

DECISION OF THE COMPETITION COUNCIL
No 298 of 28.10.2004

On the State aid notified by the Authority for State Assets Recovery (AVAS) to be
granted to S.C. DERMATINA S.A. Timisoara

THE COMPETITION COUNCIL,

Having in regard the provisions of the Decree no. 57/2004 for the appointment of the
Competition Council's members,

Having in regard the provisions of the Competition Law no.21/1996, published in the
Official Gazette, Part I, no. 88 of April 30, 1996, amended and completed by GEO no.
121/2003, approved by Law no. 184/2004,

Having in regard the provisions of the Law on State Aid no. 143/1999, published in the
Official Gazette, Part I, no. 370 of 03.08.1999, amended and completed by Law no.
603/2003,

Having in regard the provisions of the Europe Agreement establishing an association
between Romania, on one hand, and the European Communities and their Member
States, on the other hand, ratified by Law no. 20/1993, published in the Official Gazette,
Part I, no. 73 of 12.04.1993,

Having in regard the provisions of the Regulation on State aid for rescue and
restructuring firms in difficulty, published in the Official Gazette, Part I, no. 470 of July
2, 2002;

Having in regard the provisions of the Regulation for amending and completing the
Regulation on State aid for rescue and restructuring firms in difficulty, published in the
Official Gazette, Part I, no. 521 of June 9 2004,

On the following grounds:

I. PROCEDURE

(1) By Note no. VP3/455/29.04.2004, the Authority for Privatization and Management of
State Ownership (subsequently became the Authority for State Assets Recovery - AVAS)

notified on the basis of art. 6 of the Law on State Aid no. 143/1999 amended and completed by Law no. 603/2003, the intention to grant an individual State aid for restructuring S.C. DERMATINA S.A. Timisoara.

(2) By notes registered as no. DAAS/376/31.05.2004 and DAAS/492/05.07.2004, answers for the requested supplementary information regarding the production capacities and financial contribution of the company to the Restructuring Plan were submitted. The answers of the Authority for State Assets Recovery for the requested supplementary information were not conclude; thus, by notes DAAS/536/13.07.2004 and CC/2137/08.09.2004 another supplementary information was requested, regarding the origin of the financial sources of the company used to implement restructuring measures and to show that the company's difficulties are its own and not a consequence of an arbitrary cost allocation within BEGA Group. The Authority for State Assets Recovery submitted the requested answer under note no 100.044/27.09.2004.

(3) The notification became effective at the date the information was precise and complete, mainly on 27.09.2004.

II. DESCRIPTION OF THE STATE AID MEASURE

2.1. Legal framework for State aid granting

- Law no.137/2002, on certain measures for accelerating the privatization process;
- GD no. 577/2002, for the approval of the Methodological Norms for the application of the Government's Emergency Ordinance no. 88/1997 regulating the privatization of the companies, with further amendments and completions;
- Law no. 609/2003 for the approval of the G.O. no. 86/2003 regulating certain financial and fiscal measures.

2.2. Concrete mode for granting the State aid

(4) By the State aid, in value of ROL 39,112 mil., proposed by AVAS it is followed:

- **To exempt** 85% of the total obligations overdue at 31.12.2001 to the State budget, in value of ROL **6,305,460,124**;
- **To exempt** 85% of the total obligations overdue at 31.12.2001 to the social insurance budget and unemployment insurance budget, in value of ROL **2,832,405,329**;
- **To exempt** 85% of the total obligations overdue at 31.12.2001 to APAPS, representing restructuring funds granted under Law no. 58/1991, in value of ROL **2,902,750,000**;
- **To exempt** interests and delay penalties afferent to obligations overdue at *31.12.2001 to the State budget, calculated until the data the transfer of property rights over shares was made (03/10/2003)*, in value of ROL **9,548,317,554**;

- **To exempt** interests, delay penalties and penalties for retention and non-payments, *affrent to obligations with retention at source overdue at 31.12.2001 to the State budget, calculated until the data the transfer of property rights over shares was made (03/10/2003)* – according to Law no. 191/2004, in value of ROL **308,064,852;**
- **To exempt** interests and delay penalties affrent to obligations overdue at 31.12.2001 to the social insurance budget and unemployment insurance budget, calculated until the data the transfer of property rights over shares was made (03/10/2003), in value of ROL **9,526,380,245;**
- **To exempt** interests, delay penalties and penalties for retention and unpayments, *affrent to obligations with retention at source overdue at 31.12.2001 to the State budget, calculated until the data the transfer of property rights over shares was made (03/10/2003)* – according to Law no. 191/2004, in value of ROL **356,557,920;**
- **To exempt** interests and delay penalties affrent to obligations overdue at 31.12.2001 to the State budget, calculated until the data the transfer of property rights over shares was made (03/10/2003), in value of ROL **913,695,231;**
- **To exempt** interests and delay penalties affrent to obligations overdue at 31.12.2001 to the social insurance budget and unemployment insurance budget, calculated until the data the transfer of property rights over shares was made (03/10/2003), in value of ROL **197,268,703;**
- **To exempt** interests, delay penalties and penalties for retention and unpayments, *affrent to obligations overdue at 31.12.2001 to the health insurance fund, , calculated until the data the transfer of property rights over shares was made (03/10/2003)* – according to Law no. 191/2004, in value of ROL **3,909,100,042;**
- **To defer the payment for 5 years** with 6 months grace period (grace period included in the deferral period) of the total obligations overdue at 31.12.2001, in value of ROL 2,312,000,000.

