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THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
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1516766

A1995-199 Other #: 12 Box # 193709B

Electric Power Project - Austria - Loan 0179 - P037354 - Negotiations -
Volume 1

RETURN TO

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM57-144

FROM: The Acting Secretary

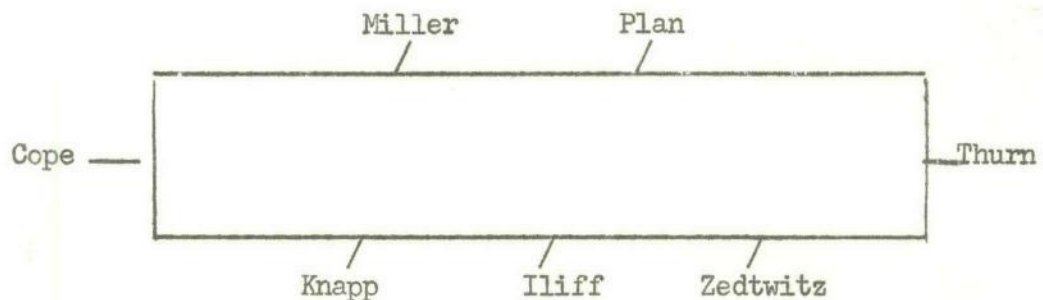
October 10, 1957

CLOSING OF LOAN TO AUSTRIA

The following arrangements have been made for the signing of the loan to the Vorarlberger Illwerke Aktiengesellschaft (Supplementary Loan - Lunersee Project):

- Time - 4:00 p. m., Thursday, October 10, 1957
- Place - Mr. Black's Office
- Signing Officials
- For Borrower and Guarantor: Dr. Paul Zedtwitz
 - For the Bank: Mr. Iliff

Seating Order:



In attendance, Messrs. Collier, Fontein and Spottswood.

(NOTE: Mr. Collier, Department of Operations - Europe, etc., will arrange for the attendance of Dr. Zedtwitz; Mr. Fontein of the Legal Department will supervise the execution of the loan documents.)

Representatives from Departments of the Bank who will attend the signing are requested to be in the Board Room shortly before 4:00 p.m., and to take seats around the Board table when the signing officials are seated.

Distribution:

Dr. Thurn
President
Vice Presidents
Department Heads

C O P Y

GO AH PL

TO WA PL ANNOUNCE +?

AUSTROAMB WASHINGTON AGZU 10096

BUNDESPRAESIDENT HAT 9.10. VOLLMACHT UNTERZEICHNET, MIT
WELCHER IR ZEDTWITZ ERMAECHTIGT WIRD, DAS GARANTIEABKOMMEN
ZWISCHEN DER REPUBLIK OESTERREICH UND DER INTERNATIONALEN BANK
FUER WIEDERAUFBAU UND WIRTSCHAFTSFOERDERUNG ZUM 2. ANIEIHEABKOMMEB
DIESER BANK MIT DER VORARLBERGER ILLWERKE AG ZU UNTERZEICHNEN.
VOLLMACHTSURKUNDE FOLGT IM LUFTWEGE. IR ZEDTWITZ WIRD ERMAECHTIGT,
NOCH VOR EINLANGEN DER SCHRIFTLICHEN VOLLMACHT DIE UNTERZEICHNUNG
DES ABKOMMENS VORZUNEHMEN. UNTERZEICHNUNG DER EINSCHLAEIGIGEN
BRIEFE BEHAELT SICH BUNDESMINISTER FUER FINANZEN SELBST VOR.

AUSSENAMT

DURCHGEGEBEN AM 9.10.57 UM 20.30 AUSSENAMT WIEN/WAIEK

AUFGENOMMEN AM 9.10.57 UM

15 RT UHR))5.45 15.45 7

7UHR ERWING BITTE IHR NAME IST NIR NOCH NICHT BEKANNT
ENTSCHULDIGEN SIE WENN ICH NOCHMAIS FRAGE OB ICH MIT AUSTROAMB
WASHINGTON VERBUNDEN WAR ? JA IN ORDNUNG
DKS AWS +?

OFFICE MEMORANDUM

TO: Files

FROM: J. H. Collier *JH*

SUBJECT: Meeting with Baron von Richter of the Dresdner Bank

DATE: October 9, 1957

1. On Sunday, September 22, Mr. Cope and Mr. Collier met Baron Leonhard von Richter, Deputy General Manager of the Dresdner Bank, Frankfurt a.M.
2. Baron Richter said that the Dresdner Bank was interested in participating in the supplementary Lüneburger loan. They were prepared to purchase maturities up to an amount of DM 2 million. Since the early maturities of this loan amounted to substantially less than DM 2 million, Mr. Cope suggested that they could be increased if a corresponding reduction were made in the same maturities of the original \$10 million loan to the VIW. After consultation with the management, it was agreed that provisions would be made in both Loan Agreements to enable the necessary adjustments to be made. The Dresdner Bank could then be offered the first three maturities totalling DM 1,960,200 at 5 1/2%, which it later accepted.
3. At a subsequent meeting Mr. Riley explained the Bank's participation agreement and interim certificate. Baron Richter expressed interest in having information on the early maturities of other Bank loans. He said that the Bank's present rates offered on portfolio sales (4 1/2% for two year maturities) were not attractive to German banks at the present time. They could get 4 7/8% on 2 year German Governments and on bonds of the State railways. However, he added that it was expected that the discount rate in Germany might well be reduced early in 1958 from 4% to 3 1/2% and this would change the situation. Finally he said that, as long as there was talk of the revaluation of the DM, his bank would only be interested in maturities in German marks. He did not appear very impressed by official German statements made at the Annual Meeting that no such revaluation was at all contemplated.
4. Baron Richter also enquired whether the Bank would be interested in placing some short term paper with German banks. They could offer funds for 2 to 2 1/2 years at 4 1/2% which was stretching things a little in view of current rates in Germany (see above). But it became clear that he was thinking in terms of DM5 to 10 million. When Mr. Cope asked whether they could go up to DM 50 or 100 million, Baron Richter said probably not. Mr. Cope then explained that the Bank had never borrowed an amount less than \$10 million equivalent, and while this was not an absolute limit, we would probably not favor an operation of as little as DM 10 million. Baron Richter said he understood the position and would further enquire in Germany.

5. Baron Richter later telephoned Mr. Cope to say he had been in touch with Frankfurt and could say that if the German Bank rate went down the Dresdner Bank might be able to offer the Bank after the turn of the year a two year credit of possibly as much as DM 100 million. Mr. Cope replied that we would be glad to discuss the matter at any time.

cc: Mr. S. R. Cope
Mr. H. W. Riley
Mr. S. P. Wheelock

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: **OCTOBER 8, 1957 1825**

TO: **FONTTEIN INTERNATIONAL BANK FOR
RECONSTRUCTION & DEVELOPMENT**

FROM: **BREGENZ**

TEXT:

ROUTING	
ACTION COPY TO	MR FONTTEIN
INFORMATION COPY TO	
Decoded By	

**MINISTERRAT HAT GARANTIEABKOMMEN ZUSATZANLEIHE HEUTE GENEHMIGT
 AUSSTELLUNGVOLLMACHT DURCH BUNDESPRAESIDENTEN VORAUSSICHTLICH
 9. OKTOBER VERSTAENDIGUNG HIERUEBER ERFOLGT DURCH
 BUNDESMINISTERIUM FUER FINANZEN WIEN**

ILLWERKE

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

OCT 9 10 00 AM 195

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

*dispatched after hrs.
Austria -
RCA Lurasac*

OUTGOING WIRE

CLASS OF SERVICE: NL

DATE: OCTOBER 3, 1957

TO: DRESDNER BANK
FRANKFURT AM MAIN

COUNTRY (GERMANY)

TEXT:

Cable No.

HUNSCHA
FOR DR. ~~HUNSCHA~~ TEXT OF PRESS RELEASE ON WORLD BANK LOAN TO VORARLBERGER
OBTAINABLE
ILLWERKE ~~CAN BE OBTAINED~~ FROM OBERREGIERUNGSRAT HARRY GORN,
BUNDESMINISTERIUM FUR WIRTSCHAFT, BONN STOP SIGNING NOW EXPECTED
EARLY NEXT WEEK STOP RELEASE DATE WILL BE CABLED TO GORN

INTERNATIONAL

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Signed:

AUTHORIZED BY:

NAME: S. R. COPE

DEPT: DEPARTMENT OF OPERATIONS, E.A.A.

SIGNATURE:

JHCollier/pnn *[Signature]* (Cleared with ~~Dept.~~ *Office* of Information)

For Use by Archives Division

Checked for Dispatch

ORIGINAL (File Copy)

GUIDE FOR PREPARING OUTGOING WIRES

1. Class of Service

Type in class of service desired. Each class is described as follows:

Letter Telegram Letter telegrams are normally delivered the morning after day of despatch. The cost is half the cost of full rate messages with a minimum charge for 22 words including address and text.

Full Rate Full rate messages are normally transmitted and delivered immediately. There is a minimum charge for 5 words, including address and text.

IBF Govt. This is a preferential rate extended to the Bank by some of its member countries. Messages are sent at full rate speed and at about half the cost. This rate normally should be used whenever available. It is at present available for the following countries:

Bolivia	Cuba	Guatemala	* Peru
Brazil	Dominican Republic	Honduras	* Syria
Burma	Ecuador	Jordan	Uruguay
Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

* In these countries the letter telegram rate is lower than IBF government rate and should be used for messages when immediate transmission is not required.

Code Code messages are transmitted at full rate (or IBF Govt.) speed and cost. This rate should be used only for confidential messages to staff members having a code with them.

Day Letter Day letters are delivered during the day of transmission and should be used only for messages in the United States and to Mexico and Canada. There is a minimum charge for 50 words in text.

Teletype To be used only for messages to the New York Office, United Nations, and certain commercial firms. For information, call Cable Post (Ext. 2008).

2. Address

Use only last name of addressee and cable address whenever possible. The Bank cable address "INTBAFRAD" is registered in Paris, Beirut, Rio de Janeiro, Bogota, and Guatemala City. The name of the country of destination must always be added. (No charge is made for the name of a country).

3. Text

Messages to Bank Missions and to Resident Representatives should be numbered. These numbers may be obtained by calling Ext. 2008.

Type text in capital letters and double space between lines. The text should be edited to eliminate unnecessary words and unnecessary punctuation. If punctuation is needed, spell out the words "Comma," "Stop," etc.

Use common abbreviations whenever possible, i.e. reourlet, reurfive, etc. Write as one word hyphenated words, hyphenated names, and certain two-word groups, e.g. Airmail, Newyork, enduse.

4. Signature

Type in last name of sender. Use INTBAFRAD as part of the signature only when addressee does not know the address of the sender.

5. Authorization

Type in name and department of staff member authorizing message and have authorizing staff member sign the original (pink copy). A list of authorized signatures is kept in the cable office.

Forward messages in triplicate in a cable envelope to Room 210 for despatch. The cable service is open from 9:00 a.m. to 5:45 p.m. on working days. Special arrangements should be made for the despatch of cables outside of these hours.

ANY QUESTIONS REGARDING INCOMING AND OUTGOING WIRES SHOULD BE REFERRED TO THE CABLE POST, EXT. 2008.

ROUTING SLIP		Date
NAME		ROOM NO.
<i>Mr Fountain</i>		1110
<i>Files</i>		208
	Action	Note and File
	Approval	Note and Return
	Comment	Prepare Reply
	Full Report	Previous Papers
	Information	Recommendation
	Initial	Signature
Remarks <div style="font-family: cursive; font-size: 1.2em; margin-top: 20px;"> So we don't have to sign bit of Goods letter on Friday </div>		
From _____		

Austria - Linz

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: OCTOBER 1, 1957

TO: COPE INTERNATIONAL BANK FOR RECONSTRUCTION
& DEVELOPMENT
FROM: BREGENZ

ROUTING	
ACTION COPY TO	<i>MR COPE</i>
INFORMATION COPY TO	<i>[Signature]</i>
Decoded By	

TEXT:

[Handwritten signature]

✓
WE REFER TO YOUR CABLE OF OCTOBER 1, 1957.

1. WE CONFIRM AGREEMENT WITH DRESDNER BANK UNDER WHICH DRESDNER BANK TAKES MATURITIES, AS WE UNDERSTAND, WITH A TOTAL AMOUNT OF DM 1,960.200.
2. WE ALSO SENT LIST OF GOODS LETTER TO THE BANK.

ILLWERKE

OCT 1 5 59 AM 1957

SECURITY DEPARTMENT
RECEIVED

ORIGINAL

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

OCT 1 2 28 PM 1957

1

MEMORANDUM

5. The proposed plan of work is being prepared by the
staff of the Bank and will be submitted to the Board
for their consideration. The Board will be asked to
approve the plan and to authorize the staff to carry out
the work proposed.

1957

1957

CONFIDENTIAL

1957

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

WASHINGTON, D. C.

Austria

OUTGOING WIRE

CLASS OF SERVICE: ~~FR~~ *FR*

MAT

DATE:

October 1
~~SEPTEMBER 30, 1957~~

TO: AMMAN
ILLWERKE
BREGENZ

COUNTRY (AUSTRIA)

EXT:

Cable No.

PRIMO DRESDNER BANK PREPARED TO TAKE FIRST THREE MATURITIES OF NEW LOAN
STOP WE PROPOSE MATURITY PAYABLE NOVEMBER 1, 1960, BE INCREASED TO
DM 866,200 AND THAT PAYABLE MAY 1, 1961 TO DM 889,000. STOP AT SAME TIME
NO AMORTIZATION WOULD BE PAYABLE ON THESE DATES ON LOAN 118 STOP MATURITY
DUE MAY 1, 1960 REMAINS UNCHANGED STOP PLEASE CONFIRM AGREEMENT STOP
FORMAL LETTER INCLUDING PROPOSALS FOR NECESSARY ADJUSTMENTS AT LATER DATES
FOLLOWS STOP SECUNDO AUTHORITY FOR AMBASSADOR OR CHARGE D'AFFAIRES TO
SIGN LOAN AGREEMENT RECEIVED AND IN ORDER

COPE

Signed:

AUTHORIZED BY:

NAME: S. R. COPE
DEPT: OPERATIONS, E.A.A.
SIGNATURE:

JH
JHCollier/pnn

Cleared with Messrs. Cavanaugh
and Fontein

cc: Mr. Cavanaugh
Mr. Fontein

For Use by Archives Division
Checked for Dispatch

ORIGINAL (File Copy)

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Burma	Ecuador	Jordan	Uruguay
Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

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Type text in capital letters and double space between lines. The text should be edited to eliminate unnecessary words and unnecessary punctuation. If punctuation is needed, spell out the words "Comma," "Stop," etc.
Use common abbreviations whenever possible, i.e. february, reurfive, etc. Write as one word hyphenated words, hyphenated names, and certain two-word groups, e.g. Airmail, New York, enduse.

4. Signature
Type in last name of sender. Use INTBAFRAD as part of the signature only when addressee does not know the address of the sender.

5. Authorization
Type in name and department of staff member authorizing message and have authorizing staff member sign the original (pink copy). A list of authorized signatures is kept in the cable office.

Forward messages in triplicate in a cable envelope to Room 210 for despatch. The cable service is open from 9:00 a.m. to 5:45 p.m. on working days. Special arrangements should be made for the despatch of cables outside of these hours.
ANY QUESTIONS REGARDING INCOMING AND OUTGOING WIRES SHOULD BE REFERRED TO THE CABLE POST, EXT. 2008.

DISPATCHED
INTERNATIONAL BANK FOR
RECONST. AND DEVELOP.

NOV 1 9 50 AM
2 21 PM 1957

September 30, 1957

Dr. Ernst Wagner
Kärntnerring 10
Vienna I, Austria

Dear Ernst:

Thank you very much for your cable of September 30. During the Annual Meeting, which was held here last week, the Dresdner Bank expressed an interest in buying DM 2,000,000 of early maturities of the new loan. Since the amount of early maturities under the new loan did not come up to this amount and the interest rate under the old loan was not attractive enough, we have amended the new Loan Agreement by providing for a variation in the amount of instalments as between the old and the new Loan Agreements. I enclose a copy of the new draft Loan Agreement embodying these changes. The places where the changes have been made are indicated in red pencil.

We expect to sign the Loan and Guarantee Agreements on October 4, upon receiving word from the Ministry of Finance that the full powers authorizing the execution of the Guarantee Agreement and related documents on behalf of the Austrian Government have been signed.

During the Annual Meeting we also had a brief discussion with Teufenstein and Schmidt on the proposed loan for the Investitionskreditgesellschaft. As a result of this discussion it is likely that Mr. Collier of the European Department and myself will be coming to Austria some time around the third week of October. I shall write you about this in more detail tomorrow at which time I shall also send you our suggestions for the Power of Attorney which you need in connection with the registration of the mortgages for the Supplementary Lünersee Loan.

With very best regards, I remain

Yours,

Douglas J. Fontein

✓ Austria - Industry resp.
(para-3)

DJFontein:ea

P.S. Our Executive Directors this afternoon approved the Supplementary Loan for the Lünersee Project.

Austria - Linz

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: **SEPTEMBER 30 1957 0935**

TO: **INTERNATIONAL BANK FOR RECONSTRUCTION
& DEVELOPMENT**

FROM: **VIENNA**

ROUTING	
ACTION COPY TO	MR FONTEIN
INFORMATION COPY TO	
Decoded By	

TEXT:

Legal

**ATTENTION MR DOUGLAS FONTEIN RE LETTER SEPTEMBER 19. NO LEGAL OBJECTIONS
TO DRAFT LOAN AND GUARANTEE AGREEMENTS AND SUPPLEMENTARY CORRESPONDENCE**

WAGNER

Feb 30 10 08 AM 1957

DUPLICATE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SEP 30 10 09 AM 1957

SECRET

TO DIRECTOR GENERAL AND CHIEF OF BUREAU OF ECONOMIC RESEARCH AND DEVELOPMENT
FROM DIRECTOR GENERAL AND CHIEF OF BUREAU OF ECONOMIC RESEARCH AND DEVELOPMENT

1957

FROM: DIRECTOR

TO: DIRECTOR GENERAL AND CHIEF OF BUREAU OF ECONOMIC RESEARCH AND DEVELOPMENT

DATE OF ISSUE: SEP 28 1957

CLASSIFICATION	SECRET
CONTROL	RESTRICTED
EXEMPTION CODE	100-100
EXEMPTION CODE	100-100
EXEMPTION CODE	100-100

INCOMING MAIL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Cape

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: SEPTEMBER 28, 1957 1240PM

TO: COPE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FROM: NEW YORK

ROUTING	
ACTION COPY TO	MR COPE
INFORMATION COPY TO	
Decoded By	

TEXT:

DRESDNER BANK FRANKFURTMAIN IS PLEASED TO TAKE FIRM FROM YOU THREE MATURITIES OF YOUR LOAN TO VORALBERGER ILLWERKE AS MENTIONED VERBALLY TOTALING DMARKS 1960200 AT FIVE AND HALF PERCENT REGARDS

BARON RICHTER

*Mr. Riley informed
Sept 20/57*

SEP 30 2 52 PM 1957
 SECONDARY AND DELETED
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ORIGINAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SEP 30 9 55 AM 1957

Handwritten signature

WILSON BICKLER

RECEIVED BY THE DIRECTOR OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
ON SEPTEMBER 30, 1957 AT WASHINGTON, D.C.

TEXT:

FROM: WPA WASH

VIA TELETYPE

TO: THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DATE OF MESSAGE: SEPTEMBER 30, 1957 12:00 PM

Received by
INFORMATION COPY TO
ACTION COPY TO
FILE COPY
ROUTING

INCOMING MESSAGE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Handwritten signature

Austria - Kursee

OUTGOING WIRE

CLASS OF SERVICE: **LETTER TELEGRAM**

DATE: **SEPTEMBER 26, 1957**

TO: **AMMANN
ILLWERKE
BREGENZ**

COUNTRY (**AUSTRIA**)

TEXT:

Cable No.

