DECISIONS

COMMISSION DECISION

of 20 April 2011

on measure C 37/04 (ex NN 51/04), implemented by Finland for Componenta Oyj

(notified under document C(2011) 2559)

(Only the Finnish and Swedish texts are authentic)

(Text with EEA relevance)

(2011/529/EU)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(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 provision(s) cited above [1],

Whereas:

I. PROCEDURE

(1) On 10 March 2004, the Commission received a complaint from Metalls Verkstadsklubb vid Componenta Alvesta AB in which the complainant informed the Commission of an alleged aid measure implemented by the city of Karkkila (hereinafter 'Karkkila') for Componenta Corporation Oyj (hereinafter 'Componenta'). 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 (now Article 108(2) of the Treaty on the Functioning of the European Union) in respect of the aid. 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 but did not receive any such comments.

(2) On 20 October 2005, the Commission adopted a final negative decision and ordered Finland to recover the aid from Componenta ('the 2005 Decision'). The 2005 Decision closing the formal investigation procedure was published in the *Official Journal of the European Union* [3]. Componenta launched an appeal against the Decision, which was annulled by judgment of 18 December 2008 ('the judgment') for failure to provide adequate grounds [4].

(3) Finland submitted observations by letters dated 5 January and 10 January 2010, which also included two studies on the valuation of the real estate concerned. The Commission sent three further requests for information dated 9 January 2009, 23 July 2009 and 8 January 2010, which were answered by letters registered on 9 March 2009, 15 October 2009 and 5 March 2010 respectively. A meeting between the Commission, and representatives of the Finnish government and the beneficiary was held in Brussels on 23 November 2009.

II. DESCRIPTION OF THE FACTS

1. Transaction

(4) Componenta is a metal manufacturing company based in Karkkila, Finland. It has production plants in Finland, the Netherlands and Sweden. Most of the company's EUR 316 million turnover in 2004 was generated in the Nordic countries and central Europe. The group employed some 2 200 people in 2004.

(5) The transaction under assessment concerns the real estate company, Karkkilan Keskustakiinteistöt Oy (hereinafter 'KK'), which owned real estate in Karkkila, located some 65 km north west of Helsinki. KK was jointly owned (50/50) by Componenta and Karkkila. In 1996 each joint venture partner had granted KK an interest-free shareholder loan of EUR 1 670 184.

[1] OJ C 49, 25.2.2005, p. 11.
[2] See footnote 1.
[3] OJ L 353, 13.12.2006, p. 36.
[4] Case T-455/05, *Componenta Oyj* v *Commission* [2008] ECR II-336.

(6) Under the sales contract signed on 16 December 2003, it was agreed that the city would acquire full ownership of KK by acquiring the shares held by Componenta for a total price of EUR 2 383 276,50 million. The transaction comprised two parts:

— Componenta received EUR 713 092,50 as payment for the 50 % of shares sold to Karkkila,

— KK paid back to Componenta the EUR 1 670 184 shareholder loan which Componenta had granted it in 1996. For that purpose, Karkkila granted KK a further interest-free loan for the same amount. This resulted in a change of creditor from Componenta to the city of Karkkila.

(7) Karkkila therefore mobilised the sum of EUR 2 383 276,50 for the above transaction: EUR 713 092,50 as payment for KK's shares and EUR 1 670 184 as an interest-free loan granted to KK.

(8) The purchase price for the shares was calculated by reference to the standard prices at which Karkkila sold real estate in 2003.

Table 1

Sales prices per m² for the plots sold by KK

(in EUR)

Zone 1	
Detached houses	11,11
Terraced houses	88,81
Tower blocks	79,56
Zone 2	
Detached houses	10,19
Terraced houses	74,02
Tower blocks	64,76
Other	
Raw land outside town planning	1,18
Land earmarked for public parks	1,18

(9) These standard prices were applied to the real estate in KK's land portfolio at the time of the transaction and divided by two, which resulted in the share purchase price of EUR 713 092,50.