2.3. Description of the beneficiary - S.C. DERMATINA S.A. Timisoara

(5) The State aid beneficiary is a private company, S.C. DERMATINA S.A. Timisoara, established in 1934. The majority shareholder is S.C. BEGACOM S.A. Timisoara since 2003 – the privatization year.

(6) The privatization of the company was made on the basis of Law no. 137/2002 on certain measures for accelerating the privatization process; during the privatization process, payment facilities for historical debts were to be granted according to the provisions of art.18 para (1) of the Law and the Methodological Norms issued in its application. The privatization process was made in an open and transparent way due to the following:

- The selling offer was published on 14.06.2003 in newspapers: Curentul, Renasterea Banateana and Romania Maghyarszo;
- Two presentation offers were bought;

- The offerors were S.C. BEGACOM S.A. Timisoara and the consortium made by S.C. SAS BERTON S.R.L., S.C. AMBASADOR IMPEX S.R.L. and S.C. HIDROTIM S.A. Timisoara;
- The potential offerors were able to carry out their own analysis of the company according to the legislation in force;
- Following the negotiations with both offerors, the winner was S.C. BEGACOM S.A. Timisoara.

S.C. BEGACOM S.A. Timisoara bought the share package owned by AVAS by signing the selling-buying contract no. 35/26.09.2003.

(7) By Competition Council's Decision no. 525/12.12.2003, the economic concentration made by acquiring the direct control by S.C. BEGACOM S.A. over S.C. DERMATINA S.A. Timisoara, was authorised.

(8) The registered capital of S.C. DERMATINA S.A. Timisoara at privatization, according to the Certificate for statutory changes no. 3563/13.06.2003 was of: ROL 515,271,800 ths. At the notification date, the registered capital of S.C. DERMATINA S.A. Timisoara, according to the Certificate for statutory changes no. 860/20.01.2004, was of ROL 529,495,275 ths. Thus, the company recorded an increase of its registered capital due to the contribution of S.C. BEGACOM S.A. Timisoara.

(9) After the transfer of the property right over shares made on 03.10.2003, the structure of S.C. DERMATINA S.A. Timisoara shareholders is:

Table no. 1

SHAREHOLDERS shareholders	SHARE CAPITAL	
	Number of shares	Weight in registered capital (%)
S.C. BEGACOM S.A.	19,427,575	91.727
PPM	1,752,236	8.273
Total	21,179,811	100

Source: AVAS

(10) The company activates in industrial sector. S.C. DERMATINA S.A. Timisoara has as main field of activity manufacturing and trading plastic materials. As well, its secondary activities are: technical test and analysis, rental of its own real estate, wholesale of chemical products and retail.

(11) S.C. DERMATINA S.A. Timisoara manufactures specially for the domestic market, the Romanian market representing about 99% of the total market for each analysed year, as presented in Table no. 2:

Table no. 2

	- thousands ROL -			
	2000	2001	2002	2003
Total turnover	35,272,419	48,898,368	48,465,663	45,428,968
Turnover on Romanian market	34,919,695	48,409,384	47,981,006	44,974,678
Turnover on Romanian market / Total turnover	99%	99%	99%	99%

Source: AVAS

(12) The main products manufactured by S.C. DERMATINA S.A. Timisoara are:

- Plastic materials;
- P.V.C. footwear;
- P.V.C. extruded products;
- latex gloves;
- sanitary-technical articles;
- rubber articles for footwear;
- rubber packing;
- polypropylene foil;
- simple and personalized adhesive tape;
- self-adhesive labels.

(13) The relevant markets on which the company activates are represented by the markets for manufacturing:

- protection boots for clients activating especially in chemical, oil, food and coal industry, railway transport, roads and bridges, water-sewerages and thermal regies and land improvements;
- PVC carpets– linoleum – for companies activating in construction, railway and road transport and trade;
- Protection latex gloves for different use: surgery, chemical industry and domestic.

(14) The share markets of the company for the main products manufactured for the internal market are described in table no. 3:

Table no. 3

	Protection boots	PVC carpets	Protection latex gloves
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S.C. DERMATINA S.A. Timisoara	5%	5%	3%
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Source: AVAS

(15) The main competitors of S.C. DERMATINA S.A. Timisoara, on internal market, for protection boots are: S.C. Profitec – Targu Mures, S.C. Motoc Nil - Bucuresti, S.C.USAM- Bucuresti are S.C. Finca-Dragasani.

(16) The main competitors of S.C. DERMATINA S.A. Timisoara, on internal market, for PVC carpets are: S.C. Moldoplast – Iasi, S.C. Napochim – Cluj Napoca and S.C. Izolatorul – Bucuresti.

(18) On internal market, S.C. DERMATINA S.A. Timisoara is the sole producer of latex gloves. On this market, a significant competition is made by importers of latex gloves, these companies having 97% of the market.