BANK HAS AGREED TO SIGN LOAN DOCUMENTS UPON RECEIVING CABLE FROM AUSTRIAN GOVERNMENT THAT AUTHORITY FOR AMBASSADOR OR HIS REPRESENTATIVE TO SIGN AGREEMENT GUARANTEE/HAS BEEN SIGNED IN VIENNA STOP THEREFORE WE NOW EXPECT TO SIGN AGREEMENTS ON FRIDAY OCTOBER FOUR PROVIDED AUTHORITY TO SIGN LOAN AGREEMENT ON YOUR BEHALF IS ALSO RECEIVED BY THAT TIME



Signed: **COPE**

AUTHORIZED BY:

NAME: **S. R. Cope**
DEPT: **Director of Operations
Europe, Africa and Australasia**
SIGNATURE:

JH Collier

Cleared with Mr. Fontein
cc: Mr. Fontein

For Use by Archives Division
Checked for Dispatch

ORIGINAL (File Copy)

(IMPORTANT: See over for guide in preparing Outgoing Wire)

GUIDE FOR PREPARING OUTGOING WIRES

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Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

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4. Signature

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5. Authorization

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*H. Collier,
Luzerne*

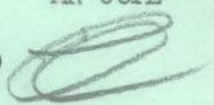
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: SEPTEMBER 24, 1957 1155

TO: INTERNATIONAL BANK FOR RECONSTRUCTION
& DEVELOPMENT

FROM: BREGENZ

ROUTING	
ACTION COPY TO	MR COPE
INFORMATION COPY TO	
Decoded By	

TEXT:

Sept 23rd

FOR MISTER COPE THANKS YOUR SECOND CABLE WE AGREE WITH YOUR
PROPOSAL FOR ADDITIONAL ITEM TO SECTION 207 AND CORRESPONDING
NECESSARY CHANGES

ILLWERKE AMMANN

ITEM 7Date of Next Meeting

There will be a Special Meeting on Monday, September 30 to consider proposed loans to Austria and South Africa. The documents on these loans will be circulated shortly and the time of the meeting will be announced later.

The next Regular Meeting of the Executive Directors will be at 10:00 a.m., Tuesday, October 8.

ITEM 2

Proposed Loan to Austria

The next item of business is my Report and Recommendations (R 57-89 and R 57-89/1) on a proposed loan to Austria. I wish to call on the following to speak on this loan:

1. Mr. Collier - Loan Aspects
2. Mr. Spottswood - Technical Aspects

I am happy to be able to say that the Dresdner Bank which is one of the leading banks in West Germany has agreed to participate in this loan by taking up the first three maturities. When the amortization schedule has been varied, as is provided for in the Loan Agreement, these maturities will amount to almost DM 2 million. The maturities run from May 1, 1960 to May 1, 1961, inclusive. Interest will be 5-1/2%.

This is the first German participation in a Bank loan. While one swallow does not make a summer, I am optimistic enough to believe that it marks the beginning of a close working relationship with commercial banks and other financial institutions in Germany which will provide a useful addition to our DM funds.

(Continued - Next Page)

Details of Maturities:

<u>Date</u>	<u>Amount (in DM)</u>
May 1, 1960	205,000
Nov. 1, 1960	866,200
May 1, 1961	<u>889,000</u>
	<u>1,960,200</u>

Recommended Action:

That the Executive Directors adopt the draft resolution attached to report R 57-89.

It is proposed to sign this loan on Friday, October 4 and it is requested that it be kept confidential until that time.

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

File 209 Lunssee

CONFIDENTIAL

DECLASSIFIED

APR 25 2018

R 57-89/1

WBG ARCHIVES

**FOR
EXECUTIVE
DIRECTORS'
MEETING**

(For consideration by the
Executive Directors on
September 30, 1957)

FROM: The Secretary

September 23, 1957

PROPOSED LOAN TO AUSTRIA

Since the Loan and Guarantee Agreements regarding the proposed supplemental loan to the Vorarlberger Illwerke A.G. were distributed to the Executive Directors with the President's Report and Recommendations (R. 57-89), the possibility has arisen of selling certain of the early maturities of this loan. Under the amortization schedule proposed, the amounts of these early maturities are less than the amounts which can probably be sold to private investors. It is not possible to have recourse to the first loan since the interest rate (including commission) on this loan is $4-3/4\%$, which makes it impossible under current market conditions to sell the early maturities. To provide sufficient maturities at an interest rate attractive to potential buyers, it is accordingly proposed to amend the Loan Agreement so as to permit the amortization schedules to the supplemental loan and to the first VIW loan to be varied by agreement between the Borrower and the Bank. This would make it possible by a simple exchange of letters for the Borrower and the Bank to agree to increase the early maturities of the proposed supplemental loan and decrease by a like amount the corresponding maturities in

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

Sec. 57-330

the first VIW loan, so that the total amortization payable on any one maturity date in respect of both loans would remain unchanged. Adjustments would also be made at the same time in the amounts of other maturities in both loans so as to ensure that the total amount of each of the two loans remained unchanged.

Attached is a revised draft Loan Agreement containing the necessary changes to give effect to the foregoing. These changes are in Section 2.07 and Section 8.01 and in paragraph (h) of Schedule 2 of the draft Loan Agreement.

Attachment

DECLASSIFIED

APR 25 2018

WBG ARCHIVES

CONFIDENTIAL DRAFT
(Subject to Change)

9/23/57

Loan Number ____ Aua

LOAN AGREEMENT

(Supplementary Loan - Lännersee Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

VORARLBERGER ILLWERKE
AKTIENGESELLSCHAFT

Dated _____, 1957

9/10/57

LOAN AGREEMENT

AGREEMENT, dated _____, 1957 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and VORARLBERGER ILLWERKE AKTIENGESELLSCHAFT (hereinafter called the Borrower), a company organized and existing under the laws of the Guarantor.

WHEREAS

(A) By a loan agreement dated June 14, 1955 (hereinafter called the first Loan Agreement), between the Bank and the Borrower, the Bank granted a loan to the Borrower in an amount in various currencies equivalent to \$10,000,000, for the purpose of financing the construction of hydroelectric generating facilities and ancillary installations more particularly described therein (hereinafter called the L nersee Project);

(B) The said loan was guaranteed as to payment of principal, interest and other charges by the Guarantor;

(C) The Borrower as security for the first loan (as hereinafter defined) has created or has undertaken to create a first mortgage or first mortgages on certain properties now owned or hereafter acquired by the Borrower which are required for the completion and continued operation of the L nersee Project, as more fully set forth in the first Loan Agreement;

(D) The Borrower as security for the due half-yearly payments of principal of, and interest and other charges on, the first loan has assigned to the Bank a portion of its rights to and claims for payments

from Rheinisch-Westfälisches Elektrizitätswerk Aktiengesellschaft and Energie-Versorgung Schwaben A.G., as more fully set forth in the first Loan Agreement;

(E) Additional financing is required by the Borrower in order to complete the Münersee Project, and the Bank has agreed to make a supplementary loan for such purpose;

NOW THEREFORE, the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Special Definitions

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated June 15, 1956, subject, however, to the modifications thereof set forth in Schedule 2 to this Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Section 1.02. Except where the context otherwise requires, the following terms have the following meanings wherever used in this Agreement or any schedule thereto:

(a) The term "first Loan Agreement" means the Loan Agreement dated June 14, 1955, between the Bank and the Borrower, as modified by the provisions of Article VIII of this Agreement.

(b) The term "first loan" means the loan provided for in the first Loan Agreement and the bonds issuable pursuant to the terms of the first Loan Agreement.

(c) The term "Project" means the project described in Schedule 2 to the first Loan Agreement as such description shall be amended from time to time by agreement between the Bank and the Borrower.

(d) The term "mortgaged properties" means the properties referred to in Section 5.04 (a) of the first Loan Agreement now owned or hereafter acquired by the Borrower which are required for the completion and continued

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operation of the Project and in respect of which the Borrower pursuant to the said Section has created or has undertaken to create a first mortgage or first mortgages as security for the first loan.

(e) The term "original Mortgage" means the first mortgage or first mortgages created or to be created pursuant to Section 5.04 (a) of the first Loan Agreement, or any of them, as the context may require.

(f) The term "Mortgage" means the first mortgage or first mortgages created or to be created pursuant to Section 5.04 (a) of this Agreement, or any of them, as the context may require.

(g) The term "RWE" means Rheinisch-Westfälisches Elektrizitätswerk Aktiengesellschaft, a company organized and existing under the laws of the Federal Republic of Germany.

(h) The term "EVS" means Energie-Versorgung Schwaben A.G., a company organized and existing under the laws of the Federal Republic of Germany.

(i) The term "Illwerke-Agreement" means the agreement dated July 1, 1953, known as the "Illwerke-Vertrag 1952," between the Borrower, RWE, and EVS.

(j) The term "original Assignment" means the assignment dated June 20, 1955, executed pursuant to Section 5.03 (b) of the first Loan Agreement, by which the Borrower has assigned to the Bank such portion of its rights to and claims for payments from RWE and EVS under the Illwerke-Agreement as shall from time to time be required for the due half-yearly payments of principal of, and interest and other charges on, the first loan.

(k) The term "Assignment" means the assignment provided for in Section 5.03 (b) of this Agreement.

(l) The term "German marks" and the letters "DM" mean marks of the Federal Republic of Germany.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to _____ German marks (DM _____).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Regulations.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time. Such commitment charge shall accrue from a date sixty days after the date of this Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Loan Account as provided in Article IV of the Loan Regulations or shall be cancelled pursuant to Article V of the Loan Regulations.

Section 2.04. The Borrower shall pay interest at the rate of _____ per cent (____%) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project. The specific goods to be financed out of the proceeds of the Loan shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

ARTICLE IV

Bonds

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. In addition to the provisions prescribed by the Loan Regulations, the Bonds shall contain provisions satisfactory to the Bank to the effect that the Mortgage and the original Mortgage will equally and ratably secure the Loan, the Bonds and the first loan; that the Assignment will equally and ratably secure the due half-yearly payments of principal of, and interest and other charges on, the Loan and the Bonds and that any rights or powers of any holder of the Loan or the Bonds under the Assignment, the Mortgage and the original Mortgage or under any of them will be exercised by the trustee or trustees or fiduciary or fiduciaries contemplated in Sections 5.09, 5.10 and 5.11 hereof.

Section 4.03. For the period of the public administration of the Borrower the two public administrators of the Borrower are jointly designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations; thereafter any two members of the Managing Board (Vorstand) of the Borrower are so designated for such purposes.

ARTICLE V

Particular Covenants

Section 5.01. (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering and financial practices.

(b) The Borrower shall promptly furnish to the Bank, as the Bank may from time to time request, the plans and specifications for the Project and any material modifications subsequently made therein.

(c) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the financial condition and operations of the Borrower; shall enable the Bank's representatives to inspect the Project, the goods and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, and the financial condition and operations of the Borrower.

Section 5.02. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

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(b) The Bank and the Borrower shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

Section 5.03. (a) The Borrower shall duly perform its obligations under the Illwerke-Agreement and shall not agree to any modification or change thereof that would or might result in the Borrower's being unable duly to provide for the service of the Loan and the financing of the Project.

(b) As soon as practicable after the date of this Agreement the Borrower shall assign to the Bank such portion of all its rights to and claims for payments from RWE and EVS under the Illwerke-Agreement as shall from time to time be required for the due half-yearly payments of principal of, and interest and other charges on, the Loan and the Bonds. Such assignment shall be an assignment on account of payment (Abtretung zahlungshalber) within the meaning thereof under the laws of the Guarantor, shall equally and ratably secure the due half-yearly payments of principal of, and interest and other charges on the Loan and the Bonds, and shall be in form and substance satisfactory to the Bank.

(c) The Borrower shall take all such steps and execute and deliver all such documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain the Assignment valid and enforceable.

Section 5.04. (a) From time to time the Borrower shall create on the mortgaged properties now owned or hereafter required by the Borrower, a first mortgage or first mortgages, in form and substance satisfactory to the Bank, which together with the original Mortgage shall equally and ratably secure the Loan, the Bonds and the first loan. The Borrower shall from time to time take such steps (including such modifications of the original Mortgage as shall be necessary for the purpose) and execute and deliver such deeds and other instruments, in form and substance satisfactory to the Bank, and shall cause all other necessary parties to take such steps and to execute and deliver such deeds and other instruments, all in form and substance satisfactory to the Bank, as may be required in order to ensure that the Mortgage and the original Mortgage shall equally and ratably secure the Loan, the Bonds and the first loan, all of which shall rank pari passu inter se in respect of all such security, and in order to ensure that the Mortgage and the original Mortgage shall rank in point of security, together with the first mortgage securing the Borrower's 4% Reichsmark Mortgage Loan of 1944 prior to any other mortgage, charge or lien upon any of the mortgaged properties.

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In the event the par value of the currency of the Guarantor is reduced or the foreign exchange value of the currency of the Guarantor has, in the opinion of the Bank, depreciated to a significant extent, the Borrower shall from time to time promptly upon the Bank's request create such additional first mortgage or additional first mortgages and execute and deliver such additional deeds or other instruments, in form and substance satisfactory to the Bank, as may be required to make the aggregate amount in the currency of the Guarantor for which all mortgages created hereunder and the original Mortgage may be recordable or may have been recorded equivalent to the aggregate amount in the currencies other than the currency of the Guarantor required for the payment of principal of, and interest and other charges on, the Loan, the Bonds and the first loan, calculated on the basis of such reduced par value or depreciated foreign exchange value respectively, and for the purpose of such calculation the par value or the foreign exchange value of the currency of the Guarantor in terms of any such other currency shall be as reasonably determined by the Bank.

(b) Except as the Bank shall otherwise agree, the Borrower shall report to the Bank at intervals of one year all mortgaged properties which the Borrower shall have acquired during the preceding year and which have not theretofore been covered by the Mortgage.

(c) The Borrower shall duly record, register and file and re-record, re-register and re-file the Mortgage and the original Mortgage in every jurisdiction for which the Bank may from time to time request any such recordation, registration or filing or where such recordation, registration or filing may be necessary or desirable in order to render or maintain the Mortgage and the original Mortgage a valid and enforceable first lien.

The Bank shall have the right to record and re-record the Mortgage and the original Mortgage in the appropriate land register (Grundbuch) at any time after their execution and delivery.

(d) Whenever the Bank shall so request after the creation of any mortgage referred to in Section 5.04 (a) hereof, other than the mortgages referred to in Section 7.01 (d) hereof, the Borrower shall within 30 days after the date of such request furnish to the Bank an opinion or opinions of counsel acceptable to the Bank that such mortgage has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and constitutes a valid and enforceable first lien in accordance with its terms.

(e) The Borrower shall take all such other steps and execute and deliver all such other documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain the Mortgage and the original Mortgage a valid and enforceable first lien.

Section 5.05. No delay in exercising, or omission to exercise, any right or power accruing to the Bank under the Assignment, the Mortgage, the original Assignment or the original Mortgage shall affect or impair any obligation of the Borrower under the Loan Agreement.

Section 5.06. (a) Except as the Bank shall otherwise agree or as otherwise provided in this Agreement, the Borrower shall not sell, or otherwise dispose of, or permit the creation as security for debt or otherwise of any additional lien ranking in priority to or pari passu with the Mortgage or the original Mortgage on, any of the mortgaged properties.

(b) Except as the Bank shall otherwise agree, the Borrower shall not make any assignment of, or permit the creation of any lien on, any of its rights to and claims for payments from RWE and EVS under the Illwerke-Agreement ranking in priority to the Assignment or the original Assignment, or securing any portions of any debt in excess of those maturing during any one year according to the original terms of any such debt. For the purposes of this subsection any debt or portion thereof that has become due and payable because of any default, bankruptcy, receivership, or for any other reason, prior to the date on which payment was contemplated in the ordinary course of business under the original terms of such debt, shall not be deemed to be maturing during any such one year.

Section 5.07. The Borrower shall pay or cause to be paid all taxes or fees, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Bonds, the Mortgage, the Assignment, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than

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the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.08. The Borrower shall pay or cause to be paid all taxes and fees, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Bonds, the Mortgage or the Assignment.

Section 5.09. The Borrower agrees to the re-assignment by the Bank, at any time, of all rights or powers that the Bank may have under the Assignment to a trustee, or trustees, or a similar fiduciary or fiduciaries, for the equal and ratable benefit of all holders of the Loan and the Bonds. The Borrower shall take all such steps and execute and deliver all such documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain such re-assignment valid and enforceable.

Section 5.10. The Borrower agrees to the assignment by the Bank, at any time, of the Mortgage or the original Mortgage to a trustee, or trustees, or a similar fiduciary or fiduciaries, for the equal and ratable benefit of all holders of the Loan, the Bonds and the first loan. The Borrower shall take all such steps and execute and deliver all such documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain such assignment of the Mortgage or the original Mortgage valid and enforceable.

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Section 5.11. In the event a trustee or trustees or a fiduciary or fiduciaries shall be appointed for the purposes contemplated in Sections 5.09 or 5.10 hereof, such appointment or appointments and any arrangements incident thereto shall be made after consultation with the Borrower on such reasonable terms and conditions as in the opinion of the Bank are required by the Bank's operations, by the laws affecting the Mortgage, the Assignment, and the original Mortgage and by the laws or the financial usages of the place or places where the Loan, the Bonds and the first loan are payable. The Borrower shall take all such steps and execute and deliver all such documents as the Bank shall reasonably request or as may from time to time be required in order to cause such trustee or trustees or fiduciary or fiduciaries to be appointed or to render or maintain such appointment or appointments and any arrangements incident thereto valid and enforceable, and shall pay all costs and expenses incident to such appointment or appointments and arrangements or arising out of the exercise by such trustee or trustees or fiduciary or fiduciaries of his or their functions.

Section 5.12. In the event the Bank shall request any Bonds, the Borrower shall promptly upon the Bank's request furnish the Bank a supplemental opinion or supplemental opinions satisfactory to the Bank of counsel acceptable to the Bank showing that such Bonds will constitute valid and binding obligations of the Borrower and of the Guarantor in accordance with their terms, and that the appointment or appointments contemplated in Section 5.11 hereof and any arrangements incident thereto have been validly made and have become effective in accordance with their terms.

Section 5.13. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall, except as the Bank shall otherwise agree, acquire, maintain and renew all rights, powers, privileges and franchises necessary or useful in the operation of its business.

(b) The Borrower shall maintain its plants, equipment and property and from time to time make all necessary renewals and repairs thereof, all in accordance with sound business and engineering standards; and shall at all times operate its plants and equipment and maintain its financial position in accordance with sound business, financial and public utility standards.

ARTICLE VI

Remedies of the Bank

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (a)(ii) of the Loan Regulations:

- (a) The Borrower shall have made the Assignment;
- (b) RWE and EVS shall have notified the Bank of their approval of the Assignment. Such notice shall be in form and substance satisfactory to the Bank;
- (c) All such governmental actions shall have been taken and all such governmental consents shall have been obtained as may be required to make the Assignment valid and enforceable according to its terms;
- (d) The requirements of Section 5.04 (a) hereof shall have been satisfied in respect of such of the mortgaged properties as are owned by the Borrower at the date of this Agreement, and each mortgage executed thereunder shall have been duly recorded in the land register (Grundbuch) of the Gerichtsbezirk Montafon in Schruns.

Section 7.02. The following are specified as additional matters, within the meaning of Section 9.02 (e) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank:

- (a) that the Assignment has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is valid and enforceable in accordance with its terms;

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- (b) that the governmental actions and consents referred to in Section 7.01 (c) hereof have been validly taken or given, as the case may be, and that they have been duly authorized or ratified by the appropriate organ or organs;
- (c) that the first mortgage or first mortgages referred to in Section 7.01 (d) hereof have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, have been duly recorded in the land register (Grundbuch) of the appropriate district or districts, constitute a valid and enforceable first lien in accordance with their terms, and together with the original Mortgage equally and ratably secure the Loan, the Bonds and the first loan.

Section 7.03. A date 90 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VIII

Modifications of Loan Agreement dated June 14, 1955

Section 8.01. The Loan Agreement dated June 14, 1955 between the Bank and the Borrower is hereby amended as follows:

(a) Section 2.07 is amended to read:

"Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule to the Loan Agreement.

For the purpose of facilitating the sale of portions of the Loan, of Bonds, of portions of the loan provided for in the Loan Agreement dated _____, 1957 or of bonds issuable pursuant to the terms thereof, the Bank and the Borrower may from time to time by agreement between them vary the amounts of instalments of principal set forth in the amortization schedule to the Loan Agreement and of instalments of principal set forth in the amortization schedule to the Loan Agreement dated _____, 1957, provided that no such variation shall change (a) the aggregate amount of instalments of principal which, but for such variation, would have been due on any one payment date under this Agreement and the Loan Agreement dated _____, 1957; or (b) the total principal amount of the Loan or the total principal amount of the Loan provided for in the Loan Agreement dated _____, 1957."

