COMMISSION DECISION

of 20 October 2005

on the State Aid implemented by Finland for investment aid to Componenta Corporation

(notified under document number C(2005) 3871)

(Only the Finnish and Swedish versions are authentic)

(Text with EEA relevance)

(2006/900/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular the first subparagraph of Article 88(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on interested parties to submit their comments pursuant to the provisions cited above [1],

Whereas:

I. PROCEDURE

(1) By letter dated 10 March 2004 from Metalls Verkstadsklubb vid Componenta Alvesta AB, Sweden, the Commission was informed that the City of Karkkila had made a financial transaction with Componenta Corporation Oyj in Karkkila, Finland which it suspected contained state aid. Based on this information the Commission requested clarifications from Finland. By letter dated 22 June 2004 Finland provided the Commission with the information requested.

(2) By letter dated 19 November 2004 the Commission informed Finland that it had decided to initiate the procedure laid down in Article 88(2) of the EC Treaty in respect of the suspected aid.

(3) The Commission decision to initiate the procedure was published in the *Official Journal of the European Union* [2]. The Commission invited interested parties to submit their comments on the measure.

(4) The Commission received no comments from interested parties.

II. DETAILED DESCRIPTION OF THE AID

The aid and the beneficiaries

(5) Componenta Corporation Oyj (hereinafter called Componenta) is a metal sector company with international operations, based in Karkkila, Finland. It has production plants in Finland, the Netherlands and Sweden. Most of the company's net sales in 2004 of EUR 316 million came from the Nordic countries and Central Europe. The Group employs around 2 200 people.

(6) The suspected aid was provided to Componenta in December 2003 and consisted of two operations. In one case it was provided through the purchase by the city of Karkkila (hereinafter called Karkkila) of 50 % of the shares in the real estate company Karkkilan Keskustakiinteistöt Oy (hereinafter called KK), which was jointly owned (50/50) by Karkkila and Componenta. In the other case Karkkila granted KK an interest-free loan, which was used by KK to reimburse a loan of the same amount that it had been granted by Componenta in 1996. The total sum of the deal was EUR 2 383 276,5 (EUR 713 092,5 for the shares and EUR 1 670 184 in the form of the loan repayment) [3].

(7) The price for the shares was based on the estimated net value of the company (assets minus liabilities) and by dividing this amount by 2, since Componenta owned 50 % of KK. Since the net value of KK was calculated as EUR 1 495 918, the value of the 50 % shares was EUR 747 958. The price for the shares was set somewhat lower at EUR 713 092,5.

(8) The sales agreement between Karkkila (Buyer) and Componenta (Seller) furthermore stated the following:

a. 'The Seller agrees to invest in the extension of Componenta Karkkila Oy's production facilities in the territory of the City of Karkkila as specified in Appendix 1 of this contract. It is estimated that the investment will create 50–70 new full-time jobs in Karkkila in 2004 (the average number of Componenta employees in Karkkila in 2003 was 130).

b. If the extension of the Seller's facilities is not commenced in 2004 as specified in the above paragraph, the Buyer has the right to cancel the transaction at its own discretion.'

(9) Annex 1 of the sales agreement stated that Componenta will merge the operations of two of the Group's foundries (the Alvesta foundry in Sweden and the Karkkila foundry); that the two units that operate at a low utilisation rate will be merged; that analyses were required for making the decision on the location of the foundry and commence-

[1] OJ C 49, 25.2.2005, p. 11.
[2] See footnote 1.
[3] Elsewhere in the text these amounts have been rounded for convenience.

ment of employer–employee negotiations as regards the decision on the closing of the Alvesta or the Karkkila foundry and that detailed planning of the new foundry, including the transfer of machinery from the other foundry, was necessary. It is, therefore, clear that the decision was linked to the moving of the production facilities from one of the two locations to the other.

(10) According to information in Componenta's annual report 2004, its foundry in Alvesta, Sweden, was closed down in May 2004 with the key production and machinery thereafter moved to Karkkila, Finland. According to the information from the company the total cost of closing production in Sweden and investing in Finland amounted to EUR 13 million.

(11) Finland argued that the transaction between Componenta and Karkkila was market-based and that no aid was involved. In its decision to initiate the formal procedure the Commission, however, expressed doubts that the transaction between Karkkila and Componenta was market-based. It stated that if the purchase price was above the market value of the shares, this would constitute aid to Componenta. The aid amount would be the difference between the price a private investor would be willing to pay for the shares and the EUR 2,4 million transferred from Karkkila to Componenta.