(10) The sales contract between Karkkila and Componenta furthermore stated the following:

(a) the seller agrees to invest in the extension of Componenta Karkkila Oy's production facilities in the city of Karkkila as specified in Annex 1 to this contract. It is estimated that the investment will create 50–70 new full-time jobs in Karkkila in 2004 (in 2003 the number of jobs 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.

(11) Annex 1 to the sales contract stated that Componenta would merge the operations of two of the Group's production sites, namely the Alvesta (located in Sweden) and Karkkila foundries, and that the decision on the future location of the foundry would depend on the outcome of an analysis. In 2005, the Alvesta foundry was closed and production was transferred to Karkkila.

(12) After having taken over Componenta's shares in KK, Karkkila decided to terminate KK's activities and transfer the land to the city.

2. **KK's assets**

(13) Karkkila is located some 65 kilometres north-west of Helsinki along highway No 2, in the north-eastern part of Uusimaa Province. Karkkila had some 8 500 inhabitants in 2003. The city developed around the Högfors blast furnace founded in the 19th century and its northern area extends along the shores of a lake.

(14) The real estate owned by KK covered 730 000 m² of land in Karkkila and its immediate surroundings, no more than 2,5 km from the town centre. In December 2003, the situation was as follows:

— the highest value land is located in the Asemanranta area (zone 1) and earmarked for tower blocks. This area accounts for roughly half the value of KK's portfolio,

— most of the land is located in the Haapala/Uusitalo area (zone 2). It is earmarked for detached family houses and represents about a quarter of the total value of the portfolio,

— the portfolio also contains a few plots for detached houses in other residential areas, some land earmarked for tower blocks in the Takko I area and a few terraced houses,

— part of the land is earmarked for public park areas,

— the portfolio also includes some raw land outside town planning.

(15) In total, the real estate comprises about 160 plots of land. Karkkila intended, however, to reshape some of the land and subdivide it into smaller plots. KK was by far the biggest real estate owner in Karkkila at the time of the transaction.

(16) After acquiring full ownership, Karkkila intended to lease out some of the land to cover operating expenses. KK's operating expenses (salary, rent, interests on loans) in 2000-2003 were at most EUR 40 000.

3. **Further relevant information**

(17) Karkkila is located within commuting distance of Helsinki. Real estate in Helsinki and the surrounding areas has become very expensive and prices are still rising. This price pressure has led people to settle in municipalities surrounding the capital, which has had a knock-on effect on real estate prices there. Karkkila can be considered a possible alternative location, together with three other towns: Vihti, Lohja and Hyvinkää. Distances from Helsinki are as follows:

Table 2

Distances from Helsinki

Lohja	52 km	38 min
Hyvinkää	56 km	45 min
Vihti	58 km	42 min
Karkkila	68 km	50 min

(18) These municipalities have attracted considerable numbers of new residents. As a consequence, real estate prices rose significantly before (and after) the transaction, with prices doubling in Karkkila, and in some instances increasing sixfold.

(19) According to official forecasts published in 2000, the population of Karkkila was expected to rise to 9 600 inhabitants by 2025, which would mean housing needs of 600 new homes. These forecasts were soon seen to lag far behind the actual population increase. Three years later, at the time of the transaction, Karkkila's expected housing needs were about 70 new homes per year, which was confirmed in a study by the Uusimaa Regional Council shortly afterwards, covering the period up to 2025. (In practice, 63 new homes were built in 2005, 137 in 2006 and 95 in 2007).

(20) During the five years preceding the transaction, real estate prices in Karkkila had increased on average by 30 %.

III. **COMMENTS FROM FINLAND**

(21) Finland submitted three *ex-post* expert studies on valuing the land. They concluded that the price paid corresponded to the market price. The Commission broadly rejected the study (Study A) submitted during the first investigation procedure in its initial 2005 Decision ([5]). After the adoption of the 2005 Decision, Finland commissioned two further expert studies. The first of these (Study B) contains only a general statement that the valuation of the land was correct without entering into details. The second study, the KP & P report, (Study C) analyses the real estate situation in Karkkila and the surrounding municipalities in more detail.

(22) Finland argues that Karkkila acquired full ownership of the shares because it was a medium- to long-term, low-risk investment. Considering the constant rise in real estate prices in the neighbouring municipalities, Karkkila's forecast population increase, saturation of existing neighbourhoods and the need for expansion, Karkkila City Council considered that purchasing full ownership of KK would be profitable.