(b) Section 4.02 is amended to read:

"Section 4.02. In addition to the provisions prescribed by the Loan Regulations, the Bonds shall contain provisions

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satisfactory to the Bank to the effect that the Mortgage and the Mortgage provided for in the Loan Agreement dated _____, 1957 will equally and ratably secure the Loan, the Bonds, the loan provided for in the Loan Agreement dated _____, 1957 and the bonds issuable pursuant to the terms thereof; that the Assignment will equally and ratably secure the due half-yearly payments of principal of, and interest and other charges on, the Loan and the Bonds; and that any rights or powers of any holder of the Loan or the Bonds, under the Assignment, the Mortgage and the Mortgage provided for in the Loan Agreement dated _____, 1957, or under any of them, will be exercised by the trustee or trustees or fiduciary or fiduciaries contemplated in Sections 5.09, 5.10 and 5.11 hereof."

(c) Paragraph (h) of Schedule 3 is amended to read:

"(h) The following three new sub-paragraphs shall be added after sub-paragraph 20 of Section 10.01:

21. The term 'Mortgage' shall have the meaning set forth in Section 1.02 of the Loan Agreement.
22. The term 'Assignment' shall have the meaning set forth in Section 1.02 of the Loan Agreement.
23. The term 'amortization schedule to the Loan Agreement' shall mean the amortization schedule set forth in Schedule 1 to the Loan Agreement and as the same may be amended from time to time by agreement between the Bank and the Borrower."

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Section 8.02. For the purposes of the Loan Agreement dated June 14, 1955, between the Bank and the Borrower, paragraph (c) of Section 5.02 of Loan Regulations No. 4 of the Bank, dated February 15, 1955, is hereby amended to read as follows:

"(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement, the Bonds, the Assignment or the Mortgage or under the Loan Agreement dated _____, 1957, the Guarantee Agreement of even date therewith, the Bonds, the Assignment or the Mortgage therein provided for.";

and the term "Loan Regulations" as used for the purposes of the said Loan Agreement shall mean Loan Regulations No. 4 of the Bank, dated February 15, 1955, as hereby amended.

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ARTICLE IX

Miscellaneous

Section 9.01. The Closing Date shall be July 1, 1959.

Section 9.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Borrower:

Vorarlberger Illwerke Aktiengesellschaft
Josef Huterstrasse 35
Bregenz
Austria

Alternative address for cablegrams and radiograms:

Illwerke
Bregenz
Austria

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington 25, D. C.
United States of America

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D. C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of

Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By
President

VORARLBERGER ILLWERKE AKTIENGESELLSCHAFT

By
Authorized Representative

SCHEDULE 1

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in German marks)*</u>
May 1, 1960	DM 205,000
November 1, 1960	211,000
May 1, 1961	217,000
November 1, 1961	223,000
May 1, 1962	229,000
November 1, 1962	236,000
May 1, 1963	243,000
November 1, 1963	250,000
May 1, 1964	256,000
November 1, 1964	264,000
May 1, 1965	272,000
November 1, 1965	280,000
May 1, 1966	288,000
November 1, 1966	295,000
May 1, 1967	304,000
November 1, 1967	313,000
May 1, 1968	322,000
November 1, 1968	331,000
May 1, 1969	341,000
November 1, 1969	351,000
May 1, 1970	361,000
November 1, 1970	371,000
May 1, 1971	381,000
November 1, 1971	393,000
May 1, 1972	404,000
November 1, 1972	415,000
May 1, 1973	428,000
November 1, 1973	440,000
May 1, 1974	453,000
November 1, 1974	466,000
May 1, 1975	478,000
November 1, 1975	493,000
May 1, 1976	507,000
November 1, 1976	521,000
May 1, 1977	536,000
November 1, 1977	552,000
May 1, 1978	568,000
November 1, 1978	584,000
May 1, 1979	600,000
November 1, 1979	618,000

* To the extent that any part of the Loan is repayable in a currency other than German marks (see Loan Regulations, Section 3.02), the figures in this column represent German mark equivalents determined as for purposes of withdrawal.

Premiums on Prepayment and Redemption

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations:

<u>Time of Prepayment or Redemption</u>	<u>Premium</u>
Not more than 3 years before maturity	1/2%
More than 3 years but not more than 6 years before maturity	1%
More than 6 years but not more than 11 years before maturity	1-3/4%
More than 11 years but not more than 16 years before maturity	2-1/2%
More than 16 years but not more than 18 years before maturity	3-1/2%
More than 18 years but not more than 20 years before maturity	4-3/4%
More than 20 years before maturity	5-3/4%

SCHEDULE 2

Modifications of Loan Regulations No. 4

For the purposes of this Agreement the provisions of Loan Regulations No. 4 of the Bank, dated June 15, 1956, shall be deemed to be modified as follows:

- (a) Section 2.02 is deleted.
- (b) The first two sentences of Section 3.01 shall read as follows:
"The Borrower shall use reasonable efforts to purchase goods with the currencies of the countries from which such goods are acquired. The proceeds of the Loan shall, to the extent that the Bank shall so elect, be withdrawn from the Loan Account in the several currencies in which goods are paid for; except that with respect to goods paid for in the currency of the Guarantor or acquired from sources within the territories of the Guarantor such withdrawals may, to the extent that the Bank shall so elect, be made in any currency selected by the Bank."
- (c) The following paragraph shall be added to Section 3.05:
"If a withdrawal is applied for on account of expenditures in the currency of the Guarantor, the value of the currency of the Guarantor in terms of the currency or currencies to be withdrawn shall be as reasonably determined by the Bank."
- (d) The second sentence of Section 4.01 shall read as follows:
"Except as shall be otherwise agreed between the Bank and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the Effective Date or (b) expenditures in the territories of any country which is not a member of the Bank or for goods produced in (including services supplied from) such territories.*"

(e) Section 5.02 (c) shall read as follows:

"A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement, the Bonds, the Assignment or the Mortgage, or under the Loan Agreement dated June 14, 1955, the Guarantee Agreement of even date therewith, or the Bonds, the Assignment or the Mortgage therein provided for."

(f) Paragraph (j) of Section 7.04 shall read as follows:

"(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties to the Loan Agreement and the Guarantee Agreement or any claim by any such party against any other such party arising thereunder or under the Bonds; provided, however, that nothing herein shall be deemed to preclude the Bank or any holder of Bonds from exercising, or instituting any legal or equitable action to enforce, any right or claim arising out of or pursuant to the Mortgage or the Assignment, and submission to arbitration hereunder shall not be deemed to be a condition precedent or in any way to prejudice such exercise or enforcement of any such right or claim."

(g) Paragraph 12 of Section 10.01 shall read as follows:

"The term 'Project' shall have the meaning set forth in Section 1.02 of the Loan Agreement."

9/23/57

(h) The following three new sub-paragraphs shall be added after sub-paragraph 20 of Section 10.01:

"21. The term 'Mortgage' shall have the meaning set forth in Section 1.02 of the Loan Agreement.

22. The term 'Assignment' shall have the meaning set forth in Section 1.02 of the Loan Agreement.

23. The term 'amortization schedule to the Loan Agreement' shall mean the amortization schedule set forth in Schedule 1 to the Loan Agreement and as the same may be amended from time to time by agreement between the Bank and the Borrower."

Handwritten: *Handwritten*

Handwritten: *Sept-27/57*



S p e z i a l v o l l m a c h t

gemäß § 1008 ABGB

Die Vorarlberger Illwerke Aktiengesellschaft in Bregenz, vertreten durch die mit Bescheid des Bundesministeriums für Verkehr und verstaatlichte Betriebe vom 15. März 1951, Zl. 71.525-V/1/51, bestellten öffentlichen Verwalter Dipl.Ing.Dr.h.c. Anton A m m a n n und Dipl.Ing. Otto W i r n s c h i m m e l , die laut Eintragung im Handelsregister Feldkirch kollektiv zur Vertretung und Zeichnung der Vorarlberger Illwerke Aktiengesellschaft berechtigt sind, ermächtigen hiemit

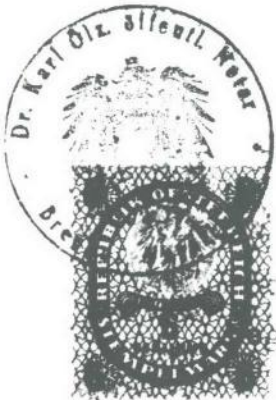
Herrn JDr.Dipl.Ing. Karl G r u b e r
a. o. u. bev. Botschafter der Republik Österreich

bzw. in dessen Abwesenheit den österreichischen
Chargé d'Affaires ad interim

Herrn Legationsrat Dr. Paul Z e d t w i t z ,
in Washington 8, D.C. 2343 Massachusetts Avenue N.W.,
namens der Vorarlberger Illwerke Aktiengesellschaft das
Anleiheabkommen (Supplementary Loan - Lünensee Project)
zwischen der International Bank for Reconstruction and
Development in Washington einerseits und der
Vorarlberger Illwerke Aktiengesellschaft in Bregenz
andererseits betreffend das Bauvorhaben Lünenseewerk

über eine Anleihe in verschiedenen Währungen im Gegenwert von fünfzehn Millionen D-Mark rechtswirksam und unwiderruflich zu unterzeichnen.

Bregenz, den 27. September 1957.



Vorarlberger Illwerke
Aktiengesellschaft

Die öffentlichen Verwalter:

Annemann *Wirnschimmel*

1. Zl. 420/57.

Ich bestätige die Echtheit der vor mir abgegebenen Firmenzeichnung für die "Vorarlberger Illwerke Aktiengesellschaft" in Bregenz durch die öffentlichen Verwalter, die Herren: Dr. techn. h. c. Dipl. Ing. Anton Annemann, Bregenz, Kennelbacherstraße 18 und Dipl. Ing. Otto Wirnschimmel, Bregenz, Brandgasse 8.

Bregenz, am 27.9.1957 (siebenundzwanzigsten September neunzehnhundertsiebenundfünfzig).



Anton Annemann

MS

Vorarlberger Illwerke
Aktiengesellschaft

Austria - No 1779
Files /
H. Schauditz by cable.

Bregenz, den 27. September 1957
FERNSPRECHNUMMER 3891
Drahtanschrift: Illwerke Bregenz

Mr. S. R. C o p e
Director of Operations Europe,
Africa and Australasia
International Bank for
Reconstruction and Development
1818 H. Street N. W.
W a s h i n g t o n 25 D. C.
U. S. A.

Betrifft: Bauvorhaben Lünerseewerk
Supplementary Loan

Sehr geehrter Mr. Cope!

Im Anschluß an die Besprechungen in der Bank in der Zeit vom 9. bis 16. September 1957 über den Abschluß eines Anleiheabkommens (Supplementary Loan), betreffend unser Bauvorhaben Lünerseewerk, über eine Anleihe in verschiedenen Währungen im Gegenwert von fünfzehn Millionen DM, übermitteln wir Ihnen das Original der Spezialvollmacht für die Unterzeichnung dieses Anleiheabkommens mit der Bitte um Kenntnisnahme.

Fotokopie dieser Vollmacht erhält die Österreichische Botschaft, 2343 Massachusetts Avenue N. W., Washington 8, D. C.

Wir verbleiben

mit vorzüglicher Hochachtung

Vorarlberger Illwerke
Aktiengesellschaft

Die öffentlichen Verwalter:

1 Anlage

Original der Spezialvollmacht
und 1 Fotokopie

Luftpost!

Einschreiben!

Handwritten signature: Hermann Gindler

SEP 20 15 30 AM 1957

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
BREGENZ

Handwritten initials: WTH

Handwritten marks

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Einacskreftur
Postboafi
Original der Spezialvollmacht
1 Anlage

SEP 30 12 34 PM 1957

Handwritten signatures

Die öffentlichen Beamten:
Aktiengesellschaft
Vorstand der Illwerke
mit vorläufiger Hochrechnung

mit Verträgen

schafft. 2242 Massachusetts Avenue N. W., Washington 8, D. C.
Protokolle dieser Vollmacht ergibt die detaillierte Bef-
kenntnisnahme.

Die Unterzeichnung dieses Anleiheabkommens mit der Bitte um
Mitteln mit Ihnen das Original der Spezialvollmacht zur
Ausführung im Gesamtwert von fünfzehn Millionen DM, über-
nommenen Darlehenes, über eine Anleihe in veranschlagtem
Leihabkommens (subsidiarisch) , betreffend unser Ver-
trag vom 3. des 10. September 1951 über den Abschluss eines An-
leiheabkommens an die Beauftragten in der Bank in der Zeit
gemäß dem Artikel Nr. 106:

Subsidiarisch
Betreff: Veranschlagtes Darlehen

N. S. A.
WASHINGTON 8, D. C.
1818 H. Street N. W.
Reconstruction and Development
INTERNATIONAL BANK FOR
Africa and America
Director of Operations Europe
MR. S. B. COBE

Original: Illwerke Bregenz
REGISTRATIONSNUMMER 3881
Bregenz, den 27. September 1957

Aktiengesellschaft
Vorstand der Illwerke

Handwritten notes and signatures

The Republic of Austria
Ministry of Finance

Washington, September 24, 1957

To
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

Gentlemen,

In connection with the proposed loan by the International Bank for Reconstruction and Development to the Vorarlberger Illwerke A.G. for DM 15 million, I am writing on behalf of the Republic of Austria to summarize and reaffirm certain facts relating to the external debt of the Republic of Austria as follows:

- (1) We have submitted to you with our letter of August 12, 1957, the following:

Form A: List of external publicly-issued privately-held bonded debt and debt payments during six months' period ended June 30, 1957.

Form B: List of other external public debt and debt payments during six months' period ended June 30, 1957.

At various times in the past we have also submitted to you:

Form C: Description of Individual Debt, covering each of the items of debt listed in Forms A and B.

- (2) Such forms accurately set forth the amounts and principal terms and conditions of all outstanding public debt of the Republic of Austria and of agencies of the Republic of Austria (other than nationalized enterprises operating along the lines of private companies) as of June 30, 1957. There has been no increase in such external public debt since that time other than a loan of SF 55 million by the Swiss Confederation to the Austrian Government for railway improvement. This loan is for a term of 15 years and carries interest at 4-7/8%. The Austrian Government is expected to ratify the loan very shortly.
- (3) Information on the external indebtedness of the political subdivisions of the Republic of Austria, and of agencies of such political subdivisions, which has not yet been included in the Forms referred to in (1) above, will be sent to the Bank as soon as possible.

- (4) Except as stated in such forms and annex, no such debt is secured by any mortgage, pledge, charge or other lien.

It is our mutual understanding that, in making the proposed loan, your Bank may rely on the statements and facts set forth herein and in the documents mentioned above.

Very truly yours,

REPUBLIC OF AUSTRIA
By:

A handwritten signature in cursive script, written in dark ink, positioned below the printed text "By:". The signature is somewhat stylized and difficult to decipher, but it appears to be a personal name.

(RC BOX 28)

AUSTRIA LN 179

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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R 57-89/1

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FOR EXECUTIVE DIRECTORS' MEETING

(For consideration by the Executive Directors on September 30, 1957)

FROM: The Secretary

September 23, 1957

PROPOSED LOAN TO AUSTRIA

Since the Loan and Guarantee Agreements regarding the proposed supplemental loan to the Vorarlberger Illwerke A.G. were distributed to the Executive Directors with the President's Report and Recommendations (R. 57-89), the possibility has arisen of selling certain of the early maturities of this loan. Under the amortization schedule proposed, the amounts of these early maturities are less than the amounts which can probably be sold to private investors. It is not possible to have recourse to the first loan since the interest rate (including commission) on this loan is 4-3/4%, which makes it impossible under current market conditions to sell the early maturities. To provide sufficient maturities at an interest rate attractive to potential buyers, it is accordingly proposed to amend the Loan Agreement so as to permit the amortization schedules to the supplemental loan and to the first VIW loan to be varied by agreement between the Borrower and the Bank. This would make it possible by a simple exchange of letters for the Borrower and the Bank to agree to increase the early maturities of the proposed supplemental loan and decrease by a like amount the corresponding maturities in

Distribution:

- Executive Directors and Alternates
- President
- Vice Presidents
- Department Heads

the first VIW loan, so that the total amortization payable on any one maturity date in respect of both loans would remain unchanged. Adjustments would also be made at the same time in the amounts of other maturities in both loans so as to ensure that the total amount of each of the two loans remained unchanged.

Attached is a revised draft Loan Agreement containing the necessary changes to give effect to the foregoing. These changes are in Section 2.07 and Section 8.01 and in paragraph (h) of Schedule 2 of the draft Loan Agreement.

Attachment

Republic of Austria
Dr. Reinhard Kamit
Federal Ministry of Finance

Washington, September 23, 1957

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

Gentlemen,

In my capacity as Governor of the International Bank for Reconstruction and Development I hereby select, pursuant to the provisions of Article V, Section 7 of the Bank's Articles of Agreement, Dr. Karl Gruber Extraordinary and Plenipotentiary Ambassador as an expert to serve on the committee provided for in Article III, Section 4 of the Articles to report on the supplementary loan proposed to be made by the Bank to the Vorarlberger Illwerke Aktiengesellschaft for the Lunersee Project.

Very truly yours,



R. Kamitz
Minister of Finance

Lunerssee


INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: SEPTEMBER 23, 1957 1815

TO: COPE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

FROM: BREGENZ

ROUTING	
ACTION COPY TO	MR COPE
INFORMATION COPY TO	
Decoded By	

TEXT:

← Sept. 22nd

THANKS YOUR CABLE WE AGREE PRINCIPALLY WITH YOUR SUGGESTION

ILLWERKE AMMANN

DUPLICATE

OUTGOING WIRE

MRS

CLASS OF SERVICE: LETTER TELEGRAM

DATE: SEPTEMBER 23, 1957

TO: AMMANN
ILLWERKE
BREGENZ

COUNTRY (AUSTRIA)

TEXT:

Cable No.

FURTHER TO MY CABLE OF SEPTEMBER 22 BANK PROPOSES NEW PARAGRAPH BE ADDED TO SECTION 2.07 OF LOAN AGREEMENT TO READ AS FOLLOWS QUOTE FOR THE PURPOSE OF FACILITATING THE SALE OF PORTIONS OF THE LOAN, OF BONDS, OF PORTIONS OF THE LOAN PROVIDED FOR IN THE FIRST LOAN AGREEMENT OR OF BONDS ISSUABLE PURSUANT TO THE TERMS OF THE FIRST LOAN AGREEMENT, THE BANK AND THE BORROWER MAY FROM TIME TO TIME BY AGREEMENT BETWEEN THEM VARY THE AMOUNTS OF INSTALMENTS OF PRINCIPAL SET FORTH IN THE AMORTIZATION SCHEDULE TO THE LOAN AGREEMENT AND OF INSTALMENTS OF PRINCIPAL SET FORTH IN THE AMORTIZATION SCHEDULE TO THE FIRST LOAN AGREEMENT, PROVIDED THAT NO SUCH VARIATION SHALL CHANGE (a) THE AGGREGATE AMOUNT OF INSTALMENTS OF PRINCIPAL WHICH, BUT FOR SUCH VARIATION, WOULD HAVE BEEN DUE ON ANY ONE PAYMENT DATE UNDER THIS AGREEMENT AND THE FIRST LOAN AGREEMENT; OR (b) THE TOTAL PRINCIPAL AMOUNT OF THE LOAN OR THE TOTAL PRINCIPAL AMOUNT OF THE LOAN PROVIDED FOR IN THE FIRST LOAN AGREEMENT UNQUOTE A CORRESPONDING PARAGRAPH WOULD BE ADDED TO

(CONTINUED)

Signed: _____
(Type in last name of sender)

AUTHORIZED BY:

NAME:

DEPT:

SIGNATURE: _____
(Signature of individual authorized to approve cable).

For Use by Archives Division
Checked for Dispatch

ORIGINAL (File Copy)

(IMPORTANT: See over for guide in preparing Outgoing Wire)

GUIDE FOR PREPARING OUTGOING WIRES

1. Class of Service

Type in class of service desired. Each class is described as follows:

Letter Telegram Letter telegrams are normally delivered the morning after day of despatch. The cost is half the cost of full rate messages with a minimum charge for 22 words including address and text.

Full Rate Full rate messages are normally transmitted and delivered immediately. There is a minimum charge for 5 words, including address and text.