(19) [...] ¹

(20) The economic and financial results, based on the accounting balance sheets of the last 4 years are:

Table no. 4

- thousands ROL -

Indicators	2000	2001	2002	2003
Turnover	35,272,419	48,898,368	48,465,663	45,428,968
Result of the financial exercise	-2,214,768	-769,126	65,788	-13,982,993

Source: AVAS

3. DESCRIPTION OF THE RESTRUCTURING PLAN

(21) S.C. DERMATINA S.A. Timisoara elaborated, with the approval of the buyer, a large Restructuring Plan for 2004-2009, containing organisational, technical-technological, environmental and financial measures, in the amount of ROL 60,517 mil.

3.1. Organisational restructuring

(22) The organisational measures of the Restructuring Plan contain the implementation of the glossing, stratification, injection and extruding methods for processing PVC and are in quantum of ROL 55 million.

¹ Confidential data

Table no. 5

-mil. ROL -

Measure	Deadline	Evaluation of cost implementation	Own sources	State aid	Economic effect
Organisation of working personnel in mobile teams to reduce the waiting and lost times	2004	5	5	-	Cost reduction by overheads cost reduction – 840
Production scheduling for I and III shifts together with “cascade” setting in motion of the machines	2004	-	-	-	increase of labour productivity and electric power economy – 56
Reorganising the warehouses of finite products and raw materials.	2004	50	50	-	Space renting – 960
TOTAL		55	55	-	-

*Source: AVAS***3.2. Technical-technological restructuring**

(23) The technical-technological measures of the Restructuring Plan contain: energetic metering at trafo points and of residual water, endowment with batteries for active energy recovery, purchase of laboratory equipment (pH – meter, microscope, stove), purchase of a park of moulds for injected PVC footwear, endowment with batteries.

(24) Taking into account the technological flow, the machines and equipment performances of S.C. DERMATINA S.A. Timisoara, the company, with the contribution of the buyer, stipulated under the share selling-buying contract, committed itself to carry out, with its own sources, technological investments in value of ROL 14.950 mil., as follows:

Table no. 6

-mil. ROL -

Measure	Deadline	Evaluation of cost implementation	Own sources	State aid	Economic effect
Purchasing 200 pieces of aluminium last (mould) for electro-isolated gloves	2004	600	600	-	Sales increase – 700
Modernization of boiler (stove, oven) no. 2 CR 16 from the Power Plant and metering the total gas consumption, the SRM steam, with efficient gas meter	2004	1400	1.400	-	Putting into function the adhesive tape machines – increase the burning efficiency and obtaining qualitative technological steam – 30
Restoration of energetic and technologic flows, of steam and water and energetic meter at trafo points, with high precision meters, metering the residual water, endowment with batteries for active energy recovery	2004	2550	2550	-	Reduction of steam and industrial water losses Reduction of energetic losses – 480
Restoration of phone airline, with the entire company	2004	200	200	-	Access to fast and efficient communication – 24
Repairing the hydro-isolation to all	2004	3500	3500	-	Ensuring normal

problematic roofs, repair and painting of buildings, repair of access roads					working conditions – 280
Purchasing new computers and printers, restoration of IT network, purchasing software and small office endowments	2004	600	600	-	Increase quality of works and services, faster access to information. – 91.8
Purchasing a new park of moulds for injected footwear	2004	5000	5000	-	Sales increase with 30%; - 450
Purchasing new laboratory equipment (pH – meter, microscope, stove, laboratory glass)	2004	500	500	-	Product quality increase – 40
Implementation of the quality system according to ISO 9001/2000; Certification regarding the implementation of the quality system	2004	500	500	-	Quality increase in all domains; Conditions to sell the products
Changing the AUMA tape by finding a rubber mixture better than the existing one	2004	100	100	-	quality increase for PVC products– 200
TOTAL		14.950	14.950	-	

Source: AVAS

3.3. Environmental restructuring

(25) For fulfilling the environmental conditions, within the share selling-buying contract, the new investor committed himself to carry out environmental investments, from its own sources, in total value of ROL 400 million, as follows:

Table no. 7

- ROL mil. -

Measure	Deadline	Evaluation of cost implementation	Own sources	State aid	Economic effect
Cleaning the platform from CLU deposits, for soil protection	2004	30	30	-	Environmental quality improvement – 40
Improvement of dumps for waste resulting from the technological flow which are recycled and transport and burning those that cannot be recovered	2004	100	100	-	Environmental quality improvement - 120
Purchasing filters and meters for water filtration and monitoring the water quality	2004	270	270	-	Environmental quality improvement - 160
TOTAL		400	400	-	

*Source: AVAS***3.4. Financial restructuring**

(26) At privatization date, the company needed a financial restructuring for a production activity under normal parameters. This was achieved by contracting credits from the Romanian Bank for Development, under market conditions and by receiving a State aid, as follows:

Table no. 8

-mil. ROL -

Measure	Deadline	Evaluation of cost implementation	Own sources	State aid
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Granting exemptions from the payment of budgetary obligations	2005	36,800	-	36,800
Granting deferrals for payment of budgetary obligations	2009	2,312	-	2,312
Increase the credit line from BRD from ROL 2.7 billion to ROL 6 billion.	2004	6,000	6,000	-
TOTAL		45,112	6,000	39,112

Source: AVAS

(27) For S.C. DERMATINA S.A. Timisoara, the measure of financial restructuring to be applied consists of : renouncement by APAPS, in percent of 85%, from the budgetary obligations overdue at 31.12.2001, representing taxes, contributions and other budgetary incomes and claims, in total value of ROL 12,040,615,453 and exemption of interests (supplementary charges), delay penalties anther penalties, afferent to overdue budgetary obligations, in value of ROL 24,759,384,547, as well as a credit in value of ROL 6,000,000,000.