(23) Finland also explained that the possibility of speeding up procedures was another practical reason for obtaining sole ownership. Finland hinted on several occasions that cooperation between Karkkila and Componenta was not ideal because of their diverging commercial interests. Both partners agreed to terminate the joint venture in order to avoid deadlock on many decisions. In particular, a large number of decisions had to be taken in the Haapala/Uusitalo area on re-splitting plots to facilitate development of the area. Since real estate activities were not Componenta's core business, it was in its interests to cease this branch of activity, whereas it was in Karkkila's interests to be able to steer land development completely independently.

(24) Finland explained why a comparison with Vihti, Lohja and Hyvinkää was pertinent. Finland underlined, inter alia, that there was no passenger rail link to Vihti and Lohja, which would allow commuters to travel easily between these municipalities and Helsinki.

(25) Finland contends that the Commission's calculation of the amount of aid in the 2005 decision was distorted because the shareholder loan was taken into account twice. The loan was deducted from the value of the company for the calculation of the value of 50 % of the shares and taken into account as repayment to Componenta. Finland therefore argues that the price of the shares (EUR 713 092,50) already includes the loan because that amount was calculated on the basis of KK's net worth.

([5]) The Commission noted firstly that the study did not clearly indicate that it concerned the valuation of land owned by KK and secondly that the valuation did not indicate what price a market investor selling all the land at once would have received at the time of the transaction.

IV. **ASSESSMENT**

(26) 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. The Court of Justice of the European Union has consistently held that the criterion of trade being affected is met if the recipient firm carries out an economic activity involving trade between Member States.

(27) Other companies in the internal market also manufacture the same products as Componenta and they are intensively traded between Member States. For the purposes of Article 107(1) TFEU, state resources include local authority resources ([6]). Thus the transaction in question, which was financed with Karkkila's resources, involves state resources within the meaning of Article 107(1). Therefore, any advantage granted to Componenta in the context of the transaction which Componenta would not have received in normal market conditions would fall within the scope of Article 87(1) of the EC Treaty. It follows that the main question in the case at hand is whether Componenta received a level of payment that it would not have obtained under normal market conditions.

(28) The Commission notes that the redemption clause in the sales contract concluded between Componenta and Karkkila can be seen as an indication that the purchase conditions offered by Karkkila were intended to encourage Componenta to keep its production site in Karkkila and close the blast furnace in Alvesta.

(29) The judgment of the Court of First Instance ([7]) held that the deal was conditional but did not specify the consequences. In fact, even if the conditionality hints at the fact that the transaction might have been concluded on favourable terms for Componenta, there is no advantage for Componenta that clearly stems from these clauses. Indeed, on the one hand, as will be seen below, the price paid to Componenta for the sale of its stake in KK did not exceed the market price and, on the other hand, the Commission did not find any evidence of other advantages that Componenta might have received from those clauses. The Commission therefore assessed whether a market economy investor already holding 50 % of the shares would have acquired full ownership under these conditions.

(30) It is established case law that 'although the conduct of a private investor, with which the intervention of a public investor pursuing economic policy aims must be compared, need not be the conduct of an ordinary investor laying out capital with a view to realising a profit in the relatively short term, it must at least be the conduct of a private holding company or a private group of undertakings pursuing a structural policy, whether general or sectoral, and guided by prospects of profitability in the longer term' ([8]).

1. **General considerations concerning the value of the shares**

(31) The Commission communication on State aid elements in sales of land and buildings by public authorities ([9]) (hereinafter 'the Communication') does not apply directly since the case at hand does not actually concern the sale of land but the purchase of shares in a real estate company. However, the principles of this communication can apply since the value of KK's shares is essentially determined by the market value of the land in its portfolio. Therefore the assessment of the value of the land owned by KK is crucial for establishing the presence of state aid.

(32) In any case, the communication is based on the principle of a private investor operating in a market economy, i.e. the sale of land by the public authorities does not include elements of state aid if it is sold at a price which a private investor would have been able to obtain in normal market conditions.