IBF Govt. This is a preferential rate extended to the Bank by some of its member countries. Messages are sent at full rate speed and at about half the cost. This rate normally should be used whenever available. It is at present available for the following countries:

Bolivia	Cuba	Guatemala	* Peru
Brazil	Dominican Republic	Honduras	* Syria
Burma	Ecuador	Jordan	Uruguay
Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

* In these countries the letter telegram rate is lower than IBF government rate and should be used for messages when immediate transmission is not required.

Code Code messages are transmitted at full rate (or IBF Govt.) speed and cost. This rate should be used only for confidential messages to staff members having a code with them.

Day Letter Day letters are delivered during the day of transmission and should be used only for messages in the United States and to Mexico and Canada. There is a minimum charge for 50 words in text.

Teletype To be used only for messages to the New York Office, United Nations, and certain commercial firms. For information, call Cable Post (Ext. 3008).

2. Address

Use only last name of addressee and cable address whenever possible. The Bank cable address "INTBAFRAD" is registered in Paris, Bogota, Bangkok, Karachi, Lima, Quito and Tegucigalpa. The International Finance Corporation cable address "CORINTFIN" is registered in New York, Paris and Washington. The name of the country of destination must always be added. (No charge is made for the name of a country).

3. Text

Messages to Bank Missions and to Resident Representatives should be numbered. These numbers may be obtained by calling Ext. 3008.

Type text in capital letters and double space between lines. The text should be edited to eliminate unnecessary words and unnecessary punctuation. If punctuation is needed, spell out the words "Comma," "Stop," etc.

Use common abbreviations whenever possible, i.e. reourlet, reurfive, etc. Write as one word hyphenated words, hyphenated names, and certain two-word groups, e.g. Airmail, Newyork, enduse.

4. Signature

Type in last name of sender. Use INTBAFRAD as part of the signature only when addressee does not know the address of the sender.

5. Authorization

Type in name and department of staff member authorizing message and have authorizing staff member sign the original (pink copy). A list of authorized signatures is kept in the cable office.

Forward messages in triplicate in a cable envelope to Room 211 for despatch. The cable service is open from 9:00 a.m. to 5:45 p.m. on working days. Special arrangements should be made for the despatch of cables outside of these hours.

ANY QUESTIONS REGARDING INCOMING AND OUTGOING WIRES SHOULD BE REFERRED TO THE CABLE POST, EXT. 3008.

OUTGOING WIRE

~~SECRET~~ PAGE 2

CLASS OF SERVICE:

DATE:

TO:

COUNTRY (

TEXT:

Cable No.

ARTICLE EIGHT TO CHANGE LOAN AGREEMENT NO.118 IN SAME WAY STOP OTHER
MINOR CHANGES TO MAKE AGREEMENTS CONSISTENT WOULD BE ADDED STOP REVISED
DRAFT OF AGREEMENTS WILL BE AIRMAILED TO YOU AND TO MINISTRY OF FINANCE
STOP PLEASE CABLE YOUR AGREEMENT AS SOON AS POSSIBLE

Signed: COPE
(Type in last name of sender)

AUTHORIZED BY:

NAME: S. R. Cope
DEPT: Director of Operations
SIGNATURE: (Signature of individual authorized to approve cable).

JH Collier:ms
Cleared with Mr. Fontein
Europe, Africa and Australasia

For Use by Archives Division
Checked for Dispatch

ORIGINAL (File Copy)

(IMPORTANT: See over for guide in preparing Outgoing Wire)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
OUTGOING WIRES
GUIDE FOR PREPARING OUTGOING WIRES

1. Class of Service

Type in class of service desired. Each class is described as follows:

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IBF Govt. This is a preferential rate extended to the Bank by some of its member countries. Messages are sent at full rate speed and at about half the cost. This rate normally should be used whenever available. It is at present available for the following countries:

Bolivia	Cuba	Guatemala	* Peru
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Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

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Code Code messages are transmitted at full rate (or IBF Govt.) speed and cost. This rate should be used only for confidential messages to staff members having a code with them.

Day Letter Day letters are delivered during the day of transmission and should be used only for messages in the United States and to Mexico and Canada. There is a minimum charge for 50 words in text.

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Use common abbreviations whenever possible, i.e. reounlet, reurfive, etc. Write as one word hyphenated words, hyphenated names, and certain two-word groups, e.g. Airmail, Newyork, enduse.

4. Signature

Type in last name of sender. Use INTBAFRAD as part of the signature only when addressee does not know the address of the sender.

5. Authorization

Type in name and department of staff member authorizing message and have authorizing staff member sign the original (pink copy). A list of authorized signatures is kept in the cable office.

Forward messages in triplicate in a cable envelope to Room 211 for despatch. The cable service is open from 9:00 a.m. to 5:45 p.m. on working days. Special arrangements should be made for the despatch of cables outside of these hours.

ANY QUESTIONS REGARDING INCOMING AND OUTGOING WIRES SHOULD BE REFERRED TO THE CABLE POST, EXT. 3008.

Dispatched

3:30 pm

9/23/57

OUTGOING WIRE

CLASS OF SERVICE: NIGHT LETTER

DATE: SEPTEMBER 22, 1957

TO: AMMANN
ILLWERKE
BREGENZ



23160

AUSTRIA)

KT: DRESDNER BANK INTERESTED IN TAKING UP TO DM TWO MILLION OF EARLY MATURITIES OF LOANS TO VIW BUT UNWILLING TO GO FURTHER THAN 2-1/2 OR 3 YEARS STOP EARLY MATURITIES OF SECOND LOAN ARE INSUFFICIENT FOR THIS PURPOSE AND INTEREST RATE ON FIRST LOAN TOO LOW UNDER CURRENT MARKET CONDITIONS TO ATTRACT DRESDNER BANK OR OTHER INVESTORS STOP WE THEREFORE PROPOSE INCREASING EARLY MATURITIES OF NEW LOAN AND MAKING EXACTLY SIMILAR DECREASES IN CORRESPONDING MATURITIES OF LOAN 118 STOP SIMULTANEOUSLY ^{LATER} OTHER MATURITIES OF BOTH LOANS WOULD BE ADJUSTED SO AS TO MAINTAIN SAME TOTAL TO BE AMORTIZED UNDER EACH LOAN STOP THEREFORE WE SUGGEST ADDITIONAL SECTION IN NEW LOAN AGREEMENT PROVIDING THAT BANK AND BORROWER MAY CHANGE AMORTIZATION SCHEDULES OF NEW LOAN AND OF FIRST LOAN BY MUTUAL AGREEMENT STOP THIS WOULD FACILITATE SALES OF EARLY MATURITIES AND SAVE YOU DIFFERENCE BETWEEN RATE IN LOAN AGREEMENT AND RATE ON MATURITIES WE SELL STOP FINANCE MINISTER AGREEABLE TO PROPOSED CHANGE STOP WE WILL CABLE TEXT OF PROPOSED CLAUSE TOMORROW SHOULD APPRECIATE YOUR REACTION

Signed: COPE

AUTHORIZED BY:

NAME: S. R. Coper
 DEPT: Department of Operations - Europe, Africa and Australasia
 SIGNATURE:

File
TRANSMITTAL COPY

Austria - Lunersee
np.

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT **DECLASSIFIED**

APR 25 2018

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R 57-89

(For consideration by the
Executive Directors on
September 30, 1957)

**FOR
EXECUTIVE
DIRECTORS'
MEETING**

FROM: The Secretary

September 20, 1957

PROPOSED LOAN TO AUSTRIA

The attached President's Report and Recommendations on a proposed loan in an amount in various currencies equivalent to DM 15 million to the Vorarlberger Illwerke Aktiengesellschaft (Austria) will be considered by the Executive Directors at a Special Meeting on Monday, September 30, 1957, the time of which will be announced.

The following form part of the President's Report and Recommendations:

1. Draft Loan Agreement
2. Draft Guarantee Agreement
3. Memorandum on Supplementary Loan to Vorarlberger Illwerke A.G.
4. Report on "Current Economic Position and Prospects of Austria"
5. Statutory Loan Committee Report
6. Draft Resolution authorizing the Loan

A report on the "Appraisal of the Lunersee Project in Austria" (R-861) was circulated to the Executive Directors on May 27, 1955.

Attachments

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

Sec. 57-324

September 19, 1957

Dr. Ernst Wagner
Kärntnerring 10
Vienna I, Austria

Dear Ernst:

Thank you very much for your letter of September 3 enclosing the forms of the Power of Attorney which you will need in order to record our mortgages in connection with the Supplementary Loan for the Lünersee Project. I apologize for not writing you sooner but due to a great number of absences we have been swamped with work.

We have concluded our negotiations with the delegation of the Illwerke for the Supplementary Loan and I take pleasure in sending you herewith a copy of the draft Loan and Guarantee Agreements. I hope these meet with your approval. These agreements have been circulated to our management for comment and will be submitted to our Executive Directors for approval at a meeting to be held on September 30. We hope to be able to sign the Loan and Guarantee Agreements on or about October 2.

I also enclose a memorandum setting forth the various authorizations which we will need in order to execute the loan documents. We have discussed these with the delegation from the Illwerke and with Dr. Teufenstein and we expect that they will be sent to us shortly. This memorandum also attaches drafts of the various letters which will be signed at the time of the execution of the Loan Agreement to the extent that they have been prepared. Two letters still have to be drafted. One is a letter from the Government in which they state their agreement in principle to the Illwerke proposals for the payment of the various Reichsmark issues; the other is a letter from the Government setting forth the customary representations with respect to their external debt. Drafts of both of these will be prepared next week upon Dr. Teufenstein's return from New York.

The forms of Power of Attorney which you have sent to us seem to us to go somewhat beyond your needs in connection with the registration of the mortgages and we feel that in view of the provisions in the

Bank's Articles of Agreement relating to our privileges and immunities (Article VII of the Bank's Articles of Agreement) it might be advisable to narrow the Powers to those which you require for the purpose of recording the mortgages. I hope to be able to send you a revised draft of the Power of Attorney in the next few days. If this revision is acceptable to you or if you have only minor changes to suggest you may wish to cable me so that I can have the Power executed by the appropriate officers of the Bank and certified at the Austrian Embassy and sent to you.

I shall be writing you shortly about the various steps that have to be taken in order to make the Loan and Guarantee Agreements effective. In the meantime, I remain, with kindest regards to your wife, your daughter and yourself, as always,

Yours sincerely,

Douglas J. Fontein

Archives

CONFIDENTIAL

STAFF LOAN COMMITTEE

Austria Proposed
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APR 25 2018

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MEMORANDUM TO THE STAFF LOAN COMMITTEE

Austria

1. As no new policy questions are involved, the Committee is requested to consider the attached draft Report and Recommendations of the President on the proposed supplementary loan to the Vorarlberger Illwerke Aktiengesellschaft without meeting.
2. The Economic Report referred to in para. 12 was distributed on September 17.
3. Comments, if any, should be sent to reach Mr. Collier by noon on Friday, September 20.
4. It is planned then to distribute the loan documents to the Executive Directors for consideration at a special meeting to be called for September 30.

Herbert G. A. Woolley
Secretary
Staff Loan Committee

September 18, 1957

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APR 25 2018

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A SUPPLEMENTARY LOAN TO THE
VORARLBERGER ILLWERKE AKTIENGESELLSCHAFT

September 18, 1957

REPORT AND RECOMMENDATIONS OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A SUPPLEMENTARY LOAN TO THE
VORARLBERGER ILLWERKE AKTIENGESELLSCHAFT

1. I submit the following report and recommendations on the application of the Vorarlberger Illwerke A.G. for a loan of an amount in various currencies equivalent to DM 15 million.

PART I - HISTORICAL

2. In June 1955 the Bank made a loan of \$10 million equivalent to the Vorarlberger Illwerke A.G. (VIW) for the construction of the Lunersee Project (Loan 118 AUA). During the course of 1956 it became clear that unforeseen increases in the cost of the Project would compel the VIW to seek additional financing and in March 1957 the Austrian Government invited the Bank to send a mission to Austria to consider a supplementary loan. Accordingly, in May two members of the Bank's staff visited Austria to study the Lunersee Project. Their findings are contained in the attached "Memorandum on Supplementary Loan to Vorarlberger Illwerke A.G." (No. 3).

3. Representatives of the VIW arrived in Washington on September 6 and negotiations were completed on September 16.

4. The Bank has already made loans aggregating \$53 million either to Austria or with Austria's guarantee. The position of these loans is as set out below. Amounts are expressed in millions of dollars.

<u>Year</u>	<u>Borrower</u>	<u>Amount</u>	<u>Outstanding at July 31, 1957</u> <u>including undisbursed commitments</u>	
			<u>Held by the</u> <u>Bank</u>	<u>Held by other</u> <u>investors</u>
1954	Verbundgesellschaft, Draukraftwerke	12.0	12.0	-
1955	Vorarlberger Illwerke	10.0	9.8	0.15
1956	Verbundgesellschaft, Draukraftwerke	10.0	9.8	0.18
1956	Verbundgesellschaft, Donaukraftwerke	<u>21.0</u>	<u>20.7</u>	<u>0.27</u>
		53.0	52.4	0.60

Of the total of \$53 million equivalent, \$42 million has been disbursed.

PART II - DESCRIPTION OF THE PROPOSED LOAN

5. The proposed loan would finance part of the additional cost of completing the Lünensee Project. This additional cost is for expenditure on local labor, materials and equipment.

6. The loan would have the following features:

<u>Borrower</u>	:	Vorarlberger Illwerke A.G.
<u>Guarantor</u>	:	Republic of Austria.
<u>Amount</u>	:	Equivalent in various currencies of DM 15 million.
<u>Amortization</u>	:	Forty semi-annual instalments beginning May 1, 1960, and ending November 1, 1979.
<u>Interest Rate</u>	:	____% per annum including 1% commission.
<u>Commitment Charge</u>	:	3/4% per annum.

PART III - DESCRIPTION OF THE PROJECT

7. The Project is essentially a scheme to produce winter peak power from pumped storage and will have an effective capacity of 190,000 kw.. The greater part of the power is exported to Germany under a long-term contract known as the Illwerke Agreement.

PART IV - APPRAISAL OF THE LOAN

8. An account of the present status of the Project and of the financial position of the borrower will be found in the attached technical memorandum. A more detailed description of both the borrower and the Project can be found in the technical report attached to my recommendations concerning the first loan, "Appraisal of the Lünensee Project in Austria" (No. TO-75c).

9. Paragraph 23 of my report on the first VIW loan referred to the default on the VIW's £2 million sterling loan which was brought about by German and later by Austrian exchange restrictions. This default has now been cleared up and the loan has been fully repaid, except for bonds amounting to £180,000 which were lost at the end of the war and have now been invalidated.

Reason for a Supplementary Loan

10. In 1954, the cost of the Project was estimated at \$38.6 million equivalent. The cost is now estimated at the equivalent of \$50 million, an increase of almost 30%. A substantial part of the increase is due to higher prices and wages in Austria and the remainder to unforeseen geological conditions, minor

project improvements, requirements of supervisory authorities and additional interest during construction. The increase is wholly for expenditure in Austria. Of the total additional financing required, equivalent to \$11.4 million, the company can provide \$4.4 million from its own resources while credits from Swiss banks and other short-term credits have provided \$3.5 million. The present loan of DM 15 million (equivalent to \$3.57 million) would provide the balance.

Prospects for Repayment of the Loan

11. The VIW sells the greater part of its output to two German companies, Rheinisch-Westfälisches Elektrizitätswerk A.G. (RWE) and Energie-Versorgung Schwaben (EVS), under the Illwerke Agreement. This agreement in effect assures the VIW of sufficient funds to cover its operating costs and the service of its debt. The Bank's loan would be secured by an assignment of revenues received from these German power companies and in addition by first mortgages on the VIW's properties.

12. An economic report on "Current Economic Position and Prospects of Austria" is attached (No. 4). This report continues the account of the economic boom in Austria which was described in the report circulated in August 1956 (No. E.A. 62a). The economic consequences of the State Treaty have been less unfavorable than was feared. Deliveries of petroleum and other goods to the Soviet Union have gone smoothly. The growth of earnings from exports and from tourists has more than offset the loss of foreign exchange receipts resulting from the departure of the occupation troops. Austria's own military expenditure is as yet small. Events in Hungary last year placed an unexpected burden on the economy and although many of the refugees have either found permanent homes elsewhere or have returned to Hungary, some 34,000 still remain in Austria.

13. Austria's public external debt is equivalent to \$190 million compared to \$103 million in June 1955 when the Bank made the first VIW loan. This increase includes two loans from the Bank for electric power totalling \$31 million and borrowing from the U.S. Government under the surplus agricultural produce program of almost \$20 million. The total now reached is, however, still moderate for a country the size of Austria. Service payments on the external debt amount to only 1.8% of national savings and 1.4% of foreign exchange income.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

14. Drafts of the Loan Agreement and of the Guarantee Agreement are attached (Nos. 1 and 2). The Report of the Committee, provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank is also attached (No. 5).

15. Attention is drawn to the following provisions in the Loan Agreement:

- (a) As security for the loan the Borrower will assign to the Bank a portion of its rights to payments from the German power consumers under the Illwerke Agreement (Section 5.03 (b)).

- (b) As further security the Borrower will create a first mortgage or mortgages on properties required for the completion or operation of the Project. These mortgages, and the mortgages given under the first loan, will equally and ratably secure the Loan, the Bonds and the first loan (Section 5.04).
- (c) Except as the Bank shall otherwise agree the Borrower will not dispose of any of the mortgaged properties or permit the creation of any lien on the mortgaged properties ranking in priority to or pari passu with the mortgages securing the Bank's loan (Section 5.06 (a)). As in the case of the first loan the Bank is prepared to agree to the creation of a mortgage ranking equally with its own to secure the loan of up to 200 million schillings from the Austrian Länderbank.
- (d) Effective date conditions include the making of the assignment and the creation of the first mortgages above referred to (Section 7.01). The validity of the assignment and of the first mortgages are to be covered in the legal opinions to be furnished to the Bank (Section 7.02).
- (e) Default under the assignment or the mortgage is added to the events permitting the Bank to suspend withdrawals or to premature the loan.
- (f) Since this loan is made for the same Project for which the first loan was made, a default in respect of the first loan will be a default under this Loan Agreement and vice versa (Section 8.02 and Schedule 2, paragraph (e)).

In other respects the Loan Agreement follows the usual pattern.

16. The draft Guarantee Agreement contains a guarantee of performance as well as of payment (Section 2.01). In other respects the Guarantee Agreement follows the usual pattern. As in the case of previous loans to Austria, the Bank would agree under the negative pledge clause to except assets of those nationalized enterprises which are organized and managed along the lines of private corporations.

17. I am satisfied that the proposed loan complies with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATIONS

18. I recommend that the Bank make a loan to the Vorarlberger Illwerke A.G. in the amount of DM 15 million, or the equivalent in other currencies, to be guaranteed by the Republic of Austria, for a total term of 22 years with interest (including commission) at ____ % per annum, and on such other terms

as are specified in the form of the Loan and Guarantee Agreements attached hereto and that the Executive Directors adopt a resolution to that effect in the form attached (No. 6).

Attachments 6

Washington, D. C.

Eugene R. Black

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(Subject to Change)
9/13/57

Loan Number ____ Aua

LOAN AGREEMENT

(Supplementary Loan - Ldnersee Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

VORARLBERGER ILLWERKE
AKTIENGESELLSCHAFT

Dated _____, 1957

9/10/57

LOAN AGREEMENT

AGREEMENT, dated _____, 1957 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and VORARLBERGER ILLWERKE AKTIENGESELLSCHAFT (hereinafter called the Borrower), a company organized and existing under the laws of the Guarantor.