(12) The Commission furthermore considered that the clauses of the sales agreement referred to above provided a strong indication that the transaction was not market-based, and that it was instead intended as a form of compensation for Componenta's new investments in the territory of Karkkila, which were linked to the closure of the Alvesta foundry.

(13) After taking over Componenta's shares in KK, Karkkila decided to liquidate KK and transfer the land to the city.

III. COMMENTS FROM FINLAND

(14) Since the only significant asset of KK was its land, Finland has specified in more detail how the land owned by KK was valued when setting the price of the shares.

a. For land to be used for private homes and apartment buildings the value was based on the land sales criteria used by the city itself when selling land. According to Finland this was equal to or below the market price. Finland also provided a copy of a letter from a certified real estate agent stating that the market value per square metre of the different land types was slightly above the price used in the transaction in question.

b. As regards a large area of land situated in the centre of Karkkila called Asemansuo, Finland claims that the purchase price was calculated on the basis of the lower limit of permitted building area specified in the city plan, but no information was provided on which base the amount in euro per square metre was fixed.

c. Finally, as regards the value of land designated for parks, a valuation of EUR 456 000 was considered by the real estate agent to be the market value.

(15) The Commission requested Finland to make a market valuation of all the land owned by KK at the time of the sales agreement. Finland replied that this was not needed, since Karkkila and Componenta had used a real estate agent to estimate the unit value of land similar to the land involved in the transaction and that a market evaluation had therefore already been done.

(16) As regards the condition in the sales agreement stipulating that Karkkila would buy the shares in KK from Componenta only if Componenta invested in new production facilities (thereby moving its foundry from Alvesta, Sweden to Karkkila), Finland denies allegations by the Commission that this clause is a sign that the transaction was not market-based. It justifies the clause by the fact that if Componenta's activity were increased in Karkkila this would be favourable for the city, boosting its revenue. It would also increase the demand for real estate, thereby raising the value of the land owned by KK. Otherwise, Karkkila would not 'need' to conclude the transaction.

(17) Asked by the Commission whether Componenta had tried to find another buyer for the shares, Finland replied that it had not, since Karkkila had the right of first refusal to redeem the shares at the market price in the event of Componenta wanting to sell its shares in KK.

(18) Finally, as regards the loan transaction, Finland confirms that the repayment of Componenta's shareholder loan by new funds from Karkkila to KK was an integral part of the share transaction between Karkkila and Componenta and that the 'total purchase price' consisted of the payment for the shares and the repayment of the loan.

(19) In this respect, Finland argues that the loan transaction too was market-based, since the total amount provided to Componenta for the shares and the loan, EUR 2,37 million, was less than the market value of half of KK. Furthermore, Finland argues that KK's financial situation had improved since 1996 when the loan was granted to KK by Componenta.

IV. ASSESSMENT OF THE AID

Definition of aid

(20) According to Article 87(1) of the EC Treaty, 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 is, in so far as it affects trade between Member States, incompatible with the common market. Pursuant to the established case law of the European Courts, the criterion of trade being affected is met if the

recipient firm carries out an economic activity involving trade between Member States.

(21) The activities of Componenta involve trade between Member States. Therefore, aid to this company would fall within the scope of Article 87(1) of the EC Treaty. State resources include financial assistance granted by regional and local authorities ([4]).

Existence of aid

(22) In its decision to open the formal investigation the Commission stated that the aid amount would be the difference between the price a private investor would be willing to pay for the shares and the purchase price of EUR 2,37 million.

(23) The Commission notes that the total purchase price consisted of two parts. First, Componenta received EUR 0,7 million in cash in return for its shares and, second, it was repaid EUR 1,67 million that it had provided as a loan to KK. Therefore, in total Componenta received EUR 2,37 million in the transaction concerned. The two elements will be assessed separately.

The conditional clause

(24) The Commission notes that one alternative for Componenta had been to move its foundry activities from Karkkila to Alvesta. It is therefore understandable that Karkkila may have been concerned about the prospects of losing production facilities and thereby employment.

(25) Furthermore, it may be correct that the demand for land would increase if a main employer in the city expanded its activities instead of reducing them. However, the fact that the issue of buying the shares in KK and providing a loan to KK was contractually linked with Componenta's investment decision and that the city even had the right to cancel the entire transaction if Componenta did not make the promised investments in Karkkila proves that the decision of the city to perform the transaction with Componenta was not based only on the market value of KK, but took other considerations into account as well.