(28) The Restructuring Plan, through its financial component, gives the possibility to increase the cash-flow, to ensure a constant cash-flow, in order to smooth the financial activity. In this way, the company will be able to pay the current debts to the State and to allocate the liquidities necessary to carry out the planned investments and to develop and sustain the production program in the future.

(29) Following the implementation of the Restructuring Plan it is aimed at reduction of raw materials, natural gas and electric power consumption, and consequently at quality increase and less pollution in the area.

4. THE STATE AID CHARACTER OF THE MEASURES OF FINANCIAL SUPPORT GRANTED TO THE COMPANY

(30) The measures of financial support are granted in order to restructure S.C. DERMATINA S.A. Timisoara, at its privatization, due to the fact that for a production activity under normal parameters, the company needed a financial restructuring. The State aid granting, linked to actions provided for in the Restructuring Plan will generate the increase of the economic efficiency.

(31) These facilities, consisting of AVAS renouncement to charge 85% of budgetary obligations overdue at 31.12.2001 and exemption from the payment of interests (supplementary charges), delay penalties and any other penalties, afferent to overdue budgetary obligations, are granted in order to restore the company's viability.

(32) The Competition Council, when analysing the measures of financial support granted by the State, noticed that there are no doubts as regards those being financed from State resources and conferring an advantage to S.C. DERMATINA S.A. Timisoara. Also, it is noticed that the financial measures affect the trade with the European Union Member States, since the products are also traded on the external market.

(33) As a consequence, the measure of financial support are considered State aid, falling under the provisions of the Law no. 143/1999 on State aid, amended and completed by Law no. 603/2003.

4. EVALUATION OF STATE AID MEASURES INTENDED TO BE GRANTED TO S.C. DERMATINA S.A. Timisoara

(34) The State aid objective is the restructuring of S.C. DERMATINA S.A. Timisoara, in order to restore the company's viability at the end of the restructuring period. The State aid must be analysed according to criteria of the Regulation on State aid for rescue and restructuring firms in difficulty (hereinafter the Regulation).

(35) S.C. DERMATINA S.A. Timisoara did not benefit from State aids for rescue and/or restructuring in the past.

(36) The major dysfunction of S.C. DERMATINA S.A. Timisoara is generated by the lack of funds for technological modernisation aimed at adapting products at market demands, the financial blockage and the lack of payment capacity from company's customers.

(37) As a result of the high wear and obsolescence of machines and installations existing on the technological flow, a high consumption of electric power, natural gas and raw materials is registered, imposing thus a large volume of environmental investments and investments for technological modernisation, automatisisation and optimisation.

(38) From the analysis of the activity, in order to be rehabilitated, the company committed itself to achieve the following objectives:

- To make the activity efficient by cost reduction;
- To obtain profits and to reorganise the activity;
- To assimilate new products, specific to its field of activity;
- To make available the unused industrial spaces;
- To purchase new equipment and installations;
- To implement the ISO 9001/2000 Quality System;
- Improvement of dumps for waste resulting from the technological flow which are recycled and transport and burning those that cannot be recovered

(39) The analysis of the notified measure was carried out according to criteria for granting the State aids contained by the Regulation on State aid for rescue and restructuring firms in difficulty.

5.1. Eligibility of S.C. DERMATINA S.A. Timisoara – firm in difficulty

(40) The reasons based on which it was established that S.C. DERMATINA S.A. Timisoara is eligible to receive restructuring aid, being a firm in difficulty, are the following:

a) Turnover decrease

Table no. 9

	2001	2002	2003
Turnover (thousands ROL)	48,898,368	48,465,663	45,428,968

Source: AVAS

From the turnover analysis, it is noticed that the company reduced the volume of sales in 2002 in comparison with 2001, reduction that was accentuated in 2003, generated mainly by losing the position on the internal market due to competition from importers of plastic products (especially from China and Turkey), the imported products having a price/quality proportion superior to that provided by S.C. DERMATINA S.A., during the analysed period.

b) Reduction of sold production

Table no. 10

	2001	2002	2003
sold production	47,080,341	46,353,972	43,177,580
sold production in relation with inflation index	36,215,647	30,217,713	24,690,398

- thousands ROL -

Source: AVAS

Analysing the evolution of the sold production, in relation with the inflation index, it results that during 2001- 2003, the company reduced its main activity, recording a reduction with ROL 11,525,249 thousands in 2003 against 2001.

c) evolution of gross result and operating result

Table no. 11

	2001	2002	2003
gross result	-769,126	65,788	-13,982,993
operating result	1,206,655	2,150,921	-13,134,566

- thousands ROL -

Source: AVAS

From the analysis of the gross and operating results, it is noticed that during the analysed period, S.C. DERMATINA S.A. registered a descendent trend of the operating result, in

2003 the company recording a loss of about ROL 14 billion, which represented 29% of the turnover achieved in that year.