WHEREAS

(A) By a loan agreement dated June 14, 1955 (hereinafter called the first Loan Agreement), between the Bank and the Borrower, the Bank granted a loan to the Borrower in an amount in various currencies equivalent to \$10,000,000, for the purpose of financing the construction of hydroelectric generating facilities and ancillary installations more particularly described therein (hereinafter called the L nnersee Project);

(B) The said loan was guaranteed as to payment of principal, interest and other charges by the Guarantor;

(C) The Borrower as security for the first loan (as hereinafter defined) has created or has undertaken to create a first mortgage or first mortgages on certain properties now owned or hereafter acquired by the Borrower which are required for the completion and continued operation of the L nnersee Project, as more fully set forth in the first Loan Agreement;

(D) The Borrower as security for the due half-yearly payments of principal of, and interest and other charges on, the first loan has assigned to the Bank a portion of its rights to and claims for payments

from Rheinisch-Westfälisches Elektrizitätswerk Aktiengesellschaft and Energie-Versorgung Schwaben A.G., as more fully set forth in the first Loan Agreement;

(E) Additional financing is required by the Borrower in order to complete the Lärnersee Project, and the Bank has agreed to make a supplementary loan for such purpose;

NOW THEREFORE, the parties hereto agree as follows:

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ARTICLE I

Loan Regulations; Special Definitions

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated June 15, 1956, subject, however, to the modifications thereof set forth in Schedule 2 to this Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Section 1.02. Except where the context otherwise requires, the following terms have the following meanings wherever used in this Agreement or any schedule thereto:

(a) The term "first Loan Agreement" means the Loan Agreement dated June 14, 1955, between the Bank and the Borrower, as modified by the provisions of Article VIII of this Agreement.

(b) The term "first loan" means the loan provided for in the first Loan Agreement and the bonds issuable pursuant to the terms of the first Loan Agreement.

(c) The term "Project" means the project described in Schedule 2 to the first Loan Agreement as such description shall be amended from time to time by agreement between the Bank and the Borrower.

(d) The term "mortgaged properties" means the properties referred to in Section 5.04 (a) of the first Loan Agreement now owned or hereafter acquired by the Borrower which are required for the completion and continued

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operation of the Project and in respect of which the Borrower pursuant to the said Section has created or has undertaken to create a first mortgage or first mortgages as security for the first loan.

(e) The term "original Mortgage" means the first mortgage or first mortgages created or to be created pursuant to Section 5.04 (a) of the first Loan Agreement, or any of them, as the context may require.

(f) The term "Mortgage" means the first mortgage or first mortgages created or to be created pursuant to Section 5.04 (a) of this Agreement, or any of them, as the context may require.

(g) The term "RWE" means Rheinisch-Westfälisches Elektrizitätswerk Aktiengesellschaft, a company organized and existing under the laws of the Federal Republic of Germany.

(h) The term "EVS" means Energie-Versorgung Schwaben A.G., a company organized and existing under the laws of the Federal Republic of Germany.

(i) The term "Illwerke-Agreement" means the agreement dated July 1, 1953, known as the "Illwerke-Vertrag 1952," between the Borrower, RWE, and EVS.

(j) The term "original Assignment" means the assignment dated June 20, 1955, executed pursuant to Section 5.03 (b) of the first Loan Agreement, by which the Borrower has assigned to the Bank such portion of its rights to and claims for payments from RWE and EVS under the Illwerke-Agreement as shall from time to time be required for the due half-yearly payments of principal of, and interest and other charges on, the first loan.

(k) The term "Assignment" means the assignment provided for in Section 5.03 (b) of this Agreement.

(l) The term "German marks" and the letters "DM" mean marks of the Federal Republic of Germany.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to _____ German marks (DM _____).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Regulations.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time. Such commitment charge shall accrue from a date sixty days after the date of this Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Loan Account as provided in Article IV of the Loan Regulations or shall be cancelled pursuant to Article V of the Loan Regulations.

Section 2.04. The Borrower shall pay interest at the rate of _____ per cent (____%) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the

Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent (1/2 of 1%) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project. The specific goods to be financed out of the proceeds of the Loan shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

ARTICLE IV

Bonds

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. In addition to the provisions prescribed by the Loan Regulations, the Bonds shall contain provisions satisfactory to the Bank to the effect that the Mortgage and the original Mortgage will equally and ratably secure the Loan, the Bonds and the first loan; that the Assignment will equally and ratably secure the due half-yearly payments of principal of, and interest and other charges on, the Loan and the Bonds and that any rights or powers of any holder of the Loan or the Bonds under the Assignment, the Mortgage and the original Mortgage or under any of them will be exercised by the trustee or trustees or fiduciary or fiduciaries contemplated in Sections 5.09, 5.10 and 5.11 hereof.

Section 4.03. For the period of the public administration of the Borrower the two public administrators of the Borrower are jointly designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations; thereafter any two members of the Managing Board (Vorstand) of the Borrower are so designated for such purposes.

ARTICLE V

Particular Covenants

Section 5.01. (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering and financial practices.

(b) The Borrower shall promptly furnish to the Bank, as the Bank may from time to time request, the plans and specifications for the Project and any material modifications subsequently made therein.

(c) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the financial condition and operations of the Borrower; shall enable the Bank's representatives to inspect the Project, the goods and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, and the financial condition and operations of the Borrower.

Section 5.02. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

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(b) The Bank and the Borrower shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

Section 5.03. (a) The Borrower shall duly perform its obligations under the Illwerke-Agreement and shall not agree to any modification or change thereof that would or might result in the Borrower's being unable duly to provide for the service of the Loan and the financing of the Project.

(b) As soon as practicable after the date of this Agreement the Borrower shall assign to the Bank such portion of all its rights to and claims for payments from RWE and EVS under the Illwerke-Agreement as shall from time to time be required for the due half-yearly payments of principal of, and interest and other charges on, the Loan and the Bonds. Such assignment shall be an assignment on account of payment (Abtretung zahlungshalber) within the meaning thereof under the laws of the Guarantor, shall equally and ratably secure the due half-yearly payments of principal of, and interest and other charges on the Loan and the Bonds, and shall be in form and substance satisfactory to the Bank.

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(c) The Borrower shall take all such steps and execute and deliver all such documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain the Assignment valid and enforceable.

Section 5.04. (a) From time to time the Borrower shall create on the mortgaged properties now owned or hereafter required by the Borrower, a first mortgage or first mortgages, in form and substance satisfactory to the Bank, which together with the original Mortgage shall equally and ratably secure the Loan, the Bonds and the first loan. The Borrower shall from time to time take such steps (including such modifications of the original Mortgage as shall be necessary for the purpose) and execute and deliver such deeds and other instruments, in form and substance satisfactory to the Bank, and shall cause all other necessary parties to take such steps and to execute and deliver such deeds and other instruments, all in form and substance satisfactory to the Bank, as may be required in order to ensure that the Mortgage and the original Mortgage shall equally and ratably secure the Loan, the Bonds and the first loan, all of which shall rank pari passu inter se in respect of all such security, and in order to ensure that the Mortgage and the original Mortgage shall rank in point of security, together with the first mortgage securing the Borrower's 4% Reichsmark Mortgage Loan of 1944 prior to any other mortgage, charge or lien upon any of the mortgaged properties.

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In the event the par value of the currency of the Guarantor is reduced or the foreign exchange value of the currency of the Guarantor has, in the opinion of the Bank, depreciated to a significant extent, the Borrower shall from time to time promptly upon the Bank's request create such additional first mortgage or additional first mortgages and execute and deliver such additional deeds or other instruments, in form and substance satisfactory to the Bank, as may be required to make the aggregate amount in the currency of the Guarantor for which all mortgages created hereunder and the original Mortgage may be recordable or may have been recorded equivalent to the aggregate amount in the currencies other than the currency of the Guarantor required for the payment of principal of, and interest and other charges on, the Loan, the Bonds and the first loan, calculated on the basis of such reduced par value or depreciated foreign exchange value respectively, and for the purpose of such calculation the par value or the foreign exchange value of the currency of the Guarantor in terms of any such other currency shall be as reasonably determined by the Bank.

(b) Except as the Bank shall otherwise agree, the Borrower shall report to the Bank at intervals of one year all mortgaged properties which the Borrower shall have acquired during the preceding year and which have not theretofore been covered by the Mortgage.

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(c) The Borrower shall duly record, register and file and re-record, re-register and re-file the Mortgage and the original Mortgage in every jurisdiction for which the Bank may from time to time request any such recordation, registration or filing or where such recordation, registration or filing may be necessary or desirable in order to render or maintain the Mortgage and the original Mortgage a valid and enforceable first lien.

The Bank shall have the right to record and re-record the Mortgage and the original Mortgage in the appropriate land register (Grundbuch) at any time after their execution and delivery.

(d) Whenever the Bank shall so request after the creation of any mortgage referred to in Section 5.04 (a) hereof, other than the mortgages referred to in Section 7.01 (d) hereof, the Borrower shall within 30 days after the date of such request furnish to the Bank an opinion or opinions of counsel acceptable to the Bank that such mortgage has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and constitutes a valid and enforceable first lien in accordance with its terms.

(e) The Borrower shall take all such other steps and execute and deliver all such other documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain the Mortgage and the original Mortgage a valid and enforceable first lien.

Section 5.05. No delay in exercising, or omission to exercise, any right or power accruing to the Bank under the Assignment, the Mortgage, the original Assignment or the original Mortgage shall affect or impair any obligation of the Borrower under the Loan Agreement.

Section 5.06. (a) Except as the Bank shall otherwise agree or as otherwise provided in this Agreement, the Borrower shall not sell, or otherwise dispose of, or permit the creation as security for debt or otherwise of any additional lien ranking in priority to or pari passu with the Mortgage or the original Mortgage on, any of the mortgaged properties.

(b) Except as the Bank shall otherwise agree, the Borrower shall not make any assignment of, or permit the creation of any lien on, any of its rights to and claims for payments from RWE and EVS under the Illwerke-Agreement ranking in priority to the Assignment or the original Assignment, or securing any portions of any debt in excess of those maturing during any one year according to the original terms of any such debt. For the purposes of this subsection any debt or portion thereof that has become due and payable because of any default, bankruptcy, receivership, or for any other reason, prior to the date on which payment was contemplated in the ordinary course of business under the original terms of such debt, shall not be deemed to be maturing during any such one year.

Section 5.07. The Borrower shall pay or cause to be paid all taxes or fees, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Bonds, the Mortgage, the Assignment, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than

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the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.08. The Borrower shall pay or cause to be paid all taxes and fees, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Bonds, the Mortgage or the Assignment.

Section 5.09. The Borrower agrees to the re-assignment by the Bank, at any time, of all rights or powers that the Bank may have under the Assignment to a trustee, or trustees, or a similar fiduciary or fiduciaries, for the equal and ratable benefit of all holders of the Loan and the Bonds. The Borrower shall take all such steps and execute and deliver all such documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain such re-assignment valid and enforceable.

Section 5.10. The Borrower agrees to the assignment by the Bank, at any time, of the Mortgage or the original Mortgage to a trustee, or trustees, or a similar fiduciary or fiduciaries, for the equal and ratable benefit of all holders of the Loan, the Bonds and the first loan. The Borrower shall take all such steps and execute and deliver all such documents as the Bank may from time to time reasonably request or as may from time to time be required in order to render or maintain such assignment of the Mortgage or the original Mortgage valid and enforceable.

Section 5.11. In the event a trustee or trustees or a fiduciary or fiduciaries shall be appointed for the purposes contemplated in Sections 5.09 or 5.10 hereof, such appointment or appointments and any arrangements incident thereto shall be made after consultation with the Borrower on such reasonable terms and conditions as in the opinion of the Bank are required by the Bank's operations, by the laws affecting the Mortgage, the Assignment, and the original Mortgage and by the laws or the financial usages of the place or places where the Loan, the Bonds and the first loan are payable. The Borrower shall take all such steps and execute and deliver all such documents as the Bank shall reasonably request or as may from time to time be required in order to cause such trustee or trustees or fiduciary or fiduciaries to be appointed or to render or maintain such appointment or appointments and any arrangements incident thereto valid and enforceable, and shall pay all costs and expenses incident to such appointment or appointments and arrangements or arising out of the exercise by such trustee or trustees or fiduciary or fiduciaries of his or their functions.

Section 5.12. In the event the Bank shall request any Bonds, the Borrower shall promptly upon the Bank's request furnish the Bank a supplemental opinion or supplemental opinions satisfactory to the Bank of counsel acceptable to the Bank showing that such Bonds will constitute valid and binding obligations of the Borrower and of the Guarantor in accordance with their terms, and that the appointment or appointments contemplated in Section 5.11 hereof and any arrangements incident thereto have been validly made and have become effective in accordance with their terms.

Section 5.13. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall, except as the Bank shall otherwise agree, acquire, maintain and renew all rights, powers, privileges and franchises necessary or useful in the operation of its business.

(b) The Borrower shall maintain its plants, equipment and property and from time to time make all necessary renewals and repairs thereof, all in accordance with sound business and engineering standards; and shall at all times operate its plants and equipment and maintain its financial position in accordance with sound business, financial and public utility standards.

ARTICLE VI

Remedies of the Bank

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (a)(ii) of the Loan Regulations:

- (a) The Borrower shall have made the Assignment;
- (b) RWE and EVS shall have notified the Bank of their approval of the Assignment. Such notice shall be in form and substance satisfactory to the Bank;
- (c) All such governmental actions shall have been taken and all such governmental consents shall have been obtained as may be required to make the Assignment valid and enforceable according to its terms;
- (d) The requirements of Section 5.04 (a) hereof shall have been satisfied in respect of such of the mortgaged properties as are owned by the Borrower at the date of this Agreement, and each mortgage executed thereunder shall have been duly recorded in the land register (Grundbuch) of the Gerichtsbezirk Montafon in Schruns.

Section 7.02. The following are specified as additional matters, within the meaning of Section 9.02 (e) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank:

- (a) that the Assignment has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is valid and enforceable in accordance with its terms;

- (b) that the governmental actions and consents referred to in Section 7.01 (c) hereof have been validly taken or given, as the case may be, and that they have been duly authorized or ratified by the appropriate organ or organs;
- (c) that the first mortgage or first mortgages referred to in Section 7.01 (d) hereof have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, have been duly recorded in the land register (Grundbuch) of the appropriate district or districts, constitute a valid and enforceable first lien in accordance with their terms, and together with the original Mortgage equally and ratably secure the Loan, the Bonds and the first loan.

Section 7.03. A date 90 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VIII

Modification of Loan Agreement dated June 14, 1955

Section 8.01. Section 4.02 of the Loan Agreement dated June 14, 1955 between the Bank and the Borrower is hereby amended to read as follows:

"Section 4.02. In addition to the provisions prescribed by the Loan Regulations, the Bonds shall contain provisions satisfactory to the Bank to the effect that the Mortgage and the Mortgage provided for in the Loan Agreement dated _____, 1957 will equally and ratably secure the Loan, the Bonds, the loan provided for in the Loan Agreement dated _____, 1957 and the bonds issuable pursuant to the terms thereof; that the Assignment will equally and ratably secure the due half-yearly payments of principal of, and interest and other charges on, the Loan and the Bonds; and that any rights or powers of any holder of the Loan or the Bonds, under the Assignment, the Mortgage and the Mortgage provided for in the Loan Agreement dated _____, 1957, or under any of them, will be exercised by the trustee or trustees or fiduciary or fiduciaries contemplated in Sections 5.09, 5.10 and 5.11 hereof."

Section 8.02. For the purposes of the Loan Agreement dated June 14, 1955, between the Bank and the Borrower, paragraph (c) of Section 5.02 of Loan Regulations No. 4 of the Bank, dated February 15, 1955, is hereby amended to read as follows:

"(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement, the

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Bonds, the Assignment or the Mortgage or under the Loan Agreement dated _____, 1957, the Guarantee Agreement of even date therewith, the Bonds, the Assignment or the Mortgage therein provided for.";

and the term "Loan Regulations" as used for the purposes of the said Loan Agreement shall mean Loan Regulations No. 4 of the Bank, dated February 15, 1955, as hereby amended.

ARTICLE IX

Miscellaneous

Section 9.01. The Closing Date shall be July 1, 1959.

Section 9.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Borrower:

Vorarlberger Illwerke Aktiengesellschaft
Josef Haterstrasse 35
Bregenz
Austria

Alternative address for cablegrams and radiograms:

Illwerke
Bregenz
Austria

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington 25, D. C.
United States of America

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D. C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of

Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By
President

VORARLBERGER ILLWERKE AKTIENGESELLSCHAFT

By
Authorized Representative

SCHEDULE 1

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in German marks)*</u>
May 1, 1960	\$205,000
November 1, 1960	211,000
May 1, 1961	217,000
November 1, 1961	223,000
May 1, 1962	229,000
November 1, 1962	236,000
May 1, 1963	243,000
November 1, 1963	250,000
May 1, 1964	256,000
November 1, 1964	264,000
May 1, 1965	272,000
November 1, 1965	280,000
May 1, 1966	288,000
November 1, 1966	295,000
May 1, 1967	304,000
November 1, 1967	313,000
May 1, 1968	322,000
November 1, 1968	331,000
May 1, 1969	341,000
November 1, 1969	351,000
May 1, 1970	361,000
November 1, 1970	371,000
May 1, 1971	381,000
November 1, 1971	393,000
May 1, 1972	404,000
November 1, 1972	415,000
May 1, 1973	428,000
November 1, 1973	440,000
May 1, 1974	453,000
November 1, 1974	466,000
May 1, 1975	478,000
November 1, 1975	493,000
May 1, 1976	507,000
November 1, 1976	521,000
May 1, 1977	536,000
November 1, 1977	552,000
May 1, 1978	568,000
November 1, 1978	584,000
May 1, 1979	600,000
November 1, 1979	618,000

* To the extent that any part of the Loan is repayable in a currency other than German marks (see Loan Regulations, Section 3.02), the figures in this column represent German mark equivalents determined as for purposes of withdrawal.

Premiums on Prepayment and Redemption

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations:

<u>Time of Prepayment or Redemption</u>	<u>Premium</u>
Not more than 3 years before maturity	1/2%
More than 3 years but not more than 6 years before maturity	1%
More than 6 years but not more than 11 years before maturity	1-3/4%
More than 11 years but not more than 16 years before maturity	2-1/2%
More than 16 years but not more than 18 years before maturity	3-1/2%
More than 18 years but not more than 20 years before maturity	4-3/4%
More than 20 years before maturity	5-3/4%

SCHEDULE 2

Modifications of Loan Regulations No. 4

For the purposes of this Agreement the provisions of Loan Regulations No. 4 of the Bank, dated June 15, 1956, shall be deemed to be modified as follows:

- (a) Section 2.02 is deleted.
- (b) The first two sentences of Section 3.01 shall read as follows:
"The Borrower shall use reasonable efforts to purchase goods with the currencies of the countries from which such goods are acquired. The proceeds of the Loan shall, to the extent that the Bank shall so elect, be withdrawn from the Loan Account in the several currencies in which goods are paid for; except that with respect to goods paid for in the currency of the Guarantor or acquired from sources within the territories of the Guarantor such withdrawals may, to the extent that the Bank shall so elect, be made in any currency selected by the Bank."
- (c) The following paragraph shall be added to Section 3.05:
"If a withdrawal is applied for on account of expenditures in the currency of the Guarantor, the value of the currency of the Guarantor in terms of the currency or currencies to be withdrawn shall be as reasonably determined by the Bank."
- (d) The second sentence of Section 4.01 shall read as follows:
"Except as shall be otherwise agreed between the Bank and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the Effective Date or (b) expenditures in the territories of any country which is not a member of the Bank or for goods produced in (including services supplied from) such territories.*"

(e) Section 5.02 (c) shall read as follows:

"A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement, the Bonds, the Assignment or the Mortgage, or under the Loan Agreement dated June 14, 1955, the Guarantee Agreement of even date therewith, or the Bonds, the Assignment or the Mortgage therein provided for."

(f) Paragraph (j) of Section 7.04 shall read as follows:

"(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties to the Loan Agreement and the Guarantee Agreement or any claim by any such party against any other such party arising thereunder or under the Bonds; provided, however, that nothing herein shall be deemed to preclude the Bank or any holder of Bonds from exercising, or instituting any legal or equitable action to enforce, any right or claim arising out of or pursuant to the Mortgage or the Assignment, and submission to arbitration hereunder shall not be deemed to be a condition precedent or in any way to prejudice such exercise or enforcement of any such right or claim."

(g) Paragraph 12 of Section 10.01 shall read as follows:

"The term 'Project' shall have the meaning set forth in Section 1.02 of the Loan Agreement."

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(h) The following two new sub-paragraphs shall be added after sub-paragraph 20 of Section 10.01:

"21. The term 'Mortgage' shall have the meaning set forth in Section 1.02 of the Loan Agreement.

"22. The term 'Assignment' shall have the meaning set forth in Section 1.02 of the Loan Agreement."