(26) However, according to the market economy investor principle, as established by the Court, a market economy investor takes his decisions having regard to the foreseeability of obtaining a return and leaving aside all social, regional policy and sectoral considerations. Given that Componenta's investment in new production facilities was a direct condition for the financial transaction under investigation, it can be concluded that the behaviour of Karkkila did not comply with the market economy investor principle. To accept boosting tax revenue and improving general welfare in the municipality as being market economy investor considerations would be to mix the roles of the city as a public authority and as commercial co-owner of KK.

([4]) Case 248/84, *Germany* v *Commission* [1987] ECR 4013, paragraph 17.

(27) The Commission also notes that that the Karkkila City Board at its meeting on 1 September 2003 stated that the transaction with Componenta was directly linked to its investment decision in Karkkila and that when Karkkila bought the shares of KK, Componenta would have the funds to make the investment in its Karkkila plant.

(28) These observations further support the Commission's findings below that the transaction was not market-based.

The price for the shares

(29) The price paid for the shares in KK is one part of the financial transaction between Karkkila and Componenta. The issue is whether this price was market based.

(30) Finland justified the price of the shares in KK in terms of the net value of the assets owned by KK. However, the transaction at issue is not a sale of real estate itself, but the acquisition of shares in a company. For such investment, a market economy operator would base his assessment of the market price primarily on the likely return he could expect from his investment. This is because a market economy investor invests in view of the profits, i.e. the expected return on the investment. He would therefore have taken into account the ratio between the expected yearly return on the shares and the capital invested in order to see whether he could expect an appropriate return, compared to other investment alternatives.

(31) On the basis of the results of the last few years, the return on an investment in KK would clearly be negative. Moreover, there are no signs that this situation is set to improve in the future. Finland has not provided any KK business plan setting out measures planned to improve the profit situation nor has it even claimed that Karkkila had any expectations of improvement in profits and return.

(32) The reason for the negative results is that KK was clearly in difficulties, the demand for its land was weak and revenue from its land was only marginal. The company had shown losses for the past four years, had very low sales, could not distribute any dividends and had a precarious financial situation. Furthermore, this difficult financial situation existed even though the company was benefiting from interest-free loans. Had it financed its activities by normal loans with interest, the situation would have been even worse. On the basis of past experience, and lacking any prospects of an improvement in the company's financial situation, a market investor could not have expected any return on investment when purchasing the shares of KK. Based on this, the Commission considers that the value of the shares in KK was zero.

(33) This conclusion is reinforced by the fact that KK was, as explained above, to a large extent financed by two interest-free shareholder loans. This means that a change of

ownership in the shares would have to be accompanied by the takeover of the interest-free loans, which, as will be explained below, a market investor would not have done.

(34) As already stated above, what is decisive is the expected return in the long run, which might differ from the return actually generated in the past. Nevertheless, a market economy investor would also take past performance into account. As regards expected returns, the crucial question is whether KK could reasonably be expected to generate adequate income through sale of land and through the leasing out of land. This is linked to the valuation of the real estate in its totality as discussed below.

(35) Finland explained that the value of the land owned by KK was the basis for the valuation of the shares. It is true that the net value of assets is also considered by a market economy investor for his decision. The Finnish argumentation for the valuation of the shares is summarised in the table below:

Table 1

Value of KK according to Finland:

Land type	Value according to Finland (Euro)
For detached houses	1 031 565
For terraced houses and apartment blocks	1 136 849
Asemansuo	2 358 158
Parks and communal land	491 738
Other area (Haapala)	49 678
Total land value	**5 067 988**
Book equity of KK	- 231 595
Debts of KK	- 3 340 475
Net value KK	**1 495 918**
Net value 50 % of KK	747 959
Price paid by city	713 092
Aid	0

(36) The considerations of the *Commission Communication on State aid elements in sales of land and buildings by public authorities* ([5]) do not apply directly, because the transaction does not concern individual pieces of real estate, but shares in a company. However, they can be applied by analogy in this case, since the aim of the Commission's Communication, which is to ensure that transactions between public and private undertakings involving land are free from aid, is relevant for both the sale and purchase of land by public undertakings and also because in this case Finland argues that the valuation of the land was the basis for setting the price of the shares. The Communication states that land evaluation, if not based on an unconditional bidding procedure, should be carried out by one or more independent asset valuers prior to the sale, in order to establish the market value on the basis of generally accepted market indicators and valuation standards.