The loss registered by S.C. DERMATINA S.A. in 2003 is mainly generated by the accentuated decrease of operating incomes, respectively from ROL 50,798,903 thousands in 2001, to ROL 48,529,467 thousands in 2003.

d) Evolution of equity capital

Table no. 12

- thousands ROL -

	2001	2002	2003
<i>equity capital</i>	256,033,259	-99,648,530	69,383,058

Source: AVAS

Following the re-analysis of data registered at 31.12.2002, according to the Order of the Minister of Public Finances no. 94/29.01.2001 for approving the accounting regulations harmonized with the fourth Directive of EEC and Accounting International Standards, it is noticed that the company lost in 2003 about 73% of its equity capital in comparison with 2001.

e) Stocks

Table no. 13

- thousands ROL -

	2001	2002	2003
Stocks	11,596,052	14,806,230	13,408,244
Turnover	48,898,368	48,465,663	45,428,968
Number of storage days	85.37	110.00	106.25

Source: AVAS

The big number of storage days registered by the company in comparison with the duration of the fabrication cycle (7 days) indicates that, on one hand, S.C. DERMATINA S.A. has difficulties in selling the manufactured products, and on the other hand, has funds blockage, which in the financial result it appears as loss.

f) Evolution of claims

Table no. 14

- thousands ROL -

	2001	2002	2003
claims	7,873,722	4,693,823	4,742,350
Turnover	48,898,368	48,465,663	45,428,968
Duration for collecting the claims (days)	57.97	34.86	37.58
Duration of fabrication cycle for main products (days)	7	7	7

Source: AVAS

The duration for collecting the claims compared with the duration of the fabrication cycle shows difficulties in re-starting the fabrication cycle and the necessity to turn to other financing source, others than generated by the productive activity.

g) Gross operating margin

Table no. 15

	- thousands ROL -		
	2001	2002	2003
Operating result	1,206,655	1,436,936	-13,134,566
Turnover	48,898,368	48,465,663	45,428,968
Profitability (%)	2.47%	2.96%	Negative value

Source: AVAS

In the analysed period, the profitability registered low values, becoming negative in 2003. The negative values of this indicator show the difficult situation of the company, its incapacity to generate profit from the operating activity.

i) indebttness degree

Table no. 16

	- thousands ROL -		
	2001	2002	2003
Total debts	214,300,499	233,541,482	55,523,379
Equity capital	256,033,259	-99,648,530	69,383,058
indebttness degree (%)	83.59	Negative	80.02

Source: AVAS

In 2002 the equity capital had negative value, showing that the company was not able to cover the debts from the equity capital, practically becoming insolvent.

In 2003, by re-evaluating the subscribed capital from ROL 122,766,775 thousands to ROL 515,271,800 thousands, the company registered a positive equity capital, taking into account that the indebttness degree is high.²

Although the indebttness degree is improved, in 2003 in comparison with 2002, it is to be mentioned that the company registered in 2003 net current debts in value of ROL 6,611,501 thousands and important cumulated losses of ROL 555,536,660 thousands, correlated with a loss in the financial exercise in 2003 of ROL 13,982,993 thousands. This fact indicates the difficult situation the company is confronting with, not being capable to cover the volume of debts.

² The undertaking's social capital was increased, amounting ROL 515,271,800,000 before the privatization, as a result of registering positive values of own capital in 2003.

j) Creditworthiness

Table no. 17

- thousands ROL -			
	2001	2002	2003
Working capital	19,884,022	20,714,521	22,714,521
Stocks	11,596,052	14,806,230	13,408,244
Difference 1-2	8,287,970	5,908,291	8,895,878
Current debts	21,232,754	233,541,482	21,896,904
intermediary liquidity	0.39	0.03	0.41

Source: AVAS

The trend of the intermediary liquidity indicator shows that the company is incapable to generate liquidities necessary for payments from the current activity, recording values below 0.5 for entire analysed period.

k) cash-flow

Table no. 18

- thousands ROL -				
	2000	2001	2002	2003
<i>cash-flow</i>	-113,409	280,531	830,220	-50,590

Source: AVAS

The positive cash-flow during 2001-2002 coincides with the significant increase of the company's indebtedness degree, meaning that the activity is financing through non-payment of the debts.

In 2003 the cash-flow becomes negative, reflecting an obvious loss of the liquidity generated both by income reduction and by the fact that the company is not able to collect the claims in due time to re-finance the production cycle.

5.2. Part of a group

(41) According to the provisions of art.2 par. (5) of the Regulation, a company belonging to a group is not normally eligible for granting State aid for rescue and restructuring, excepting the case where it can be demonstrate that the company's difficulties are its own and do not result from an arbitrary allocation of costs within the group and that the difficulties are much too serious to be solved by the group.

(42) S.C. DERMATINA S.A is owned by S.C. BEGACOM S.A in proportion of 91.727%.