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(Subject to Change)
9/13/57

Loan Number ____Aua

GUARANTEE AGREEMENT

(Supplementary Loan - Lännersee Project)

between

REPUBLIC OF AUSTRIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated _____, 1957

GUARANTEE AGREEMENT

9/13/57

AGREEMENT, dated _____, 1957, between the REPUBLIC OF AUSTRIA (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Vorarlberger Illwerke Aktiengesellschaft (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement, the Bank has agreed to make to the Borrower a loan in various currencies in an aggregate principal amount equivalent to fifteen million German marks (DM 15,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee the obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated June 15, 1956, subject, however, to the modifications thereof set forth in Schedule 2 to the Loan Agreement (such Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, the respective terms which are defined in Section 1.02 of the Loan Agreement shall have the respective meanings therein set forth.

ARTICLE II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

ARTICLE III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien hereafter created on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor, of any agency of the Guarantor and of the "Österreichische Nationalbank.

The Guarantor further undertakes that, within the limits of its constitutional powers, it will make the foregoing undertaking effective with respect to liens on the assets of any of its political subdivisions and their agencies.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds shall be paid without deduction for, and free from, any taxes or fees imposed under the laws of the Guarantor or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement, the Bonds, the Assignment and the Mortgage shall be free from any taxes or fees that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

ARTICLE IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

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ARTICLE V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Guarantor:

Minister of Finance
Vienna I
Himmelpfortgasse
Austria

Alternative address for cablegrams and radiograms:

Finanzministerium
Wien

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington 25, D. C.
United States of America

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D. C.

Section 5.02. The Minister of Finance of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District

of Columbia, United States of America, as of the day and year first
above written.

REPUBLIC OF AUSTRIA

By

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By

President

MEMORANDUM ON SUPPLEMENTARY LOAN

TO

VORARLBERGER ILLWERKE A. G.

Introduction

1. On June 14, 1955 the Bank made a loan (No. 118 AUA) of \$10 million to the Vorarlberger Illwerke A.G. (VIW) in Austria for the purpose of financing part of the construction cost of the Lünensee project, the total cost of which was estimated at the equivalent of \$38.6 million. The loan is guaranteed by the Republic of Austria and became effective on November 9, 1955. As of August 31, 1957 the equivalent of about \$8.9 million had been disbursed on the Loan and the project was estimated to be about 88% completed.

2. Substantial increases in costs, mainly payable in local currency, have occurred since the loan was made. A sizeable portion of the increase which totals the equivalent of \$11.4 million has been covered from increased revenues and from recent borrowing by the Company in Switzerland, but a deficit in the financing still exists. Owing to the tight capital market in Austria, the Government has been reluctant to grant the Company permission for a public issue and has requested the Bank to consider a supplementary loan for the project to make up the still remaining deficit, which amounts to the equivalent of about \$3.5 million.

The Project

3. The Lünensee project is essentially a scheme to produce winter peak power from pumped storage. The project, which will have an effective capacity of 190,000 kw, consists of the construction of a small dam across the lower end of Lünsee Lake (Lünensee) to increase its storage capacity, the diversion of the run-off of a glacier into the lake and the construction of 9.7 kilometers of tunnels, syphons and penstocks to convey water from the lake to a new powerhouse in which five generating and five pumping units will be installed. The pumps, driven by the generators in the powerhouse acting as motors and using cheap off peak power imported from Germany, will pump annually about 60 million cubic meters of the 76 million cubic meters of water required to fill the lake to its maximum capacity. Detailed information on the project and on the VIW Company is contained in T.O.'s report 75-C of May 25, 1955 which appraised the project.

Status of Construction

4. Very satisfactory progress has been made in carrying out the project and construction on the whole is somewhat ahead of schedule. All five generating and pumping units are now scheduled to be completed by the end of 1957. The original schedule envisaged the operation of two units by the end of 1957 and the remaining three units before the end of 1958. Although all five units are now expected to be completed by the end of 1957, tests and preliminary operation will continue until the end of March 1958. The

plant is expected to go into commercial operation on April 1, 1958. At that time only a small amount of work will remain to be done such as landscaping, final painting, etc.

Status of Company

5. Although the VIW is one of the Companies mentioned in the Nationalization Act of 1947, the Company has not yet been proclaimed as a nationalized company. (Sondergesellschaft). VIW's status, therefore, is still the same as at the time the loan was negotiated.

Market for Power

6. Under the terms of the Illwerke Agreement of 1952, which is a long term contract, the bulk of VIW's production is exported to two German companies, the Rheinisch Westfälisches Elektrizitätswerk A.G. of Essen (RWE) and the Energie Versorgung Schwaben of Stuttgart (EVS), and the remainder is taken up by the two Austrian provinces, Vorarlberg and Tirol. Instead of paying for the energy at fixed rates, the RWE and EVS and the two Austrian provinces reimburse the Company for its annual costs including overhead, depreciation, interest, taxes, and also pay a return on VIW's share capital by way of profit. This return depends on the average dividend paid by the two German companies, with a minimum, however, of 4 1/2%.

Increases in Costs

7. The original estimate of cost of the project based on 1954 prices and wages was Sch 1,004 million (\$38.6 million), of which only 18.6% (\$7.2million) was for imported equipment and 81.4% for equipment to be purchased in Austria and other local construction costs. Since the time the original estimates were made increases in estimated costs have amounted to Sch 296 million (\$11.4 million) bringing the total estimate to Sch 1,300 million (\$50 million), of which the equivalent of about \$37 million had been spent as of May 31, 1957. The increase of Sch 296 million represents an increase of 29.5% over the original estimates. An analysis of this increase shows that a very substantial part is attributable to the general rise in the internal price level of Austria. Since January 1955 increases in wages have amounted to 29% and there has been an average increase of about 20% in the cost of local materials.

8. In addition to the increases in prices and wages, as mentioned above, there have been increases in costs for various other reasons, as shown in the following breakdown.

	Increases in costs	% of total original estimates	% of total Increase
	(in millions of Schillings)		
Increases in Prices and Wages	117	11.6	39.5
Unforeseen Geological Conditions	71	7.1	24.-
Project Improvements	51	5.1	17.2
Requirements of Water Rights Authorities	42	4.2	14.3
Interest During Construction	15	1.5	5.-
	<u>296</u>	<u>29.5</u>	<u>100</u>

9. Nothing was included in the original allowance for contingencies for increases in wages and prices, but about 8% was included for other increases. The 8% proved to be inadequate; the principle reasons other than increases in wages and prices were:

a) Unforeseen Geological Conditions - Although the geological conditions encountered in general were as expected, actual excavation and further drilling revealed unforeseen weathered sandstone, lenses of gypsum, and shattered rock resulting from tectonic movements. In these sections of the tunnels and shafts, extensive shoring was required and additional thicknesses of lining and pipe were necessary.

b) Project Improvements - In the course of detailed designing and in consultations with suppliers and contractors various technical improvements were developed in the project, the cost of which is considered justified from the long term advantages to be obtained. The power house, for example, now provides space for a sixth unit, which was not included in the original design.

c) Requirements of Water Rights Authorities - By law the Water Rights Authorities must review the detailed plans of the project. In the course of this review, the authorities required the VIW to build their cableways heavier than previously required, to install more safety devices and to increase the thickness of the penstocks in some sections. These account for the increases in cost shown in the above table under this heading.

10. The latest revised estimate of Sch 1,300 million includes Sch 35 million for contingencies. Of the Sch 35 million, Sch 15 million is included to cover contractors' claims, Sch 10 million to cover differences in quantities of excavation, concrete, etc., and Sch 10 million to cover further wage and material price increases. These contingencies, which amount to 10% of the estimated cost to complete the project, are considered reasonable and adequate at this stage of completion of the project.

Financing Available for the Project

11. According to the latest figures obtained from the Company, the following sources of financing are presently available for the project. The original financing plan is also shown for comparison.

	<u>(in millions of Schillings)</u>	
	<u>Latest figures</u>	<u>original financing plan</u>
a) <u>Borrowing</u>		
1) IBRD loan \$10 million	260	260
2) Construction loans from power consumers	219	220
3) Länder Bank credit	200	200
4) Credits from Swiss Banks (net) a/	77	---
5) Other short-term financing (net) a/	<u>15</u>	<u>---</u>
carried forward	771	680

a/ net during construction period

	<u>Latest figures</u>	<u>original financing plan</u>
brought forward	771	680
b) Company Resources (net profits, tax savings, depreciation allowances, cash reserves)	<u>439</u>	<u>324</u>
<u>Total financing available</u>	1210	1004
<u>Estimated cost of project</u>	<u>1300</u>	1004
<u>Additional funds required to complete project</u>	<u>90</u>	

12. The Swiss credits listed above were obtained last March from the Schweizerische Bankverein and the Schweizerische Kreditanstalt. There are two credits, one of S Frs 10 million and one of S Frs 6.5 million, in which both banks participate for 50% each. Both credits are repayable in 10 semi-annual installments, starting in October of this year. The credits are secured by assignments of revenues from power deliveries by VIW to RWE and EVS. The assignments rank equally with the assignment made as security for the Bank's loan.

13. Revenues from operations available for the project have been considerably in excess of figures originally estimated. The actual rates of return on share capital included in the reimbursement of annual costs by the power consumers over the past three years have been 6 1/2% in 1954/5, 7 1/2% in 1955/56 and 8% in 1956/57, as compared with a return of 5% assumed in the original financing plan. A rate of 8% is expected for the current fiscal year. These increased rates of return together with corresponding increased tax savings derived from the application of the Electricity Promotion Law account for the higher revenues available for the project, namely Sch 439 million as compared with Sch 324 million, an increase of Sch 115 million or about \$4.4 million.

Additional Funds Required

14. The above summary shows that VIW will have to raise about Sch 90 million (\$3.5 million) more to complete the project. The need for these funds will first arise some time during September of this year and is estimated to develop according to the following schedule.

	(in millions of Schillings)			
	<u>Project Expenditures</u>	<u>Financing Available</u>	<u>Deficit quarterly cumulative</u>	
<u>Actual up to March 31, 1957</u>	887.9	887.9	-	
<u>Forecast</u>				
2nd quarter 1957	124.-	124.-	-	
3rd quarter 1957	116.2	114.-	2.2	2.2
4th quarter 1957	76.6	18.3	58.3	60.5
1st quarter 1958	49.7	20.2	29.5	90.-
	<u>366.5</u>	<u>276.5</u>	<u>90.-</u>	
From April 1, 1958 to Mid 1959	45.6	45.6		
	<u>1,300.-</u>	<u>1,210.-</u>	<u>90.-</u>	

15. The development of the need for these additional funds is also presented in Annex A, which shows in detail the various sources of receipts and items of expenditure for the period in question.

16. The Company, in order not to slow down construction of the project and in anticipation of additional borrowing, has been exhausting all its available cash normally required as working capital and has, in addition, been accumulating current debts. Provision, therefore, has been made in the forecast to restore the working cash required, taking also into consideration the increased needs when the Lünensee plant will be in operation. Provision has also been made to reduce the level of current liabilities. A condensed balance sheet showing VIW's financial position as of March 31, 1957 is given in Annex B. A pro-forma balance sheet, showing the position one year later, i.e. as of March 31, 1958, is given in Annex C. This balance sheet reflects the improvement in the working capital position as a result of the provisions just mentioned, which are reasonable.

Supplementary Loan by IBRD

17. The Bank has been asked to make a supplementary loan for the project to cover the deficit in construction funds. A loan of about \$3.5 million equivalent, which is equivalent to about Sch 90 million, should be adequate for this purpose. The loan proceeds would be used to cover local currency expenditures only, because the foreign exchange cost of all equipment imported for the project is already fully covered by the existing loan.

18. If the Bank makes this supplementary loan the total Bank financing for the project would amount to \$13.5 million equivalent, or 27% of the total estimated cost of the project of \$50 million. Total borrowing raised by the Company for the project would then amount to \$33.1 million equivalent, or two thirds of the total cost, of which \$10.7 million in the form of medium term financing and \$22.4 million on a long term basis.

19. The Company has requested that the repayment period of the supplementary loan be the same as the repayment period applying to the present loan, that is with amortization spread over a 20 year period starting in 1960 and ending in 1979. This would make the term of the new loan 22 years.

20. The supplementary loan of \$3.5 million equivalent could be repaid in a shorter period than the term requested by the Company, i.e. full repayment would be possible by about 1965, but only if all revenues estimated to accrue during that period would be used for debt repayment. However, the Company would like some of its revenues to be available for the purpose of assisting it in financing part of future expansion. This is a reasonable position. Also in view of the fact that this supplementary loan would be used for the same project as the present loan, a term of 22 years is justified and suitable.

Forecast of Revenues and Cash Position

21. Although some construction work will still remain to be done after April 1, 1958, it will only be minor and the project for the purpose of charging annual cost to the power consumers, will be considered to be in operation

as of that date. This means that from that date the power consumers will be charged with all costs relating to the operation of the Lünensee project, including interest on all borrowing raised for the project.

22. A forecast of revenues and expenditures for the 10-year period 1958/9 to 1967/8 is shown in Annex D. The forecast of revenues is based on the assumption that the power consumers will pay VIW a 6% rate of return on its share capital as part of the annual costs. As already mentioned this rate in any one year depends on and is equal to the average dividend rate of the two German Companies RWE and EVS. Although an average rate of 8% was earned in 1956/7, which is also assumed for the fiscal year 1957/8, the lower rate of 6% has been assumed for the longer range forecast as being more conservative. This compares with the minimum rate of 4 1/2% guaranteed to the Company in the Illwerke Agreement.

23. Most of the cash from operations during the first 5 years after the completion of Lünensee will be needed for the repayment of the medium term credits obtained for the project. Although the Länderbank credit, which is a credit in current account, has no definite annual repayment requirements, it must be liquidated five years after the start of operations of the project, that is by April 1963. Within this period the Swiss credits must also be repaid. After 1963 cash accruals would amount to about Sch 40 million annually, after yearly debt amortization of approximately Sch 46 million. This is a comfortable margin. The total debt service coverage, based on the projections in Annex D, which include the retirement of the medium-term credits, would be 1.7 in the year 1963/64. Thereafter the coverage ratio would gradually increase, and by 1967/68 it would be 2.

Future Expansion

24. No investments in any major projects beyond the completion of the Lünensee project are provided for in the cash flow forecast. The Company's plans for expanding its facilities include the following items:

(millions of Schillings)

6th Unit Lünensee	60
2nd Storage pump Rodund	20
Arlberg Transmission Line 110 kv	7
" " " 220/380 kv	90
Kops Dam	<u>450</u>
	<u>627</u>

25. These cost figures were submitted by the Company at the Bank's request but should be considered only as very rough estimates. The tentative schedule for these investments is as follows:

(in millions of Schillings)

<u>1957/8</u>	<u>1958/9</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>
11	73	120	191	172	60

No commitments have as yet been made for any of these projects, which will only be undertaken if and when their financing is fully assured.

Capital Structure

26. Assuming additional borrowing of Sch 90 million to cover the deficit in financing of the Lünenseer project, the company's total indebtedness at the start of operations of Lünensee would amount to Sch 1,162 million (net.). ^{1/} As already mentioned in paragraph 18, a substantial part of the debt is represented by medium term credits (about 25%). The Company's equity, including Sch 1,522.5 million of capital reserves and surplus, is estimated to amount to Sch 1,955 million. These figures represent a debt to equity ratio of 38/62, which is a satisfactory ratio. A few years ago the Company's assets were re-valued to compensate for the decline of the value of the currency in the post-war period. The net write up of the assets, which was effected in accordance with the "Schilling Opening Balance Sheet Law", enacted in 1954, amounted to Sch 1,340 million and is reflected in the equity figure given above.

Proposed Settlement of Matured Debt Service

a) Former RM - Bond Issues

27. Between 1938 and 1944 the VIW raised RM 125 million through five separate bond issues. About 80% of the bonds were sold in Germany and 20% in Austria. Service on the Austrian bonds has been paid regularly. The service on the bonds held in Germany was blocked in 1945. As of March 31, 1957 the matured but unpaid principal amount of German held bonds and interest coupons had accumulated to Sch 84.8 million. At the request made recently by the Austrian Government, the Company has submitted its proposals for a settlement of the accumulated debt service which will be in the form of funding operations. The Company's proposals which are based on an agreement reached between Austria and Germany for the settlement of debts between these countries, provide for the paying off of the accumulated debt service on each bond issue over the still remaining term of each issue. A part, however, amounting to about Sch 40 million, would be due to the Austrian Government, ^{2/} for which the Company has proposed a 15-year repayment period with 3 years of grace. Although the Government has not yet formally accepted this proposal,

^{1/} After deduction of a Sch 60.5 million loan due to the Verbundgesellschaft, because this debt to V.G. is compensated by a loan of equal amount and term made by VIW to V.G. VIW had to make this loan to V.G. in order to receive the tax benefits of the Electricity Promotion Law. V.G., however, relented the amount involved on the same terms and conditions to VIW.

^{2/} Part of the accumulated interest would not be restituted to the former German owners; further, the Peace Treaty prohibits the restitution of former German property to other than German natural persons and also the restitution of claims in excess of certain amounts.

it has confirmed that it will agree to a funding operation. The forecasts attached to this memorandum assume the settlement of the matured debt service on the basis of the Company's proposals.

b) Unclaimed Bonds - 6% Sterling Loan 1929

28. The Sterling Loan 1929 was called for redemption on January 2, 1956. All bonds have been paid off with the exception of bonds in the amount of £ 183,100 (equivalent to Sch 22.1 million including interest) which were not claimed. These bonds were lost or stolen at the end of the war and they consist of £ 182,000 of bonds formerly owned by the Konversionskasse in Berlin and £ 500 of bonds owned by private persons. The time set by the Austrian Validation Law for applications for validation expired on December 31, 1956. The trustees in London have recently given their consent for the discharge of the mortgage by which this loan was secured. This discharge is expected to take place in the near future. Although according to the Austrian Validation Law the £ 183,100 bonds are considered cancelled, the Company assumes that the equivalent amount of Sch 22 million may have to be paid to the Austrian Government according to the articles in the Austrian State Treaty dealing with the disposition of German assets. The Company has assumed in its forecast of cash flow that in that case the Government would agree to a settlement by which the amount due would be converted into a long term loan. The government has indicated that such a settlement would be acceptable.

Conclusion

29. A supplementary loan of about \$3.5 million equivalent to the VIW is justified and adequate to cover the deficit in the financing of the Lunersee project. A term of 22 years, with a grace period of 2 1/2 years is appropriate. The Company has the financial ability to carry this supplementary loan. The loan would be secured in the same way as the Bank's existing loan to VIW, i.e. by a mortgage on the Lunersee properties and an assignment of revenues from power deliveries to RWE and EWS.