(33) The Commission considers that the appropriate starting-point of the analysis is the price that a market economy investor owning 50 % of KK's shares would have been prepared to pay for the acquisition of full ownership. A market economy operator would base the calculation of the price it would be prepared to pay on the return it could expect from its investment.

(34) In the case at hand, Componenta did not try to find another buyer. It was in its interest to sell its shares to the other shareholder. Indeed, according to the Shareholder Agreement ([10]) and KK's Articles of Association ([11]), Karkkila had the right of first refusal on KK's shares owned by Componenta and it had the right of redemption, if Componenta tried to sell them to a third party. These rules were a disincentive for Componenta to seek other buyers. Moreover, any other private buyer would have been deterred from buying 50 % of the shares in KK, unless by doing so it would have acquired full control over KK. Indeed, any new partner that did not have full control over KK would be bound by KK's Articles of Association ([12]), according to which the purpose of KK was to slow down the increase in the price of land and housing in Karkkila to the benefit of the population.

([6]) Case 248/84, *Germany* v *Commission* [1987] ECR 4013, paragraph 17.
([7]) Case T-455/05, *Componenta* v *Commission* [2008], ECR II-336.
([8]) Case C-42/93, *Spain* v *Commission* [1994] ECR I-4175, paragraph 14.
([9]) OJ C 209, 10.7.1997, p. 3.
([10]) Article 9.
([11]) Article 13.
([12]) Article 2.

(35) The Commission also takes the view that a market economy shareholder acquiring full ownership would take into consideration the financing of the overall investment (EUR 2,37 million for the shares and the loan).

(36) With respect to the reimbursement of the shareholder loan, the Commission notes that the assets in KK's portfolio were estimated at a value of EUR 4,9 million. This value largely covered the outstanding loans of EUR 3,34 million, which means that the loan reimbursement as such did not appear problematic.

(37) Finland also explained that Karkkila had planned to increase rental income after the transaction in order to cover KK's financing and operating costs (less than EUR 40 000 per year before the transaction). If the city became the sole shareholder it would be in a position to change KK's Articles of Association, which limited its freedom as regards pricing policies. Thus, from a legal viewpoint, there was nothing to prevent the city from raising rental income once it had full ownership of KK.

(38) The Commission notes that subsequent developments confirm that cost coverage through rental income was a realistic plan. Karkkila concluded 28 long-term rental agreements, which generated the following revenue:

Table 3

Rental income after the transaction

(in EUR)

2004	146 907
2005	152 843
2006	171 238
2007	182 525
2008	200 519

(39) In addition, in return for the free-interest loan, a private investor would have expected an increase in the value of its stake in the company. In the case at hand, the return on the investment manifested itself through the increasing value of the real estate owned by KK. Finland explained that the value of the land owned by KK had risen considerably between 1996 and 2003. During the five years preceding the transaction, real estate prices in Karkkila had increased on average by 30 % and by some 10 % between 2005 and 2008.

(40) At the same time, the population of Karkkila was expected to grow by more than 100 people per year until 2025, which, on a conservative estimate, would mean that at least 70 new homes would have to be built in the city every year ([13]).

(41) For these reasons, a private investor could expect a significant increase in the value of its stake in KK.

2. **Value of the land**

(42) As a first step, the Commission assessed whether the share purchase price paid by Karkkila entailed an advantage for Componenta because the seller would have obtained a lower price under normal market conditions.

(43) Finland indicated the value of KK's assets as follows ([14]):

Table 4

Value of KK's assets as calculated by Finland

Current value of land	5 067 988
Cash and bank deposits	28 256
Total assets	5 096 244
Shareholder loan	3 340 368
Current liabilities	107
Total debts	3 340 475
KK's net value	1 755 769
50 % of KK's net value	877 885

(44) The value of the land was calculated by reference to the standard prices charged by Karkkila in 2003. These were uniform prices for the whole of the Karkkila area, the only exceptions being the differences between two zones. It became apparent from the data submitted by Finland that the actual market prices vary significantly between different neighbourhoods and residential areas. For that reason, the Commission focused its assessment more closely on the areas concerned.