(43) The new majority shareholder, S.C. BEGACOM S.A. Timisoara, has as main activity object the retail trade in non-specialized shops with predominant sale of non-food products.

(44) The economic – financial situation of S.C. BEGACOM S.A. Timisoara presented in table no.19 reveals the fact that the company could not solve the financial difficulties that S.C. DERMATINA S.A confronted at the privatization moment (the profit obtained by S.C. BEGACOM S.A. Timisoara was not sufficient to cover the losses recorded by S.C. DERMATINA S.A in value of ROL 13,982,993 thousands). According to the information contained by the State aid notification form, all the available resources of S.C. BEGACOM S.A. Timisoara are allocated for financing the organizational, technical-technological and environmental restructuring.

The evolution of the main economic – financial indicators of S.C. BEGACOM S.A. Timisoara

Table no. 19

ROL thousands					
No.	Indicator	2000	2001	2002	2003
1	Turnover	53,353,108	119,726,891	194,184,637	241,029,903
2	Total incomes	59,580,724	120,970,024	199,834,507	245,357,853
	of which:				
	operating incomes	59,440,030	120,640,839	196,783,462	242,401,453
3	Total expenses	58,278,715	120,85,967	198,825,704	241,232,138
	of which:				
	operating expenses	57,115,837	118,722,454	192,215,996	234,391,358
4	Registered Capital	62,250	62,250	34,062,250	34,062,250
5	Own Capitals	2,216,387	2,236,279	36,317,378	39,028,847
6	Profit	1,302,009	112,057	1,008,803	4,125,715

Source: AVAS

(45) The company's difficulties are not from arbitrary allocation of costs within the group, being the effect of the economic results recorded in the last years, previous to the moment the majority share package was sold.

5. 3. Restoration of the company's viability

(46) According to art. 12 of the Regulation regarding the State aid for rescue and restructuring the firms in difficulty, the restructuring plan should include measures targeted to abandon the activities producing losses and must lead to the company viability on long term, permitting the company to function based on the own resources.

(47) The restoration of the viability of the company is obtained mainly from the internal measures included in the restructuring plan, namely:

- Intention to sell/rent the unused industrial spaces;
- Finalizing the implementation of the system of quality ISO 9001/2000;
- Assimilating new products, specific to the field.

(48) The restructuring plan will permit the company not to register losses, but to develop towards a new structure, by:

- ensuring the payment in due time of the current debts and the monthly scheduled debts according to the schedule, to the budgetary creditors;
- making efficient the activity by reducing the costs;
- making profitable and reorganizing the activity of the company;
- increasing the liquidities and diminishing the indebttness degree;
- financing the rolling fund necessary for achieving a quality production.

(49) The influences of the measures from the restructuring plan determined both by the contribution of the Buyer and by the facilities for paying the budgetary obligations, during the restructuring period, are found in the level of the indicators, as follows:

The evolution of the main economic and financial indicators

Table no. 20

-ROL million-

Indicators		2004	2005	2006	2007	2008
1	Registered Capital, of which:	529,495	529,495	529,495	529,495	529,495
4	Total incomes, of which:	65,00	70,000	73,000	75,000	77,000
	- Other incomes	5,000	2,500	3,000	4,000	5,000
	- Incomes from exploiting	60,000	67,500	70,000	71,000	72,000
	- Financial incomes	-	-	-	-	-
	- Exceptional incomes	-	-	-	-	-
5	Total expenses, of which:	58,250	61,600	66,500	67,500	69,000
	a) operating, of which:	57,465	60,650	65,000	66,000	67,500
	- expenses with raw materials and consumables	19,000	19,800	21,000	22,000	22,500
	- expenses with energy and water	5,600	6,800	7,600	7,500	8,500

	- expenses with works and services provided by third parties	1,500	2,000	2,000	2,000	2,000
	- expenses with personnel	15,950	15,000	18,000	19,000	19,500
	- expenses with depreciation and provisions	2,400	3,000	3,100	3,500	4,000
	- other expenses	13,015	14,050	13,300	12,000	11,000
	b) financial	785	950	1,500	1,500	1,500
	c) exceptional					
6	Gross Profit (+) / Loss (-)³	6,750	8,400	6,500	7,500	8,000
7	Net profit (+) / Loss (-)	6,750	8,400	5,200	5,700	6,100
8	Rolling Assets - total, of which:	23,414	18,464	15,164	13,764	10,664
	a) Stocks	13,900	10,700	9,100	8,150	5,550
	b) Claims	8,000	4,500	3,000	1,900	1,000
	c) Liquidities and investments	1,514	3,264	3,064	3,714	4,114
9	Debts- total, of which:	57,294	52,164	49,634	47,619	46,139
	a) loans and assimilated debts	6,000	3,300	1,300		
	b) commercial debts	5,300	5,200	5,200	5,100	5,000
	c) fiscal debts owed to social insurance and health budget	42,994	41,164	41,134	41,019	40,139
	d) other debts	3,000	2,500	2,000	1,500	1,000
10	Overdue payments - total, of which:	2,500	1,500	500		
	a) suppliers					
	b) creditors					
	c) other creditors					
	d) taxes owed to the State budget					
	e) taxes owed to the local budgets	2,500	1,500	500		
	f) banking loans					
	g) interests					

Source: AVAS

³ The brut accounting profit to be registered by the undertaking in the years 2004, 2005 and 2006 is determined by the operation in the accountability of a part from the facilities granted at the privatization, facilities that are object of the present decision. This profit shall not be used under the form of dividends, but for covering the losses from the previous years.