(37) The Commission notes that the land was not evaluated on the basis of an unconditional bidding procedure. Therefore a valuation should have been made by an independent asset valuer. The question is whether the valuation made by Finland fulfils the requirement for such an independent asset valuation. The Commission firstly notes that the short report from a real estate agent provided by Finland does not clearly indicate that it concerns the valuation of land owned by KK. The relevance of this report will be further assessed below.

(38) The Commission notes that the land owned by KK was valued in different ways for different types of land, i.e. land for detached houses, land for terraced houses and blocks of flats, a specific area called Asemansuo, and parks and communal land. These different land types will be analysed separately.

(39) As regards land for detached houses, the valuation was based on Karkkila's official unit sales price for such land of EUR 10,19 per square metre. The Commission notes that this was the price used by the city to sell land to individual buyers and thus the retail price. Finland also provided information from a real estate expert on the unit value (for the final customer, i.e. also in this case the retail value) of different types of land in Karkkila. The expert notes that such land was sold in Karkkila for between EUR 9,43 and EUR 14,76 per square metre in 2003, but also notes that the price used by Karkkila is close to the going value for land, without providing any further details.

(40) However, the Commission notes that there was no actual external valuation made of the specific land to be used for detached houses that was owned by KK. Furthermore, there was no estimation of the wholesale value of the land. In the view of the Commission it is evident that the value of land at the retail stage is considerably higher than when land is sold in large quantities (such as in this case, where KK owned 80 plots for detached houses) where the buyer's intention is not to use it, but to sell it on at a later date.

(41) Therefore, an evaluation whereby the estimated retail value for one type of land is simply multiplied by the total amount of land owned by KK contains two errors. First, the specific land in question is not valued and, second, the valuation does not indicate what a market investor buying all the land at once would be willing to pay at the time of the transaction, in particular taking into account the limited size of the market for such plots.

([5]) OJ C 209, 10.7.1997, p. 3.

(42) As regards the land intended for construction of terraced houses and blocks of flats, in total valued at EUR 1 136 849, Finland refers to the valuation made by the real estate expert. The Commission notes that the valuation provided by the real estate expert is EUR 70-80 per square metre floor area for terraced houses and EUR 60-75 for apartments. The value used by Finland was EUR 74,02 per square metre of floor area for terraced houses and EUR 79,56 for apartment blocks. These figures are thus in the middle of the range or slightly above those provided by the real estate expert. The expert furthermore stresses that there have been only a few comparable transactions in recent years and demand continues to be low.

(43) The Commission notes that for these types of land too the expert appears to provide the retail value of the land, and not the wholesale value, which is the price that a market investor would pay to buy all the land in one transaction. Given that the expert stresses that the demand for this type of land continues to be low, the view of the Commission is that the wholesale market value at the time of the assessed transaction was greatly overestimated for these types of land too.

(44) As regards the estimated value of the land in the city centre (Asemansuo), which amounts to around half of the estimated value of KK's land (EUR 2 358 158), it is unclear how the market valuation was made. Finland refers to a value per square metre to be built on (EUR 79,56), and multiplies this by the area allowed to be built on (29 640 m^2. However, the real estate agent referred to by Finland has valued this particular land at EUR 50 per square metre to be built on, which would lead to a value of EUR 1 480 200. The difference between these valuations is EUR 877 958. Since this concerns one large piece of land, it can be assumed that the estimate made by the real estate expert for Asemansuo was the retail value, and the figure provided by the real estate expert can therefore be considered as plausible by the Commission. Finland has not provided any explanation for the substantial deviation from the expert report.

(45) As regards land intended for gardens and communal areas, valued at EUR 491 738, the Commission questions whether it should be given much value at all, since such land, which cannot be exploited for productive use, will not provide any financial return, and a market economy investor would therefore not be willing to pay any significant amount for this.

(46) Based on the above observations, the Commission considers that the valuation of the land owned by KK was not correctly done and did not comply with the valuation criteria in the *Commission Communication on State aid elements in sales of land and buildings by public authorities*.

(47) Taking just the overvaluation of Asemansuo, the total value of KK's land, and thus of the value of the company, if calculated on the basis of asset value, is reduced by EUR 876 158 to EUR 619 760.