(45) The Commission notes that Karkkila embarked on the acquisition of full ownership with a medium- to long-term perspective. It is not unusual in the real estate business to expect significant medium- to long-term increases in value, circumstances permitting. Karkkila pursued a long-term investment strategy and sought to generate profits from increased future sales.

([13]) See the 2006 economic policy of the town of Karkkila and the population and employment survey produced by Uusimaa Regional Council in the early 2000s.

([14]) These values deviate slightly from the data submitted by Finland during the initial investigation period. Finland corrected the figures for the purposes of the new investigation procedure.

(46) In the specific situation of Karkkila, Finland demonstrated that Karkkila had valid reasons to expect a major population increase in the medium- to long-term future that would lead to considerable additional housing needs. The main reason was that the three municipalities to the north and west of Helsinki — Vihti, Lohja and Hyvinkää — had attracted large numbers of residents, many of them commuters. As a result, real estate prices grew rapidly and constantly and were not expected to slow down in the near future. In 2003, prices in these neighbouring municipalities were on average 2,5 times higher than in Karkkila. Karkkila therefore expected that further price increases would cause people to move to Karkkila as the next logical alternative place to live, even if prices in Karkkila also rose significantly. It did not seem unrealistic to expect real estate prices in Karkkila to double.

(47) Although subsequent developments are not directly relevant for an *ex-ante* analysis of the transaction, the development of real estate prices in the three neighbouring municipalities in the years after the transaction confirmed that the forecast was realistic. In some instances, real estate prices were over four times higher than in Karkkila.

(48) Another reason for expecting Karkkila's population to rise was the scheduled renovation of the road to Karkkila — it had already been planned at the time of the transaction and was subsequently carried out.

(49) The acquisition of full ownership was also driven by official forecasts of population increases. An initial study had been published in 2000 by the Uusimaa Regional Council, which estimated that the population of Karkkila would grow by about 9 600 inhabitants by 2025 (i.e. about 10 %), and that an additional 600 new homes would be needed. This forecast soon proved to be too conservative. At the time of the transaction, Karkkila expected a much higher population increase resulting in additional housing needs of at least 70 new homes per year.

(50) This positive forecast was later confirmed by a further study carried out by the Uusimaa Regional Council on 18 August 2009, according to which the population of Karkkila was expected to grow by 100 inhabitants per year up until 2030, leading to additional housing needs of 70 new homes per year. In the event, even this second forecast was topped, since 137 new homes were built in 2006 and 95 new homes in 2007.

(51) It should also be noted that KK was by far the biggest real estate owner in Karkkila. At the time of the transaction, the actual number of real estate plots included in the portfolio was unclear, as Karkkila intended to divide and reshape some of them (in particular in the Haapala/Uusitalo area). In addition, a higher number of homes per plot can be built on land for terraced housing and even more so on land for tower blocks. The portfolio list submitted by Finland gives fewer than 140 sites for housing (the remainder were earmarked for parks). With estimated housing needs of 70 new homes per year at the time of the transaction, the projected needs for the next 10 years would be 700 new homes and for the next 20 years 1 400 new homes. Given that KK had no major competitor in Karkkila, the city of Karkkila could reasonably expect to be able to sell most — if not all — the property in its portfolio.

(52) Finland explained that Karkkila's strategy was first to improve the value of the land it owned by reshaping and developing it, to wait for the knock-on effects of the general price increase in the area and to sell the land only at a later stage. In line with this strategy, KK had already refrained from early sales in previous years, which explains the low level of sales in the years preceding the transaction.

(53) The Commission notes that the land owned by KK was valued differently according to the different types of land, i.e. land for detached houses, for terraced houses, blocks of flats, parks and land for public use. The particular features of each area are described and analysed separately below.

Asemanranta area

(54) The land earmarked for tower blocks located in the Asemanranta area is valued at EUR 2 358 158, i.e. about half of the value of KK's assets. For the purposes of the transaction, the land was valued at EUR 79,56/m^2.