VIW - FORECAST OF RECEIPTS AND EXPENDITURES AND ESTIMATE OF ADDITIONAL FUNDS REQUIRED
FOR FISCAL YEAR 1957/1958 (April 1 - March 31)
 (in millions of Schillings)

Annex A

<u>Receipts</u>	April/June	1957 July/Sept.	Oct/Dec.	1958 Jan/March	Total 1957/1958
From Operations:					
Net profit <u>1/</u> (after interest)	19.-	19.-	19.-	19.-	76.-
Depreciation allowances	11.75	11.75	11.75	11.75	47.-
Total	<u>30.75</u>	<u>30.75</u>	<u>30.75</u>	<u>30.75</u>	<u>123.-</u>
From Borrowing:					
IBRD - loan No. 118 AUA - Withdrawals	19.54	9.97	10.60	3.58	43.69
Building Contributions (loans from power consumers)	19.-	7.-	7.-	7.-	40.-
" " (interest) <u>2/</u>				12.50 <u>2/</u>	12.50
Swiss Banks Credits	97.76				97.76
Länderbank Credit	(-) 13.05 <u>3/</u>	113.59			97.76
Total Receipts	<u>149.-</u>	<u>161.31</u>	<u>48.35</u>	<u>53.83</u>	<u>412.49</u>
Expenditures					
Capital Investments					
Construction Lännersee Project	124.04	116.24	76.59	49.67	366.54
Other	6.-	6.-	6.-	6.-	24.-
Repayment of Debts (long and medium term)	5.13	14.78	8.63	19.80	48.34
Reduction Current Liabilities	13.83	9.40	4.40	4.10	31.73
Increase in outstanding balances due from power consumers for operating expenses <u>4/</u>		3.50	3.50	3.70	10.70
Other payments		6.10			6.10
Total Expenditures	<u>149.-</u>	<u>156.02</u>	<u>99.12</u>	<u>83.27</u>	<u>487.41</u>
Building up of cash balance required for operations	<u>149.-</u>	<u>7.50</u>	<u>7.50</u>	<u>83.27</u>	<u>15.-</u>
	<u>149.-</u>	<u>163.52</u>	<u>106.62</u>	<u>83.27</u>	<u>502.41</u>
Additional Funds Required (quarterly)	-	2.21	58.27	29.44	
" " " (cumulative)	-	2.21	60.48	89.92	89.92

1/ Based on 8% return on share capital currently included in reimbursement of annual cost by power consumers; net profit figures also include tax savings

2/ Interest due on construction loans added to principal amount of loans; an equivalent amount for interest is included in construction expenditures

3/ Represents estimated reduction in balance of Länderbank credit during April/June 1957

4/ Represents estimated lag in reimbursement by power consumers of increased operating expenses

VIW - BALANCE SHEET 1/
as of March 31, 1957
(in millions of Schillings)

<u>A S S E T S</u>		
Fixed Assets	2,456.-	
less: Reserve for Depreciation	<u>644.7</u>	
Net Book Value		1,811.3
Construction Work in Progress		
(including construction stores, down payments, etc.)		938.2
Investments		1.4
Loans: to Verbundgesellschaft (see contra)	60.8	
Other	<u>4.2</u>	65.-
Current Assets:		
Cash	.9	
Stores	1.-	
Due from Power Consumers	19.3	
Other	<u>3.2</u>	24.4
Other Accounts		<u>14.3</u>
		<u>2,854.6</u>
 <u>L I A B I L I T I E S</u> 		
Share Capital	440.-	
Not paid in	<u>7.5</u>	432.5
Reserves		1,447.3
Balance Profit and Loss Account		5.3
Equity		<u>1,885.1</u>
<u>Debts</u>		
(Long and Medium Term)		
Verbundgesellschaft (see contra)	60.8	
IBRD loan No. 118 AUA	213.4	
Construction loans Power Consumers	153.1	
Länderbank Credit	104.5	
Other	<u>253.3</u>	
	785.1	
Matured Debt Service (to be funded)	<u>106.9</u>	892.-
Current and Accrued Liabilities		<u>77.5</u>
		<u>2,854.6</u>

1/ Provisional figures

VIW - PRO FORMA BALANCE SHEET
as of March 31, 1958
(in millions of Schillings)

A S S E T S

Fixed Assets	3,765.4	
less: Reserve for Depreciation	<u>691.7</u>	
Net Book Value		3,073.7
Investments		1.4
Loans		65.- ^{1/}
Current Assets (Cash, Stores and Receivables)		50.1
Other Accounts		14.3
		<u>3,204.5</u>

L I A B I L I T I E S

Share Capital	440.-	
Not Paid in	<u>7.5</u>	432.5
Reserves		1,522.5
Equity		<u>1,955.-</u>
Debts: (medium and long term)		
IBRD loan No. 118 AUA	257.1	
Proposed IBRD loan	90.-	
Other	<u>875.9</u> ^{2/}	1,223.-
Current and Accrued Liabilities		26.5
		<u>3,204.5</u>

^{1/} includes loan to Verbundgesellschaft of Sch 60.8 million.

^{2/} includes loan from Verbundgesellschaft of Sch 60.8 million; also includes Sch 106.9 million matured debt service assumed to have been funded

VIW - FORECAST OF RECEIPTS AND EXPENDITURES
FOR PERIOD 1958/9 - 19
(in millions of Schillings)

<u>Receipts</u>	<u>1958/9</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>
From Operations:										
Net Profit <u>1/</u> (after interest)	64.40	64.40	64.40	29.20	29.20	29.20	29.20	29.20	29.20	29.20
Depreciation allowances	77.-	77.-	77.-	77.-	77.-	77.-	77.-	77.-	77.-	77.-
	<u>141.40</u>	<u>141.40</u>	<u>141.40</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>
Borrowing:										
IBRD loan 118 AUA (balance)	2.38									
Building Contributions	28.-									
Total Receipts	<u>171.78</u>	<u>141.40</u>	<u>141.40</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>
Expenditures										
Capital Investments:										
Lünersee project	43.18	3.25								
Other	24.-	18.-	18.-	18.-	18.-	18.-	18.-	18.-	18.-	18.-
Repayment of Debts:										
IBRD loan No. 118 AUA			8.05	8.44	8.83	9.27	9.69	10.16	10.65	11.19
Proposed Supplementary IBRD loan			2.50	2.65	2.80	2.96	3.13	3.31	3.50	3.70
Other debts	49.32	49.90	65.48	58.45	34.92	35.97	33.23	33.26	29.03	27.62
Lag in reimbursement of operating expenses	7.70									
Other payments	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10
	<u>126.30</u>	<u>73.25</u>	<u>96.13</u>	<u>89.64</u>	<u>66.65</u>	<u>68.30</u>	<u>66.15</u>	<u>66.83</u>	<u>63.28</u>	<u>62.61</u>
Cash Accruals (annually)										
Before prepayment Landerbank Credit	45.48	68.15	45.27	16.56	39.55	37.90	40.05	39.37	42.92	43.59
(ditto - cumulative)	(45.48)	(113.63)	(158.90)	(175.46)	(215.01)					
Repayment of Landerbank Credit										
To be effected during 5 year period 1958/9 - 1962/63					200.-					
Remaining Cash <u>2/</u>										
After repayment of Landerbank Credit					15.01	37.90	40.05	39.37	42.92	43.59
(ditto - cumulative)					(15.01)	(52.91)	(92.96)	(132.33)	(175.25)	(218.84)

1/ Based on estimated 6% return on share capital included in reimbursement of annual cost by power consumers; net profit figures include tax savings calculated according to Electricity Promotion Law up to 1960/61, the last year in which these tax benefits will be received by VIW.

2/ Available for dividends and for financing of future expansion.

SPECIAL DELIVERY

September 17, 1957

Dr. W. Teufenstein
c/o Barbizon Plaza Hotel
106 Central Park South at Sixth Avenue
New York City, New York

Dear Dr. Teufenstein:

I enclose herewith a copy of a memorandum setting forth the various authorizations which will be required for the signing of the Loan and Guarantee Agreements for the Ldnersee Project, as well as the list of documents which will be executed at that time.


I have already been furnished with a draft of the Full Power for the signing of the Loan Agreement which the Illwerke will execute. This authorizes the Ambassador or, in his absence, the Charge d'Affaires, Dr. Paul Zedtwitz, to sign the Loan Agreement. You may wish to consider whether a similar alternative authorization for the execution of the Guarantee Agreement might not be convenient.

I hope you are having a fruitful stay in New York and look forward to seeing you again towards the end of this week.

Very truly yours,

Douglas J. Fontein

Enclosure

DJFontein:ea 

September 17, 1957

Dr. A. Ammann
Vorarlberger Illwerke
Aktiengesellschaft
Bregenz, Austria

Dear Dr. Ammann:

Thank you very much for your kind letter of September 10, 1957. I am glad to report to you that the negotiations were quickly and successfully concluded and we hope to obtain the approval of our management in the course of the next few days, after which the loan documents would be circulated to our Executive Directors for approval at a meeting to be held in the last days of September or early October. We contemplate that the Loan and Guarantee Agreements and the other documents will be signed during the first week of October.

I enclose herewith a memorandum setting forth the authorizations which we will need in order to sign the Loan and Guarantee Agreements and the other documents, and a list of the documents which will be executed. Copies of this memorandum have also been made available to the members of the Illwerke Delegation and to Dr. Teufenstein.

I am sending you under separate cover by air parcel post seventy-five copies of the draft Loan and Guarantee Agreements, dated September 13, 1957, and of Loan Regulations No. 4 of the Bank, dated June 15, 1956. Dr. Pridun has requested that fifty copies of each of the above documents be forwarded to the Ministry of Finance in Vienna for use by the Ministry and by the Cabinet.

In addition I am sending you under separate cover twenty-five copies of each of the following letters: draft list of goods letter, the draft letter on disbursement of the Loan in German marks, and the draft letter on the granting of equal rank to the Länderbank for its credit of \$200,000,000. A copy of each of these letters is also found in the documents attached to the enclosed memorandum. Copies of these letters do not have to be sent to Vienna.

Very truly yours,

Douglas J. Fontein

Enclosure
DJFontein:ea

DF

September 5, 1957

Director A. Ammann
Vorarlberger Illwerke
Aktiengesellschaft
Bregenz, Austria

Dear Director Ammann:

I take pleasure in enclosing three copies of a proposed Loan and Guarantee Agreement for the Supplementary Loan for the Lunersee Project and three copies of Loan Regulations No. 4 of the Bank.

I regret that I did not have the opportunity of meeting you while I was in Bregenz and that your doctor did not permit you to come to Washington on this occasion.

We plan to start discussions on the enclosed drafts next Monday after the arrival of Dr. Teufenstein. We shall, of course, keep you informed of the progress of our discussions.

Very truly yours,

Douglas J. Fontein
Legal Department

*Austria,
Linz
7/30*

OUTGOING WIRE

MRT

CLASS OF SERVICE: FULL RATE

DATE: August ³⁰29, 1957

TO: FINK
ILLWERKE
BREGENZ

COUNTRY (*Austria*)

TEXT: REUR LETTER AND CABLE AUGUST TWENTYTHREE STOP WILL SEND DRAFT
Cable No. LOAN AND GUARANTEE AGREEMENTS TO AUSTRIA EARLY NEXT WEEK AND
SIMULTANEOUSLY ~~SEND COPIES~~ TO HAY ADAMS HOTEL STOP REGRET
THAT DUE TO PRESSURE OF OTHER NEGOTIATIONS UNABLE SEND DRAFTS
EARLIER REGARDS

FONTEIN

Signed: Fontein
(Type in last name of sender)

AUTHORIZED BY:
NAME: D.J. Fontein *DJ*
DEPT: Legal
SIGNATURE: *Douglas Fontein*
(Signature of individual authorized to approve cable).

For Use by Archives Division
Checked for Dispatch

ORIGINAL (File Copy)

(IMPORTANT: See over for guide in preparing Outgoing Wire)

JFontein:ea

AUG 30 11 41 AM

GUIDE FOR PREPARING OUTGOING WIRES

1. Class of Service

Type in class of service desired. Each class is described as follows:

Letter Telegram Letter telegrams are normally delivered the morning after day of despatch. The cost is half the cost of full rate messages with a minimum charge for 22 words including address and text.

Full Rate Full rate messages are normally transmitted and delivered immediately. There is a minimum charge for 5 words, including address and text.

IBF Govt. This is a preferential rate extended to the Bank by some of its member countries. Messages are sent at full rate speed and at about half the cost. This rate normally should be used whenever available. It is at present available for the following countries:

Bolivia	Cuba	Guatemala	* Peru
Brazil	Dominican Republic	Honduras	* Syria
Burma	Ecuador	Jordan	Uruguay
* Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

Code Code messages are transmitted at full rate (or IBF Govt.) speed and cost. This rate should be used only for confidential messages to staff members having a code with them.

Day Letter Day letters are delivered during the day of transmission and should be used only for messages in the United States and to Mexico and Canada. There is a minimum charge for 50 words in text.

Teletype To be used only for messages to the New York Office, United Nations, and certain commercial firms. For information, call Cable Post (Ext. 3008).

2. **Address** Use only last name of addressee and cable address whenever possible. The Bank cable address "INTBAFRAD" is registered in Paris, Bogota, Bangkok, Karachi, Lima, Quito and Tegucigalpa. The International Finance Corporation cable address "CORINTFIN" is registered in New York, Paris and Washington. The name of the country of destination must always be added. (No charge is made for the name of a country).

3. **Text** Messages to Bank Missions and to Resident Representatives should be numbered. These numbers may be obtained by calling Ext. 3008.

Type text in capital letters and double space between lines. The text should be edited to eliminate unnecessary words and unnecessary punctuation. If punctuation is needed, spell out the words "Comma," "Stop," etc.

Use common abbreviations whenever possible, i.e. *recourtel*, *reurtel*, etc. Write as one word hyphenated words, hyphenated names, and certain two-word groups, e.g. *Airmail*, *New York*, *enduse*.

4. **Signature** Type in last name of sender. Use INTBAFRAD as part of the signature only when addressee does not know the address of the sender.

5. **Authorization** Type in name and department of staff member authorizing message and have authorizing staff member sign the original (pink copy). A list of authorized signatures is kept in the cable office.

Forward messages in triplicate in a cable envelope to Room 211 for despatch. The cable service is open from 9:00 a.m. to 5:45 p.m. on working days. Special arrangements should be made for the despatch of cables outside of these hours.

ANY QUESTIONS REGARDING INCOMING AND OUTGOING WIRES SHOULD BE REFERRED TO THE CABLE POST, EXT. 3008.

APR 25 2018

CONFIDENTIAL

WBG ARCHIVE

SecM57-120

FROM: The Secretary

August 30, 1957

PROPOSED SUPPLEMENTAL LOAN TO AUSTRIA
(Lünersee Project)
STATUS OF NEGOTIATIONS

1. NEGOTIATIONS: Expected to begin about September 5.
2. BORROWER: Vorarlberger Illwerke A.G. (VIW).
3. GUARANTOR: Republic of Austria.
4. AMOUNT: Various currencies equivalent to about \$3.5 million.
5. INTEREST: To be determined.
6. COMMITMENT CHARGE: 3/4 of 1%.
7. TERM: 22 years, including a 2½ years' grace period.
8. PURPOSE: To provide about 30% of the increased costs of the project for which Loan 118 AUA was made on June 14, 1955. The rest of the increased costs will be financed by VIW from its own resources and from other borrowing. The increased costs are attributed to increases in prices and wages, unforeseen geological conditions, minor project improvements and requirements of water rights authorities.
9. SUBMISSION TO THE EXECUTIVE DIRECTORS: For consideration at a meeting in October.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

Austria - Finance

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: AUGUST 23, 1957 1900

TO: INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
FROM: BREGENZ

ROUTING
ACTION COPY TO MR. FONTEIN
INFORMATION COPY TO
Decoded By

TEXT:

BESTEN DANK FUER BRIEF 20 AUGUST BITTEN SIE UNS AUF ALLE FAELLE SOBALD ALS
 MOEGLICH DIE TENTATIVE DRAFTS FUER DAS ANLEIHE * UND GARANTIEABKOMMEN ZU SENDEN
 WENN WIR DIESE AUCH NICHT SELBST VOR UNSERER ABREISE IN HAENDEN HABEN HAT DOCH
 HERR DR. AMMANN GELEGENHEIT ZUM STUDIUM DER ENTWUERFE UND KANN UNSERER DELEGATION
 VORAUSSICHTLICH NOCH VOR BEGINN DER VERHANDLUNGEN SEINE BEMERKUNGEN NACH
 WASHINGTON MITTEILEN HOTELRESERVIERUNGEN IN WASHINGTON HAT BEREITS OESTERREICHISCHE
 BOTSCHAFT FUER UNS VORGENOMMEN BESTEN DANK FUER IHRE BEMUEHUNGEN

ILLWERKE FINK

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SEP 26 9 51 AM

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Mr. Eugene R. Black

August 23, 1957

S. R. Cope

Austrian Proposed Supplemental Loan for the Lüneburg Project

1. As you know we are contemplating making a loan to the Vorarlberger Illwerke A.G. (VIW) to supplement the previous loan of \$10 million which we made on June 14, 1955. The need for the supplemental loan arises because of the increased costs of the Lüneburg project and we are proposing to lend the equivalent of \$3.5 million. The loan will be disbursed against total expenditure on the project and not against specific imports, i.e., it will be a so-called local expenditure loan.
2. The VIW sells 85% of its output to two German companies, the Rheinisch-Westfälisches Elektrizitätswerk and the Energie-Versorgung Schwaben, on a long-term contract under which the payments made by these companies have to be sufficient to cover the operating expenses of the VIW and the service of its debt.
3. Dr. Drechsler has suggested that we should denominate the loan in marks in view of the recent release of German 18%. This of course is not an adequate reason. There is, however, the existence of the long-term power contract with German companies. Normally, if we denominated and disbursed a loan in German marks and there was to be an appreciation of the German mark in terms of his own currency, there would be an additional burden placed on the borrower. In the case of the VIW, however, there would on balance be no additional burden, because of the terms of the power contract. The effect of an appreciation of the mark in terms of schillings would be that the VIW would receive a little more, in terms of schillings, for the power they sell, this small addition offsetting the extra cost to the VIW of the service of the loan.
4. The Austrian negotiators arrive next week and we propose to suggest to them that the loan be denominated in German marks and that all - or the greater part of it - should be disbursed in German marks. If we did this, we would have early maturities of the loan in marks to sell. The coincidence of the fact that (a) the German electric power companies take the bulk of the power, (b) the loan is denominated in marks, and (c) the borrower is Austrian suggests to me that it might be possible to interest German banks in the short-term maturities. The interest rate, it is true, would not be very attractive but German banks might nevertheless be prepared for prestige reasons to participate in the Bank's first loan in German marks.

Mr. Eugene R. Black

-2-

5. I discussed this idea with Dr. Donner who was somewhat doubtful as to whether German banks would be interested but also thought there was no harm in trying, and he offered to make inquiries himself. I said that this was a matter in which you were very much interested and that I would prefer to get into touch with you before he did anything.
6. We are planning to make the first half-yearly amortization payment payable on May 1, 1960, in the amount of about DM 200,000 subsequent installments being on a gradually increasing scale.
7. I would emphasize that at this stage this is just an idea which has not been mentioned to the VIW, although I spoke to Dr. Thurn about it and he thought it was a good idea. If, therefore, you decided to put out feelers they should be done on a tentative basis as the borrower or the Austrian Government may have some reason which we do not know about for not wanting to have the loan in marks.
8. You may recall that when we made the \$10 million loan to the VIW in 1955 we sold the first maturity of \$153,000 due May 15, 1960, to the Philadelphia National Bank. If we denominated the loan in marks and eventually found that we could not sell mark maturities, we could always disburse part of the loan in dollars thus giving us early maturities to place in the U.S.



cc: Mr. Davidson Sommers
Mr. J. D. Miller
Mr. P. Ramm
Mr. S. P. Wheelock

SRCo:ms

August 20, 1957

Mr. Pius Fink, Director
Vorarlberger Illwerke
Aktiengesellschaft
Bregenz, Austria

Dear Mr. Fink:

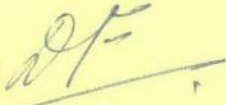
Thank you very much for your letter of August 13, 1957. I am looking forward to seeing you and the other members of the delegation in September to conclude the negotiations for the Supplemental Loan for the Lünersee Project.

In Dr. Ammann's letter to Mr. Iliff of July 26, 1957, he had requested that we send you in advance of your arrival drafts of the Loan and Guarantee Agreements. In preliminary discussions with Mr. Spottswood and other members of the staff we have come to the conclusion that the Loan and Guarantee Agreements would be very similar to the ones concluded last time. The description of the project would be the same as in the first Loan Agreement, and, as far as I can judge from our discussions in Bregenz, the security provisions would require little or no change. Accordingly, we feel that a study of the draft proposed Loan and Guarantee Agreements could await your arrival in Washington. I shall, however, be glad to send you tentative drafts if you so desire. In that case I suggest that you cable us immediately so that we may get them to you in time before your departure.

If you have not yet made hotel reservations for yourself and the other members of the delegation I shall be delighted to make the necessary arrangements for you.

Very truly yours,

Douglas J. Fontein

DJFontein:ea 

cc: Messrs. Wheelock, Jentgen, Kanters, Spottswood, *leaf*
General Files, Legal Files

OFFICE MEMORANDUM

TO: Mr. Jean-Marie Jentgen ✓

DATE: August 14, 1957

FROM: S. R. Cope

SUBJECT: Austria - Vorarlberger Illwerke

Dr. Plan told me today that the four Austrian representatives coming to discuss the supplementary loan for the Lunersee project would arrive in Washington on September 5 instead of on September 9, as previously notified to us.



cc: Mr. Spottswood

Austri humersee

Vorarlberger Illwerke Aktiengesellschaft

International Bank for
Reconstruction and Development
c/o Mr. S. P. Wheelock
1818 H. Street N. W.
Washington 25 D. C.
U. S. A.