(48) The Commission furthermore considers that the value of the land intended for detached houses, terraced houses and blocks of apartments, and communal land and gardens was considerably overvalued, being based on the two errors outlined above, namely that the specific land at stake was not valued and secondly, that the valuation did not indicate what a market investor selling all the land at once would receive at the time of the transaction. The total value of the land was, according to Finland, EUR 2 660 152. The Commission considers that the land was overvalued by more than EUR 619 760, which would be the remaining net value of KK based on the calculation made by Finland, after correction of the overvaluation of Asemansuo. Consequently, even calculating the value of the shares in this way, the entire amount paid for the shares in KK by Karkkila was aid to Componenta.

Table 2

Commission estimate of aid linked to the price of the shares in KK:

	Euro
Net value KK according to Finland	1 495 918
Reduction based on real estate expert valuation of Asemansuo	876 158
Estimated net value of KK after this correction	619 760
Further overvaluation of land according to the Commission	At least 619 760
Net value of KK, based on asset value	0

(49) Since an investor buying the shares in KK could not expect a return on the capital and since the land was overvalued, the Commission concludes that the net value of the shares in KK was zero. Furthermore, Componenta did not even try to find another buyer for its shares in KK, which is also an indication that Karkkila paid a price above market price, since at least an attempt to find another buyer of the shares would have been a useful manner to determine their market price.

(50) The Commission therefore concludes, on the basis of the valuation of both the company itself and the land owned by it, that the shares in KK had no value at all at the time of the change in ownership, and that the price paid for them by Karkkila (EUR 713 092) therefore is aid in its entirety to Componenta.

(51) However, if Finland can provide evidence that the overvaluation of the land, as described above, is less than EUR 619 760, the aid element in the shares transaction could be reduced accordingly. Such a proof should be based on a precise evaluation, by an independent asset valuer, who should be a person with a good reputation who has

obtained an appropriate degree or academic qualification, or equivalent, and has suitable experience and is competent in valuing land and buildings in the location and of the category at issue. The evaluation should estimate the wholesale value of all the land owned by KK at the time of the transaction and, therefore, how much KK could have received if all its land was sold at that time on market terms.

The loan repayment

(52) The other part of the financial transaction between Karkkila and Componenta was that Karkkila granted KK an interest-free loan of EUR 1,67 million, which KK used to immediately repay a loan it had been granted by Componenta in 1996. Two equal loans were provided to KK in 1996, one from Karkkila and one from Componenta, on equal terms, since KK at the time was not able to meet its obligations towards private creditors. That means that the total amount of the two loans was EUR 3,34 million.

(53) Finland claims that KK was in a good financial position in 2003. It refers, for example, to a footnote in KK's annual report 2003 where it is stated that the present value of the land owned by KK was estimated to be EUR 5 052 459, which is EUR 1 971 845 higher than the book value of the land. However, as stated in the previous section, the Commission's assessment is that the KK land was not worth this much.

(54) The annual reports of KK for the years 2001 to 2003 provide the following key figures:

(amount in Euro)	Sales/ income	Result	Cash (year end)	Own capital (year end)
2000	19,883	- 14,817	94,147	- 207,052
2001	25,127	- 16,180	65,576	- 223,233
2002	50,015	- 1,879	53,425	- 225,113
2003	48,044	- 6,481	28,256	- 231,595

(55) From this table it is clear that the demand for land was very limited during those four years. It also reveals that the company receives very little revenue from its land in the form of land sales or rental income. It is also clear that the company was running out of cash and that it had an unusual balance sheet situation with a permanent negative own capital. It can furthermore be noted that the company's main financing, the two loans of a total sum of EUR 3,34 million from Karkkila and from Componenta, were interest-free. With a normal interest rate on the loans the financial situation would have been much worse.

(56) Based on this information, the Commission does not agree with statements from Finland that the financial situation of the KK was good.

(57) The question is whether KK would have been able to repay its loan to Componenta without the action taken by Karkkila.

(58) The Commission first notes that there were two interest-free loans of equal amounts provided to KK in 1996, from Componenta and from Karkkila, in order to rescue KK. These two loans clearly provided a benefit to KK. Any market economy investor who had provided such a loan would require that repayment of the loans be made in equal parts to both the parties that granted them. The partial or total repayment of these loans should therefore be done equally to both lenders (Componenta and Karkkila) in order to avoid giving an advantage to one of them.