(50) The implementation of the restructuring program aims at the radical change of the economic and financial situation of the company, as, at the end of the restructuring period, the company should entirely cover the costs and should be able to compete by own resources on the market, fact revealed by the evolution of the economic and financial indicators from the Tables no. 21, 22 and 23.

Synthetic indicators of efficiency

Table no. 21

No.	Indicators	M.U.	2004	2005	2006	2007	2008
1	Intermediary liquidity	%	77.9%	69.9%	63.8%	67.6%	68.2%
2	Speed of stock rotation	days	83.4	57.1	46.8	41.3	27.8
3	Period for claims recovery	days	47.9	23.9	15.4	9.6	5.1
4	Weight of arrears	%	4.36	2.88	1.00	0	0
5	Economic efficiency	%	7.01%	8.2%	5.0%	5.1%	5.2%
6	Losses/registered capital quota	%	111.3%	110.0%	108.5%	107.5%	106.4%
7	Expenses at ROL 1000 operating incomes	ROL	884.0	866.4	890.4	880.0	876.6

Source: AVAS

Cash flow evolution during the implementation of the restructuring plan

Table no. 22

- ROL thousands -

	2004	2005	2006	2007	2008
1. cash flow from operating activity	14,000	4,500	4,500	5,000	5,000
2. cash flow from investment activity	-14,000	-4,500	-4,500	-5,000	-5,000
3. cash flow from financing activity (variation of loans)	6,000	300	-2,000	-2,000	-1,700
4. total cash flow	2,850	1,450	-500	650	400
5. liquidities at the beginning of the period	1,164	4,014	5,464	4,964	5,614
6. liquidities at the end of the period	4,014	5,464	4,964	5,614	6,014

Source: AVAS

Simplified balance sheet

Table no. 23

- ROL thousands -

		2004	2005	2006	2007	2008
A.	Fixed assets	90,566	99,036	104,906	110,991	117,211
	I. intangible assets					
	II tangible assets	76,536	85,006	90,876	96,961	103,181
	III. financial assets	14,030	14,030	14,030	14,030	14,030
B	Rolling assets	25,914	20,664	17,064	15,664	12,564
	I. Stocks	13,900	10,700	9,100	8,150	5,550
	II. Claims	8,000	4,500	3,000	1,900	1,000
	III. financial investments on short time	-	-	-	-	-
	IV. Cash in hand and banking accounts	4,014	5,464	4,964	5,614	6,014
C	Expenses in advance	1,500	1,200	1,150	1,000	900
D	Debts overdue until one year	12,200	11,100	9,500	8,300	7,500
E	Net rolling assets, net current debts	15,214	10,764	8,714	8,364	5,964
F	Total assets – current debts	95,266	102,636	106,906	111,791	117,211
G	Debts overdue within a period longer than one year	45,094	41,064	40,134	39,319	38,639
H	Provisions for risks and expenses	-	-	-	-	-
I	Advance incomes	7,500	7,500	7,500	7,500	7,500
J	Capital and reserves	53,172	61,572	66,772	72,472	78,572
	I. Subscribed capital	529,495	529,495	529,495	529,495	529,495
	II. Capital bonuses	-	-	-	-	-
	III. reserves from re-evaluation	104,287	104,287	104,287	104,287	104,287
	IV. Reserves	2,161	2,161	2,161	2,161	2,161
	V. carried-forward result	589,521	582,771	574,371	569,171	563,471
	VI. financial exercise result	6,750	8,400	5,200	5,700	6,100

Source: AVAS

(51) Following the achievement of the measures, at the end of the implementation of the restructuring plan, it is followed to achieve the main indicators as presented in table no. 24.:

Table no. 24

1. net profit	ROL million	6,100
2. turnover	ROL million	72,000
3. number of employees	Persons	130
4. own capital	ROL million	78,572
5. period for claims recovery	days	5.1
6. period for paying the debts	days	385.6
7. indebttness	%	98.1
8. economic profitability	%	5.2
9. financial profitability	%	7.8
10. cash flows	ROL million	400

Source: AVAS

5.4. Preventing from significant distortion of the competitive environment

(52) By granting the State aid and application of the Restructuring Plan, the structure of the relevant market will not be modified with anticompetitive effects, this action having as purpose the increase of the economic efficiency by reducing the production costs and do not generate supplementary liquidities that can be used in aggressive activities distorting the competition on the market without any relation with the restructuring process.

(53) The market shares of S.C. DERMATINA S.A on the relevant markets are insignificant, respectively of 5% on the internal market of protection boots, 5% on the internal market of PVC carpet and 3% on the internal market of latex gloves. Thus, it is considered there is no significant distortion of the competition according to art. 13 of the Regulation.