(55) The studies are not fully conclusive in this respect, the main reason being the lack of reference prices in Karkkila. In fact, no land for tower blocks had been sold on the market in Karkkila until the transaction. The expert study submitted by Finland during the first investigation period (Study A) had indicated a price of EUR 50/m^2. Finland has now explained that this figure was probably based on the figure used for state-funded social housing in the region and was well below the market price. This initial study also estimated the value of land for tower blocks at between EUR 60 and EUR 75/m^2. The second study (Study B) explains that the price paid corresponds to the market price without providing any additional information. The KP & P report (Study C) concludes that the price of EUR 79,56/m^2 corresponds to the market price, since it is far below the prices paid in the three neighbouring municipalities. In the absence of any further benchmarks, these studies provide some guidance on real estate prices in the areas surrounding Helsinki at the time of the transaction. The Commission therefore verified the data contained in those studies and supplemented them with its own assessment.

(56) The Asemanranta area enjoys a very good location on the shores of a lake, 200m away from the city centre. According to Finland, the value of the area is exceptionally high because it benefits from direct lake view and access. A comparable plot was sold in 2006 for EUR 92,35/m^2. Karkkila actually considered the value of the property high enough to raise the sales price to EUR 105/m^2 in January 2008.

(57) A second important factor in assessing the value of this area is the surface area to which the price is applied. The sales valuation was conservatively based on the minimum planning permission of 29 640 m^2, whereas maximum planning permission could go up to 39 590 m^2. Given the expected population increase, Karkkila counted on a long-term business case for maximum planning permission.

(58) Despite the fact that no land for tower blocks had been sold in Karkkila before the transaction, the city could reasonably expect that there was an emerging market for this type of building. In 2003, four building permits for tower blocks were granted. Developments after the transaction confirm that the forecast was not unreasonable, given that six further permits were requested and granted up to 2007, and seven tower blocks were built between 2007 and mid-2010.

(59) Prices paid in the neighbouring municipalities went up to EUR 133,6/m^2 in 2003 in Hyvinkää and even reached a peak of EUR 312,6/m^2 for a sale in Vihti in 2004.

(60) The Commission considers that the three studies provide values that are broadly comparable and do not appear manifestly wrong if compared with the prices paid for similar land at the time of the transaction. There is no need to establish which of the studies is the most reliable, since the price paid for the shares remains below the market value even under the most conservative estimate (see overall market value calculation in paragraph 84 *et seq.*). The lowest possible value has been estimated by the Commission as follows: considering the prime location of the land in Asemanranta, the market price was at least in the upper segment of the range provided by the most conservative of the consultants, i.e. EUR 75/m^2. Working on the conservative assumption that the land is sold for the minimum planning permission only, the minimum market value would be EUR 2 223 000.

(61) The maximum value in the case of overestimation — if any — could thus be considered to be EUR 135 158,4, which would correspond to EUR 67 579,2 for 50 %.

(62) The Commission notes that this value includes the 8-9 hectares also belonging to the Asemanranta area, which will remain as streets, parks, etc. For example, in the partial master plan, the shore area is earmarked for recreational purposes and as a nature protection area. Therefore these 8-9 hectares contribute to the high price of the residential part of the area but they have not been priced separately.

Haapala and Uusitalo area

(63) Most of the land in KK's real estate portfolio was located in the Haapala/Uusitalo area, which is some 2,5 km to the south-west of the city centre. These two adjacent areas were earmarked for detached residential houses and terraced houses but had not yet been developed. As development had not yet begun, prices were low, as was the number of sales. KK owned virtually the entire area.

(64) For the purposes of the transaction, the land was valued at EUR 1 612 059 for all types of plot, with a price of EUR 10,19/m^2 for detached houses and EUR 74,02/m^2 for terraced houses, in accordance with the city's standard prices. The total value of the land for detached houses was EUR 973 268 and EUR 811 209 for terraced houses.

Prices for detached houses

(65) All three studies state that the prices for detached houses corresponded to market prices. The KP & P report (Study C) explains that market prices were 15-20 % higher than the prices applied by Karkkila. Finland submitted data showing that the average price was some EUR 14,4/m^2 in 2003. The initial expert (Study A) had indicated that the market prices in Karkkila ranged between EUR 9,43 and EUR 14,76.