(59) Since in the transaction at issue Componenta was fully repaid for the loan it had granted, it has to be assessed whether KK, in a normal market situation, would have been able to repay not only its loan to Componenta but also its loan to Karkkila, in order to ensure that no advantage was granted to Componenta. The issue is thus whether KK would have been able to raise EUR 3,34 million on the market, to be used to repay its two shareholder loans.

(60) If KK had not been financed by interest-free loans, but had, instead, had to pay the market interest rate on its loans of EUR 3,34 million, its annual interest payments would have been at least EUR 265 000 per year. This calculation is based on a Commission reference rate for 2003, plus 4 % points, which the Commission normally add for a company in difficulty (3,95 % + 4 % =7,59 % multiplied by 3,4 million).

(61) Given the company's income over the past years and its cash situation, KK would have to sharply increase its annual income in order to service an interest-bearing debt of this amount. Since the land apparently did not generate any, or only marginal, rental income, the only way for KK to service its debt would have been to sharply increase its sales of land.

(62) Since, according to the real estate expert, demand for most of the land owned by KK was low (for terraced houses and apartment blocks) and that the Asemansuo area was not ready for exploitation it is difficult to see how KK could suddenly increase its annual income sharply.

(63) Even more importantly, such land sales to service the debt would mean that the company would be getting rid of its main assets just to service debt. This would mean that if KK had to sell land for at least EUR 300 000 per year to service its debt and to cover some minimal administrative costs, it would after ten years, for example, have basically no assets left, but still owe the principal of EUR 3,34 million.

(64) Therefore, the Commission concludes that even on the basis of a simple calculation it is evident that KK would not have been able to replace its two interest-free loans with a loan at the market rate. Given the state of its finances, it is even unlikely that KK would be able to receive a smaller

market-based loan, allowing it to repay part of its interest-free loans.

(65) The Commission's conclusion is that the transaction whereby KK received an interest-free loan of EUR 1,67 million from Karkkila, which KK immediately used to repay Componenta, did not comply with the market economy investor principle and is state aid to Componenta.

Conclusion on aid amount

(66) In conclusion, the aid amount based on information provided by Finland is the entire amount provided to Componenta in the transaction at issue. This comprises the payment for shares in KK (EUR 713 092,50) and the loan to KK, enabling it to repay a loan (EUR 1 670 184) granted by Componenta. The total sum of the aid is thus EUR 2 383 276,5. However, if Finland can provide evidence that the overvaluation of the land, by the method described above, is less than EUR 619 760, the aid element in the share transaction (EUR 713 092,5) could be reduced accordingly.

Appraisal of the compatibility of the aid in the light of the doubts expressed by the Commission

(67) The Commission notes that its doubts on whether the transaction between Karkkila and Componenta was market-based have been confirmed, and that Componenta received aid of EUR 2 383 276,5.

(68) The Commission also notes that this state aid was illegal, since it was not notified to the Commission.

(69) The Commission further notes that the activities of Componenta involve trade between Member States and that state resources include financial assistance granted by regional and local authorities ([6]).

(70) The Commission therefore concludes that the aid, the existence of which has been established above, falls under the prohibition of Article 87(1) of the Treaty, since it was granted through state resources, threatens to distort competition by favouring an undertaking (Componenta), and affects trade between Member States.

(71) The only exception to this prohibition is where the aid falls under one of the derogations stated in Article 87 of the Treaty. Since the aid was intended to finance a new investment in Karkkila, the Commission has assessed whether Componenta would have been eligible for regional investment aid. The Commission's conclusion is that this would not be possible for two reasons.

([6]) Case 248/84, *Germany* v *Commission* [1987] ECR 4013, paragraph 17.

(72) First, Karkkila is situated in a non-assisted area according to the regional aid map for Finland for the years 2000 to 2006. Second, Componenta is not an SME according to the criteria laid down in Annex I of Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Article 87 and 88 of the EC Treaty to state aid for SMEs ([7]). Componenta had sales in 2003 of EUR 178 million, whereas the definition of an SME stipulates sales of no more than EUR 40 million. Furthermore, the company's average number of employees in 2003 was 1 595, as against a maximum of 250 employees under the SME criteria.

(73) The Commission furthermore concludes that the aid cannot be approved on the basis of any of the other derogations provided for in the Treaty, and in particular Article 87. Therefore the illegal aid is incompatible with the common market and should be recovered with interest.

