantee; in both cases the loan must be granted at an interest rate at least comparable to that observed for loans for healthy firms, and in particular the reference rates adopted by the Commission. Any loan must be reimbursed and any guarantee must come to an end within a period of not more than six months after the disbursement of the first instalment to the firm.

(34) In the case at hand, the notified aid consists of a liquidity support in the form of a loan guarantee. According to the Slovenian authorities, the interest rate of the underlying loan will amount to 3-month EURIBOR+1.65% p.a. (i.e. around 1.85%), once the guarantee is approved. According to the Communication on the revision of the method for setting the reference and discount rates[6], a reference rate for rescue aid cases should equal to the base rate increased by a margin of at least 100 basis points. In the case at hand, considering that the base rate for Slovenia amounts to 0.56%, the loan margin equals 129 basis points, i.e. is higher than the required minimum. In addition, the guarantee is secured by collateral in the form of promissory notes to the full amount of the outstanding obligations. Therefore, the interest rate can be

[5] OJ L 83, 27.3.1999, p.1 with further amendments.
[6] OJ C 14 of 19.1.2008, p. 6.

considered as at least comparable to the interest rate observed for healthy firms. Slovenia undertook in the notification that the loan is to be reimbursed within six months from the disbursement. It follows that the notified aid satisfies the compatibility conditions laid down in point 25(a) of the Guidelines.

(35) According to point 25(b) of the Guidelines rescue aid must be warranted on the grounds of serious social difficulties and have no undue spill-over effects on the other Member States. Cimos is located in an assisted region, eligible for regional aid under Article 107(3) (c) TFEU. The unemployment rate in Slovenia has been steadily increasing since the beginning of the economic crisis and reached 13.6% in March 2013. Cimos is one of the largest employers in the country with 2,632 people working for Cimos companies in Slovenia. As the Company faces severe liquidity problems and is not able to repay its liabilities, the absence of aid would likely lead to a bankruptcy. Slovenia argues that the bankruptcy of Cimos alone would have a noticeable impact on local unemployment as the Company is a (quantitatively) very significant employer in the four regions of the country where Cimos operates. Additional jobs would be lost among the businesses and institutions linked to the Company, such as suppliers, research and development centres or universities. Slovenia estimates that more than 12,000 jobs indirectly depend on the activities of the Company. Additionally, almost 40% of Cimos' staff in Slovenia is aged over 50 or has disabilities. For those people the loss of jobs would probably transform into long-term unemployment. The Bank of Slovenia predicts that the bankruptcy of the Company would have a negative financial impact of EUR 0.5 billion, i.e. 1.2% of GDP. Whereas the estimated impact on unemployment may be somewhat overstated, as it does not appear to take into account that some jobs will be re-created in the medium and longer term, the Commission considers that the bankruptcy of Cimos is likely to entail serious social consequences, at least in the short term.

(36) The aid is not expected to have undue spill-over effects on other Member States due to the limited importance of Cimos on the EU market. According to Slovenia the European market share of Cimos for most product families is estimated not exceed 15% with the only exception of central and turbo housing components with estimated market share of 20-33%. Given the overall competitive character of the automotive components market and the buyer power of the large car manufacturers, Cimos is not dominant on any of the automotive components markets. In addition, the guarantee will benefit not only the Cimos companies in Slovenia but also its subsidiaries in other European countries. Furthermore, Slovenia indicated that significant compensatory measures are planned to be implemented during the restructuring phase. In view of the above, the Commission considers that the rescue aid amounting to 35 million EUR and limited to a period of 6 months will not have undue spill-over effects on other Member States.

(37) For the reasons stated above the Commission considers that the aid is warranted on the grounds of the serious social difficulties and will not create undue adverse spill-over effects on other Member States and therefore is in line with point 25(b) of the Guidelines.

(38) Point 25(c) of the Guidelines stipulates that the rescue aid must be accompanied by the undertaking of the Member State that, not later than six months after the rescue aid is implemented, a restructuring or liquidation plan or a proof that the loan has been reimbursed in full and/or that the guarantee has been terminated is to be communicated to the Commission. As the Commission cannot exclude that the loan covered by the guarantee may itself constitute State aid (see recital 30 above), Slovenia undertook to communicate to the Commission a restructuring plan within six months from the provision of the loan. Consequently, the rescue aid is in line with point 25(c) of the Guidelines.

(39) According to point 25(d) of the Guidelines, rescue aid must be restricted to the amount needed to keep the firm in business for the period during which the aid is authorised. The amount necessary should be based on the liquidity needs of the company stemming from its losses. In determining this amount, the Commission has regard to the outcome of the application of the formula set out in the Annex to the Guidelines. Any amount exceeding the result of that calculation would have to be duly explained.

(40) The above-mentioned formula takes into account the beneficiary's EBIT (earnings before interest and taxes) and depreciation in the year preceding the notification and the change in working capital over the latest two accounting periods. The sum of all these elements is then divided by 2, so as to approximate the liquidity needs of the company over a six-month period – i.e. the duration of the rescue aid.

(41) Based on the financial statements of the Company for the years 2011 and 2012, the Commission has calculated that the application of the formula would result in the amount of EUR -69.7 million.

(42) The Commission notes, first, that the outcome of the application of the formula in the case of Cimos is negative therefore the pre-condition for the application of the formula is satisfied. Second that the amount of rescue aid to be granted to Cimos, namely EUR 35 million, is lower than the maximum resulting from the application of the formula. The Commission therefore concludes that the rescue aid can be regarded as restricted to a minimum amount, as required by point 25(d) of the Guidelines.

(43) According to point 25(e) of the Guidelines the aid must be granted in compliance with the 'one time, last time' principle as stipulated in point 72 et seq. of the Guidelines. Slovenia confirmed that Cimos has not previously received rescue or restructuring aid. Therefore, the notified aid complies with point 25(e) of the Guidelines.

(44) In the light of the findings above, the Commission concludes that the notified measure meets the compatibility conditions of point 25 of the Guidelines.

IV. CONCLUSION

(45) The Commission concludes that the notified measure constitutes State aid within the meaning of Article 107(1) TFEU, which is compatible with the internal market in accordance with Article 107(3)(c) TFEU read in conjunction with the Guidelines.

V. CONCLUSION

(46) The Commission concludes that the notified measure constitutes State aid within the meaning of Article 107(1) TFEU, which is compatible with the internal market in accordance with Article 107(3)(c) TFEU read in conjunction with the Guidelines.

VI. DECISION

(47) The Commission has accordingly decided not to raise objections to the notified rescue aid to Cimos, on the grounds that it is compatible with the internal market pursuant to Article 107(3)(c) TFEU read in conjunction with the Guidelines.

(48) In accordance to the commitment it has given to the Commission, Slovenia shall submit to the Commission, within 6 months from the provision of the loan, a restructuring or a liquidation plan of Cimos or a proof that the loan has been reimbursed.

(49) Finally, the Commission notes that the Slovenian authorities accept the decision to be adopted in English.

If this letter contains confidential information, which should not be disclosed to third parties, please inform the Commission within fifteen working days of receipt. If the Commission does not receive a reasoned request within that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site http: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
Directorate for State Aid
State Aid Greffe
1049 Brussels
Belgium

Fax No: +32 2 296 12 42

We would ask you to state the case name and number in all correspondence.

Yours faithfully,

For the Commission

Joaquín ALMUNIA

Vice-president