(66) All three studies referred to average sales prices, whereas the data submitted by Finland revealed significant differences between neighbourhoods, with Haapala/Uusitalo apparently situated at the lower end of the price range. In 2003, two plots were sold in Haapala (private company to private individual): in April 2003, a plot had been sold for EUR 9,25/m^2, and in August another one for EUR 10,06/m^2. This would correspond to a price increase of 8,8 % over four months. Considering general price developments in Karkkila, where prices rose by 12,6 % between 2001 and 2002, and 42,7 % between 2002 and 2003, a 1,3 % price increase over the last four months of 2003 can be considered in line with the general trend. In view of these circumstances, the Commission sees no reason why a price of EUR 10,19/m^2 in December 2003 could not be accepted as the market price.

Prices for terraced houses

(67) As regards the prices for terraced houses, there are no reference sales in the area which would provide a direct benchmark. The initial expert had estimated a market value ranging between EUR 70 and EUR 80/m^2, the KP & P report (Study C) only refers to the much higher prices for plots for terraced houses in the neighbouring municipalities. Since all three studies conclude that the price paid corresponded to the market price and since there are no indicators that these conclusions are not correct for the Haapala/Uusitalo area, the Commission can accept that the price of EUR 74,2/m^2 corresponded to the market price.

Full ownership of entire area

(68) The Commission asked Finland to explain why Karkkila had an interest in acquiring full ownership of this entire area, considering that past sales figures seemed to indicate that buyers were not interested in this neighbourhood and obviously preferred other city areas, despite the higher prices. Finland explained that already in previous years, KK had followed a targeted investment strategy, consisting of developing Haapala/Uusitalo as the future residential neighbourhood of Karkkila. Other residential areas in the city were already starting to be saturated and, based on population growth, it was expected that new areas would need to be developed.

(69) The Haapala/Uusitalo area came under the town planning but development had not yet started. This included a new subdivision of the land into individual and more suitably shaped plots, the connection of the sites to the utility networks and the construction of amenities.

(70) Karkkila had already successfully followed the same strategy in other neighbourhoods: it had extended public utilities to the areas of Tuorila, Nikkimäki and Pumminmäki. In 2003, the average sales price in Pumminmäki was already EUR 14,28, and Karkkila successfully sold plots at the new standard price of EUR 14 in 2004, with prices rising further in subsequent years (up to EUR 18,5/m^2 in 2005).

(71) The expectation was that the value of real estate in Haapala/Uusitalo would reach that of similarly developed residential areas and in addition follow the general price increase trends. A value increase of at least 40-50 % after development (i.e. within three to four years) therefore seemed justified, plus additional increases in the medium to long term.

(72) It was in Karkkila's interests to develop the area under one infrastructure project covering the whole area. A single coordinated development approach would be much cheaper than development site by site (the municipality is obliged by law to connect real estate to the utility networks, which is normally done upon request by owners intending to build). Karkkila emphasised that operations ran much more smoothly under its sole ownership and control. A large number of individual decisions had to be adopted for each plot and each engineering measure. Since real estate development was not Componenta's core business (it was a steel producer), it had already become clear that these development activities were harder for it.

(73) Due to its long-term development strategy and its intention to carry out all the engineering works at once, Karkkila had no interest in selling the land before it was developed. This was why there had been virtually no sales at all prior to the transaction.

(74) The Commission can accept that on the basis of the long-term strategy followed by Karkkila for the Haapala/Uusitalo area, a market economy investor that already owned 50 % of the shares in that area could also have an economic interest in acquiring the remaining 50 % of the shares. The prospect of owning the whole of the future new residential area, the low risk in price terms, and good prospects of selling most of the plots over the next 10 years and the remainder over the following 10 years, can be considered a business strategy that a market economy investor would have pursued.

Other land intended for housing

(75) A few plots for detached houses are located in other areas. The valuation (EUR 43 000) was based on Karkkila's official unit sales price of EUR 10,19/m^2 for land of this type. For the reasons given above (recitals 65-66), the Commission considers that the December 2003 price can be accepted as the market price.