V. CONCLUSION

(74) The Commission finds that Finland has unlawfully implemented aid for a total sum of EUR 2 383 276,5 in breach of Article 88(3) of the Treaty. The aid has been illegally granted by the City of Karkkila, Finland to Componenta Oyj, Finland, in two parts.

(75) The first part totals EUR 713 092.5 in the form of a price above market price paid to Componenta Oyj for its shares in Karkkilan Keskustakiinteistöt Oy. This amount may be reduced by the estimated theoretical value of KK, if Finland provides evidence that the overvaluation of the land, as described above, is less than EUR 619 760.

(76) The second part totals EUR 1 670 184,0, provided to Componenta Oyj through an interest-free loan granted to Karkkilan Keskustakiinteistöt Oy, which was used to repay a loan of the same amount to Componenta Oyj.

(77) The aid is not compatible with the common market and must, therefore, be recovered, with interest, from the beneficiary, Componenta Oyj,

HAS ADOPTED THIS DECISION:

Article 1

The state aid which Finland has implemented for Componenta Oyj, amounting to EUR 2 383 276,5 in the form of a payment from Karkkila City for shares in Karkkilan Keskustakiinteistöt Oy of EUR 713 092,5 and an interest-free loan of EUR 1 670 184,0 granted from Karkkila City to Karkkilan Keskustakiinteistöt Oy, which was used by Karkkilan Keskustakiinteistöt Oy to repay Componenta Oyj for its outstanding loan of the same amount, is incompatible with the common market.

([7]) OJ L 10, 13.1.2001, p. 33.; see the regulation as amended by Regulation (EC) No 364/2005 (OJ L 63, 28.2.2004, p. 22).

This aid amount of EUR 713 092,5 can be reduced if Finland provides evidence that the overvaluation of the land, as described above, is less than EUR 619 760. The aid amount would then be reduced by the corresponding proven value of the shares in Karkkilan Keskustakiinteistöt Oy sold to Karkkila City.

Article 2

1. Finland shall take all necessary measures to recover from the beneficiary, Componenta Oyj, the aid referred to in Article 1 and unlawfully made available to the beneficiary.

2. Recovery shall be effected without delay and in accordance with the procedures under national law, provided that they allow the immediate and effective execution of this Decision.

3. The aid to be recovered shall include interest from the date on which it was at the disposal of the beneficiary until the date of its recovery.

4. Interest shall be calculated in accordance with the provisions laid down in Chapter V of Commission Regulation (EC) No 794/2004 of 21 April 2004 implementing Council Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty ([8]).

Article 3

1. Finland shall inform the Commission, within two months of notification of this Decision, of the measures already taken and planned to recover the aid referred to in Article 1. It will provide this information using the questionnaire attached in the Annex of this Decision.

2. Finland shall also submit, within two months of notification of this Decision, documents giving evidence that recovery proceedings have been initiated against the beneficiary Componenta Oyj.

Article 4

This Decision is addressed to the Republic of Finland.

Done at Brussels, 20 October 2005

For the Commission

Neelie KROES

Member of the Commission

([8]) OJ L 140, 30.4.2004, p. 1.

ANNEX I

Information regarding the implementation of the Commission decision (2006//EC)

1. **Calculation of the amount to be recovered**

1.1. Please provide the following details on the amount of unlawful state aid that has been put at the disposal of the recipient:

Date(s) of payment (°)	Amount of aid (*)	Currency	Identity of recipient

(°) Date(s) on which (individual instalments of) the aid has been put at the disposal of the recipient (if the measure consists of several instalments and reimbursements, use separate rows).
(*) Amount of aid put at the disposal of the recipient, in gross grant equivalents.

Comments:

1.2. Please explain in detail how the interest payable on the amount to be recovered will be calculated.

2. **Recovery measures planned or already taken**

2.1. Please describe in detail what measures have been taken and what measures are planned to bring about the immediate and effective recovery of the aid. Please also explain what alternative measures are available under national law to effect recovery. Where relevant, please also indicate the legal basis for the measures taken or planned.

2.2. By what date will the recovery of the aid be completed?

3. **Recovery already effected**

3.1. Please provide the following details of aid that has been recovered from the recipient:

Date(s) (°)	Amount of aid repaid	Currency	Identity of recipient

(°) Date or dates on which the aid was repaid.

3.2. Please attach supporting documents for the repayments shown in the table at point 3.1.