(54) Having in regard that at present, S.C. DERMATINA S.A. is a minor producer and that the specific market is expending (at least in the field of plastic products used in construction and seasonal footwear), the company's intention to increase the volume of production, within the existing capacity, shall not negatively affect the internal competition. The production capacity shall remain the same while the production shall increase due to the increase in the labour productivity as a result of the modernizing of the basic technological lines during the restructuring period. This way, the provisions of art. 14 align. 2 in the Regulation regarding the state aid for rescuing and restructuring firms in difficulty are met, provisions stipulating that „ the state aid shall be used only for the undertaking to become viable again, and that the state aid shall not allow to the beneficiary, while applying the restructuring plan, to extend its production capacities, excepting for the case when this is essential for re-viability, but without causing a distortion of the competition.”

5.5. Aid limited to minimum

(55) The Restructuring Plan is financed from the buyer's own resources, through credits contracted under market conditions and State aid, being noticed that the State aid value is limited to the strict minimum necessary for the implementation of the restructuring measures to lead to the restoration of the company's viability on long term.

(56) The contribution of S.C. DERMATINA S.A. to the implementation of the measures contained by the Restructuring Plan represents 35.38% of the total financial effort. The requested State aid, in amount of ROL 39,112 million exempts the company from paying the debts, allowing the company to become eligible for credit, the aid being thus limited to strict minimum necessary.

5.6. State aid intensity and restructuring cost

(57) The State aid intensity and quantum must be strictly limited up to the level the objectives of the Restructuring Plan are reached (reaching the viability).

(58) The total restructuring cost, in amount of ROL 60,517 million, consists of:

- cost for organisational restructuring: ROL 55 million;
- cost for technical-technological restructuring: ROL 14,950 million;
- cost for environmental restructuring: ROL 400 million;
- cost for financial restructuring: ROL 45,112 million,

and is sustained as follows:

- | | |
|-----------------|---------------------|
| - own resources | ROL 21,405 million; |
| - State aid | ROL 39,112 million. |

(59) The State aid intensity, calculated as ratio between the State aid value and the restructuring cost, is of 64.62%.

5.7. Principle “one time, last time”

(60) S.C. DERMATINA S.A. did not receive State aid for restructuring, being thus observed the provisions of art. 18 of the Regulation, stipulating that the restructuring aid must be granted only once.

5.8. Monitoring and Annual Report

(61) In accordance with the provisions of art. 17 of the Regulation, the Competition Council permanently surveys the implementation of the Restructuring Plan, as to fulfil the restructuring objectives.

(62) The Competition Council shall survey the implementation of the Restructuring Plan until the end of the restructuring period in order to prevent from increasing the production capacities, major deviations from achieving the restructuring measures and to ensure that the State aid shall not lead to supplementary liquidities that might be used in other activities than those contained in the Restructuring Plan.

6. CONCLUSION

(63) It was noticed that the State aid was notified before it was granted.

(64) Taking into account those mentioned above, the Competition Council noticed that the individual State aid to be granted to S.C. DERMATINA S.A. is compatible with the normal competitive environment and does not significantly affect the trade with the European Union's Member States.

DECIDES

Art. 1. The measure notified by AVAS for S.C. DERMATINA S.A. Timisoara constitutes State aid under art. 2 par. (1) of the Law no.143/1999, amended and completed by Law no. 603/2003.

Art. 2. Under art.12 par.(2) let.c) read in conjunction with art.14 par.(1) let.e) of the Law no.143/1999, with subsequent amendments and completions, authorises the State aid for restructuring, to be granted to S.C. DERMATINA S.A. Timisoara, under the conditions of observing art. 3 and art. 4 of the present decision.

Art. 3. The company shall not increase the production capacity over the level afferent to 2003.

Art. 4. The company must entirely implement the committed Restructuring Plan.

Art. 5. If the conditions imposed by the present decision are not fulfilled, the provisions of art.13 in the Law no.143/1999 on the state aid, with the subsequent modifications and completions, shall apply.

Art.6. The value of the State aid to be granted to S.C. DERMATINA S.A. Timisoara is of ROL 39,112,000,000.

Art. 7. The present Decision becomes applicable at the date of its communication.

Art. 8. According to the provisions of art. 24 of the Law no.143/1999, with subsequent amendments and completions, the Authority for State Assets Recovery shall submit to the Competition Council information regarding the granted State aid, for its monitoring and inventorying. As well, the Authority for State Assets Recovery shall submit to the Competition Council annual reports regarding the implementation of the Restructuring Plan. The first Report shall be submitted within 6 months as of the date the decision was issued.

Art. 9. According to the provisions of art. 29 of the Law no. 143/1999 on State aid, with subsequent amendments and completions, the present Decision can be appealed by concerned persons within 30 days as of its communication before the Bucharest Court of Appeal, Administrative Contentious Section.

Art. 10. The present Decision will be communicated by the Secretariat General of the Competition Council to:

- AVAS, 50 Cpt. Av. Alexandru Serbanescu Street, sector 1, Bucharest;
- S.C. DERMATINA S.A. Timisoara, 100 Calea Sagului Street, Timisoara, Timis County.

Art. 11. The General Secretariat and the Directorate for State Aid Authorization of the Competition Council shall pursue the fulfilment of this Decision.

PRESIDENT

MIHAI BERINDE