(76) KK's portfolio also includes two plots of land for tower blocks located in the Takko I area. The total value of this real estate is EUR 110 191. Takko I is also located in the city centre. According to Study A the market price ranged between EUR 60 to EUR 75/m^2. The KP & P report (Study C) came to the same conclusion as regards the tower block sites, namely that the price corresponded to the market rate by reference to the sales prices paid in neighbouring municipalities.

(77) In the Commission's view there is no need to establish which expert study is the most reliable. Even if the lowest possible market price of EUR 60/m^2 were applied to the transaction, the corrected total value of the shares would still exceed the price paid by Karkkila (see calculation of minimum share value below). Under this lowest possible market value assumption, the land in Takko I would have been overvalued by EUR 19,65/m^2. This would correspond to a total of EUR 27 212, i.e. EUR 13 606 for 50 % of the shares.

Parks

(78) The value attributed to land earmarked for parks is EUR 456 601. This was based on the standard price of EUR 1,18/m^2 which Karkkila normally pays for such land. These are areas which the town has the right to redeem at the going price ([15]). As these areas are not intended to be built on according to the town plan, they have used the same pricing basis as for unzoned raw land (see paragraph 79). The Commission therefore concluded that this part of the land was not overvalued.

Land outside the town plan

(79) KK's portfolio also included some raw land outside the town plan valued at a total of EUR 49 678, based on a price of EUR 1,18/m^2. The studies do not explain why they consider this land to be correctly valued. The other data submitted by Finland contain a list of sales of undeveloped land in sparsely populated areas in Karkkila sold at an average of EUR 1,86/m^2. On this basis, the Commission can accept that EUR 1,18 did not exceed the market price.

Conclusion

(80) According to the calculations made by Finland on the basis of the standard prices at which KK sold its property, the value of KK's real estate amounted to EUR 5 067 988. After deducting the amounts in respect of a potential overvaluation of the land for tower blocks in Asemanranta (EUR 135 158) and in Takko I (EUR 27 212), the minimum value of the land comes to EUR 4 905 618.

3. **The loan repayment**

(81) In 1996 both Componenta and Karkkila had granted, on equal terms (*pari passu*), an interest-free shareholder loan of EUR 1 670 814 to KK. Componenta's withdrawal from KK went ahead with the reimbursement of the shareholder loan by KK. Since KK would have had to sell a significant amount of property to generate these funds, and since, as described above, this would jeopardise the mid- to long-term business strategy, Karkkila decided to grant a further interest-free loan to KK for the same amount, which KK used for the reimbursement. As a result, KK owed Karkkila a total of EUR 3,34 million.

(82) The Commission agrees with Finland that the loans had already been taken into account in the valuation of the company, i.e. the value of the shares had already been reduced by the value of the debt. Assessing the loan reimbursement as a separate measure would therefore be tantamount to double counting.

4. **Value of the shares**

(83) After deducting the amount of potential overvaluation, the value of 50 % of KK's shares is as follows:

Table 5

Value of KK

Current value of land	4 905 618
Cash and bank deposits	28 256
Total assets	4 933 874
Shareholder loan	3 340 368
Current liabilities	107
Total debts	3 340 475
KK's net value	1 593 399
50 % of KK's net value	796 699,5

(84) Since Karkkila paid a purchase price of EUR 713 092,50 for 50 % of the shares, the Commission considers that it did not pay a price that exceeded the market value.

V. **CONCLUSION**

(85) The Commission considers that the price paid by Karkkila to Componenta for the acquisition of 50 % of the shares in KK does not exceed the market price and therefore does not qualify as state aid within the meaning of Article 107(1) TFEU,

HAS ADOPTED THIS DECISION:

Article 1

The purchase price paid by the city of Karkkila to Componenta Oyj for shares in Karkkilan Keskustakiinteistöt Oy under the contract concluded by the parties on 16 December 2003 does not constitute state aid for Componenta Corporation Oyj within the meaning of Article 107(1) TFEU.

Article 2

This Decision is addressed to the Republic of Finland.

Done at Brussels, 20 April 2011.

For the Commission

Joaquín ALMUNIA

Vice-President

([15]) Act 132/1999 on Land Use and Building.