Drahtanschrift: Illwerke Bregenz Fernsprech-Sammel-Nr. 3891
Fernschreibanschluß: VIW Bregenz 723
VIW Schruns 728
Postsparkassa-Konto Nr. 63.047
Bankkonto: Österr. Länderbank AG., Filiale Bregenz

Bregenz, am 13. August 1957

Unser Zeichen: Pri/Hz Ihr Schreiben vom 2.8.1957

Betrifft:

File 208

Sehr geehrter Mr. Wheelock!

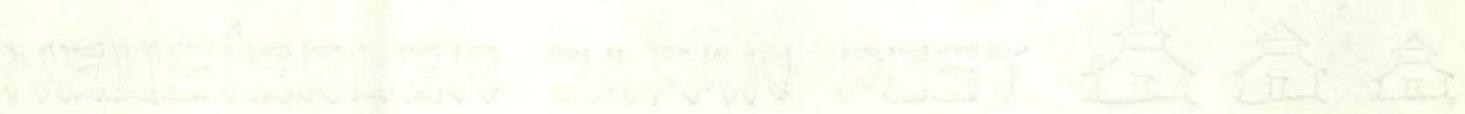
Wir bestätigen dankend den Erhalt Ihres Schreibens vom 2. August 1957 mit welchem Sie uns einen Durchschlag Ihres Schreibens an das Amerikanische Konsulat in Salzburg übermittelten und können Ihnen mitteilen, daß wir bereits von dort Nachricht haben, daß gegen die Erteilung der entsprechenden Visa keine Bedenken bestehen und die Angelegenheit sofort erledigt werden kann.

Mit dem besten Dank für Ihre Bemühungen verbleiben wir

mit vorzüglicher Hochachtung
Vorarlberger Illwerke
Aktiengesellschaft

[Handwritten signature]

Luftpost!



NT

File AD 5

Vorarlberger Illwerke Aktiengesellschaft

International Bank for
Reconstruction and Development
c/o Mr. A.D. Spottswood
Chief, Public Utilities Division
Department of Technical Operations
1818 H. Street N. W.
Washington 25 D. C.
U.S.A.

Drahtanschrift: Illwerke Bregenz Fernsprechnummer 3891
Fernschreibanschluß: VIW Bregenz 723
VIW Schrems 728
Postsparkassenkonto Nr. 63.047
Bankkonto: Oester. Länderbank AG, Filiale Bregenz

Bregenz, am 13. August 1957
Unser Zeichen: Pri/SB Ihr Schreiben vom
Betrifft: Weltbankanleihe 1957

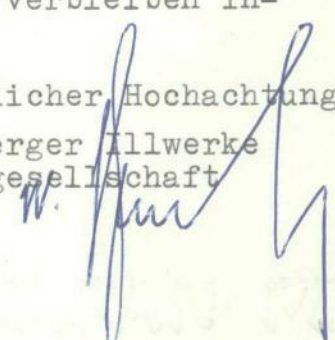
Sehr geehrter Mr. Spottswood!

Wie uns Herr Vizepräsident W. A. B. Iliff mitgeteilt hat, ist die Bank bereit, mit unserer Gesellschaft nunmehr in endgültige Anleiheverhandlungen zur Gewährung eines Kredites für die Endfinanzierung des Lünernerseewerkes einzutreten und unser Vorschlag, den Beginn der Besprechungen auf Montag, den 9. September d. J., festzusetzen, wurde von der Bank angenommen.

Wir möchten nicht versäumen, Ihnen bei dieser Gelegenheit für Ihre große Mithilfe bei den vorangegangenen Besprechungen und Ihre wertvolle Unterstützung in der Angelegenheit unseren Dank zum Ausdruck zu bringen.

Wir hoffen zuversichtlich, Sie im September d. J. in Washington begrüßen zu können und verbleiben in-

mit vorzüglicher Hochachtung
Vorarlberger Illwerke
Aktiengesellschaft



Luftpost!

W

File Room

Vorarlberger Illwerke Aktiengesellschaft

Mr. W. A. B. I l i f f
Vice-President
International Bank for
Reconstruction and Development
1818 H. Street N. W.
Washington 25 D. C.
U.S.A.

Drahtanschrift: Illwerke Bregenz Fernsprech-Sammel-Nr. 3891
Fernschreibanschluß: VIW Bregenz 723
VIW Scharns 728
Postsparkassa-Konto Nr. 63.047
Bankkonto: Österr. Länderbank AG, Sillale Bregenz

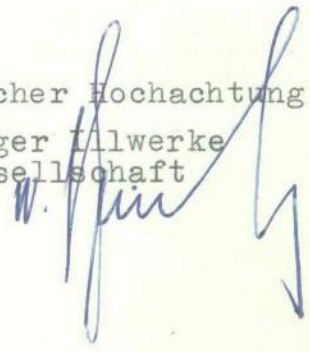
Bregenz, am 13. August 1957
Unser Zeichen: Pri/Hz Ihr Schreiben vom 2.8.1957
Betrifft:

Sehr geehrter Mr. Iliff!

Wir bestätigen dankend auch im Namen von Herrn Dr. Ammann den Erhalt Ihres Schreibens vom 2. August 1957 und freuen uns, daß es Ihnen möglich war, unseren Vorschlag, die Verhandlungen Montag, den 9. September 1957, zu beginnen, zu akzeptieren. Wir haben auch das Bundesministerium für Finanzen entsprechend unterrichtet und Herr Ministerialrat Dr. Teufenstein hat uns mitgeteilt, daß er ebenfalls an den Verhandlungen teilnehmen wird.

Inzwischen verbleiben wir

mit vorzüglicher Hochachtung
Vorarlberger Illwerke
Aktiengesellschaft



Luftpost!

Handwritten notes:
A. - 60/80
15/11/57



115

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

MIG 16 4 05 PM 1957

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

August 2, 1957

Dear Mr. Fink:

Thank you for your letter of July 26, 1957 asking us for assistance in getting the United States visas for you and your colleagues coming to Washington early in September.

In the enclosure I am sending you a copy of the letter by our Director of Administration, William F. Howell to the United States Consulate in Salzburg.

I hope this will enable you to obtain the visas without delay.

Sincerely yours,

P. Wheelock
Department of Operations
Europe, Africa and Australasia

Mr. Pius Fink, Director
Vorarlberger Illwerke Aktiengesellschaft
Bregenz, Austria

JJentgen:gcm J

FILE COPY

August 2, 1957

Consular Section
United States Consulate
Salzburg
Austria

Gentlemen:

The International Bank for Reconstruction and Development has invited the following officials of the Vorarlberger Illwerke Aktiengesellschaft, Bregenz, Austria, to come to Washington, D. C. to negotiate a loan for their company:

Director Pius Fink

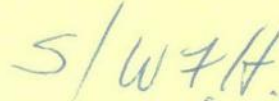
Director-Engineer Otto Wirnschimmel

Secretary-General Karl Pridum, and

Dr. Josef Feuerstein, Legal Advisor

It will be greatly appreciated if you will provide each of these gentlemen with the necessary United States visas so they may proceed to Washington. They plan to arrive in Washington on September 9.

Very truly yours,



William F. Howell
Director of Administration

cc: Mr. Pius Fink, Director
Vorarlberger Illwerke Aktiengesellschaft
Bregenz, Austria
Mr. S. R. Cope

August 2, 1957

Dear Dr. Ammann:

Thank you very much for your cable of July 25 and your letter of July 26, 1957 informing us that you accept our invitation to enter negotiations for a supplementary loan of the equivalent of \$3.5 million for the Lunersee Project. We are agreeable to your suggestion that negotiations begin on Monday, September 9.

I was very sorry to learn that because of your recent illness you will be unable to come to Washington. I avail myself of this opportunity to wish you a speedy and complete recovery.

As requested in your letter our Legal Department will arrange for a draft of the loan agreement to be sent to you as soon as possible.

Yours sincerely,

W. A. B. Iliff
Vice President

Dr. A. Ammann
Vorarlberger Illwerke A. G.
Bregenz
Austria

JJentgen/SPWheeler: gcm J

Cleared with Mr. Fontein
Mr. Jago

August 2, 1957

Del. August 13

Mr. Wheelock

Room 413

VORARLBERGER ILLWERKE
AKTIENGESELLSCHAFT

Bregenz, July 26, 1957

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

Re: Wi/Lo

Subject: Negotiations for a loan to the
Vorarlberger Illwerke Aktiengesellschaft
Bregenz, Austria.

Austria Linnsee Project

Your Vice-President Mr. W.A.B. Iliff has informed by letter dated July 19, 1957 our Director Dr. Ammann that the Bank invites representatives of the company to go to Washington to negotiate the loan in question. This letter was answered by a separate communication.

We request you to inform the U.S. Consulate in Salzburg, Austria, that the following gentlemen will travel to Washington on behalf of our company:

Director Pius Fink,
Director-Engineer Otto Wirnschimmel,
Secretary-General Karl Pridum, and
Dr. Josef Feuerstein Legal Advisor.

It is our request that the above named persons be assisted as far as possible in obtaining quickly the necessary entry permits.

Thanking you in advance for your efforts, we beg to remain.....

Yours truly,

VORARLBERGER ILLWERKE
AKTIENGESELLSCHAFT

TRANSLATION SECTION

Translated From German 7.30.57 By: AB.

Act. August 2

Vorarlberger Illwerke Aktiengesellschaft

3891

An die

International Bank for
Reconstruction and Development,
1818, H Street, N.W.
Washington 25, D.C.

Drahtanschrift: Illwerke Bregenz — Fernsprech-Sammel-Nr. 3881

Fernschreibanschluß: VIW Bregenz 723
VIW Schruns 728

Postsparkassa-Konto Nr. 63.047

Bankkonto: Österr. Länderbank N. G., Filiale Bregenz

Bregenz, am 26. Juli 1957

Unser Zeichen: Wi/Lö Ihr Schreiben vom

Betrifft: Verhandlungen wegen einer
Anleihe an die Vorarlberger
Illwerke Aktiengesellschaft,
Bregenz/Österreich.

Ihr sehr geehrter Herr Vizepräsident W.A.B. Iliff teilte in seinem Schreiben vom 19.7.1957 unserem Herrn Direktor Dr. Ammann mit, daß die Bank eine Vertretung der Gesellschaft zu Verhandlungen wegen der in Rede stehenden Anleihe nach Washington einlädt. Dieser Brief wurde mit einem getrennten Schreiben beantwortet.

Wir bitten Sie nun, das Konsulat der Vereinigten Staaten in Salzburg/Österreich zu verständigen, daß als Vertreter unserer Gesellschaft die Herren

Direktor P i u s F i n k ,
Direktor Dipl.-Ing. Otto W i r n s c h i m m e l ,
Generalsekretär Karl P r i d u n und
Dr. Josef F e u e r s t e i n als Rechtsberater

nach Washington reisen werden und man ihnen bei der beschleunigten Erteilung der Einreisevisa möglichst behilflich sein möge.

Für Ihre Bemühungen danken wir im voraus bestens und verbleiben

mit dem Ausdrucke der vorzüglichsten Hochachtung

Vorarlberger Illwerke
Aktiengesellschaft

Luftpost!

Aut. August 2

RECEIVED
INTERNATIONAL BANK FOR
CONSTRUCTION AND DEVELOPMENT

JUL 29 11 41 AM 1957

JUL 30 1957
TRANSMITTED

INTERNATIONAL BANK FOR CONSTRUCTION AND DEVELOPMENT

Mr. Wheelock

Room 413

VORARLEBERGER JLLWERKE
AKTIENGESELLSCHAFT

Bregenz, July 26, 1957

Mr. W.A.B. Iliff
Vice-President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

Dear Mr. Iliff:

July 19 ✓
This is to confirm my short telegram of the 25th instant and to thank you again for your letter and in particular for the decision, in principle, concerning our request for a supplementary loan. We are especially pleased with the long term of the loan as contemplated, taking thus into consideration our circumstances. We realize that the interest rate can only be established at the time the loan agreement is signed, in accordance with market conditions.

We also confirm with thanks the invitation to negotiate and we consider that the beginning of September is the most suitable and practical time. We have also informed the Federal Ministry of Finance of your communication, which is in agreement with the contemplated date. We have also advised the Federal Ministry for transportation and electricity, which is our supervisory institution.

I am sorry to say that I will not be able to go to Washington as after my serious illness my doctors will not let me travel this coming Autumn. I greatly regret this but I must follow their instructions. Therefore I must ask your forgiveness.

My colleagues are making the necessary preparations for the trip. If at all possible, they will be in Washington in time for the negotiations on Monday, September 9. We hope that you will find this date convenient.

In my opinion the work could be made much easier if, as at the time of the first loan, the draft of the loan agreement would soon be made available to us so that it could be studied here before the trip, thus making the necessary spade work for the negotiations.

I am looking forward with great interest to hearing from you.

Again best thanks

Yours truly,
/S/ Ammann

TRANSLATION SECTION

Translated From: German 7.30.57 By: AB.

ack August 2

Vorarlberger Jllwerke
Aktiengesellschaft

Bregenz, den 26. Juli 1957
FERNSPRECHNUMMER 3861
Drahtanschrift: Jllwerke Bregenz

A/SB

Mr. W. A. B. I l l i f f
Vice-President
International Bank for
Reconstruction and Development
1818 H. Street N.W.

W a s h i n g t o n 25 D.C.
U.S.A.

Dear Mr. Iliff,

Mein kurzes Telegramm vom 25. d. M. bestätigend, erlaube ich mir nochmals, für Ihren Brief und insbesondere für die grundsätzliche positive Entscheidung über unser Ansuchen um eine Ergänzungsanleihe vielmals zu danken. Sehr erfreut sind wir besonders auch über die auf unsere Verhältnisse Bedacht nehmende, in Aussicht genommene langfristige Laufzeit. Wir verstehen, daß die Höhe des Zinssatzes den Marktbedingungen entsprechend erst im Zeitpunkt des Vertragsabschlusses festgelegt werden kann.

Wir bestätigen auch dankend die Einladung zu Verhandlungen, für welche wir ebenfalls Anfang September für den bestgeeigneten, praktisch möglichen Zeitpunkt halten.

Wir haben von Ihrer Mitteilung auch das Bundesministerium für Finanzen verständigt, das mit dem vorgesehenen Termin einverstanden ist. Auch unsere Aufsichtsbehörde, das Bundesministerium für Verkehr und Elektrizitätswirtschaft, haben wir unterrichtet.

Ich selbst werde leider nicht mit nach Washington kommen können, da ich nach meiner ernstlichen Erkrankung für diesen

Beleg August 2

Prof. Dr. ...

RECEIVED

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

nen, da ich nach meiner erhaltlichen Einkommens für diesen
 ich selbst werde jedoch nicht auf mich verlassen können kon-
 nen mit Unterstützung.

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 mit dem von ihrer Mitteilung auch das Bundesministerium
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für welche mit erhebliche Anzahl Gebiete für den beauf-
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 mit besonders auch über die auf unsere Vertragsbeziehungen Bedacht
 eine Erklärungsanfrage weiter zu denken. Sehr ernst sind
 grundsätzliche positive Entwicklung über unser Ansehen um
 ich mit nachher, für ihren Brief und insbesondere für die
 mein kurzes Telegramm vom 22. d. M. beauftragend, erlaube

Dear Mr. IITIT

P.S.V.

Washington D.C.

1818 N. Street N.W.
 Reconstruction and Development
 International Bank for
 Vice-President
 Mr. M. A. B. IITIT

Distanschrift: Ulmerke Bredenz
 ФЕВРИВАЕСНИИИИИЕР 3881
 Bredenz' den 26. JUNI 1921

Aktiengesellschaft
 Vorstand der Ulmerke

Bregenz, den 26. Juli 1957

FERNSPRECHNUMMER 3861
Drahtanschrift: Jllwerke Bregenz

Herbst von meinen Ärzten noch keine Reiseerlaubnis erhalten. Ich bedaure dies sehr, muß mich aber deren Anordnungen fügen. Ich muß daher auch schon jetzt bitten, mich gütigst entschuldigen zu wollen.

Meine Kollegen treffen nun die notwendigen Vorbereitungen für die Reise. Sie werden, wenn irgend möglich, so rechtzeitig in Washington eintreffen, daß sie für die Verhandlungen am Montag, den 9. September d. J., zur Verfügung stehen können. Wir hoffen, daß Ihnen dieser Zeitpunkt genehm ist.

Die Arbeit könnte - wie ich denke - sehr erleichtert werden, wenn, wie bei der ersten Anleihe, der Vorentwurf des Loan Agreements für uns bald verfügbar sein würde, damit dieses noch hier vor der Abreise studiert und dadurch die Verhandlungen vorbereitet und erleichtert werden könnten.

Ich sehe Ihren Nachrichten mit großem Interesse entgegen.

Nochmals mit bestem Dank

Ihr sehr ergebener



1957 JUL 27

1957 JUL 27

1957

Bregenz, den 26. Juli 1957
FERNRECHNUMMER 3861
Datumschrift: Illwerke Bregenz

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Nochmals mit bestem Dank

Ihr sehr ergebener



TRANSMITTED

JUL 30 1957

I.E.R.S.

~~M. Wheeler~~
Amann - Limerick

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: JULY 25, 1957 1840

TO: INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: BREGENZ

ROUTING
ACTION COPY TO MR ILLIFF
INFORMATION COPY TO
Decoded By

TEXT: MANY THANKS FOR YOUR LETTER 19TH AND THE FAVOURABLE
 DECISION WE TOO THINK EARLY SEPTEMBER BEST
 TIME FOR NEGOTIATION LETTER FOLLOWS

AMMANN ILLWERKE

~~M. Dunne Ross~~

files

LS
25/2/57

ORIGINAL

check letter - August 2

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

MAR 95 4 09 PM 1957

1/2/57

[Handwritten signature]

[Handwritten signature]

MEMORANDUM FOR THE DIRECTOR

RE: [Illegible]

[Illegible]

[Illegible]

DATE: [Illegible]

BY: [Illegible]

TITLE: [Illegible]

SEARCHED
SERIALIZED
INDEXED
FILED

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

WASHINGTON, D. C. 20547

July 19, 1957

Dear Dr. Ammann:

The Bank has now considered the findings of the recent mission to Austria by Mr. Spottswood and Mr. Kanters, and I am happy to be able to inform you that we are prepared to enter negotiations for a loan of the equivalent of \$3.5 million. The term of the loan would be approximately 22 years; that is, the amortization would be spread over the same 20 years as in the case of the original loan.

As you know, the Bank will not be able to be definite about the rate of interest until the Loan Agreement is ready for signature. If made now, the loan would carry interest at 5 3/4% but I cannot, of course, say what the Bank's current lending rate will be when the new loan to your Company is signed.

The most convenient time from our point of view for you to visit Washington for the negotiations would be early in September. If you wish to negotiate earlier, however, we could probably arrange to do so if you would let us know.

I shall look forward to meeting you and your colleagues in Washington.

Yours sincerely,

W. A. B. Iliff
Vice-President

Dr. A. Ammann
Vorarlberger Illwerke A.G.
Bregenz
Austria

Cleared with Mr. Oppenheimer
Mr. Kanters

WJ
JHCollier:JJentgen:fgs 7

Cable Cable July 25

Archives
CONFIDENTIAL

Lünersee Project

STAFF LOAN COMMITTEE

DECLASSIFIED

APR 25 2018

WBG ARCHIVES

MEMORANDUM TO THE STAFF LOAN COMMITTEE

Austria - Proposed Supplementary Loan for Lünensee Project

As no new policy questions are involved, the Committee is requested to consider the attached memorandum SLC/O/903 without meeting.

Comments, if any, should be sent to reach Mr. Jentgen by the close of business on Wednesday, July 17.

Herbert G. A. Woolley
Secretary
Staff Loan Committee

July 12, 1957

CONFIDENTIAL
July 15, 1957
SLC/O/903

STAFF LOAN COMMITTEE

Memorandum from the Department of Operations
Europe, Africa and Australasia

AUSTRIA - Supplementary Loan for
Lünersee Project

1. A memorandum, circulated to the Staff Loan Committee on October 30, 1956 (SLC/O/874), gave an account of the increase in the cost of the Lünersee Project and indicated that it might be necessary for the borrowing company (the Vorarlberger Illwerke, A.G.) to approach the Bank to finance part of this increase.
2. An SLC meeting was held on March 20, 1957 after the Bank had been informed that the Austrian Government would support a request by the Company to the Bank for a supplementary loan. The Committee agreed that the Bank should be prepared to consider such a request provided that the reasons underlying it were satisfactory and that finance was not available on reasonable terms elsewhere. It was decided that a mission should visit Austria to study the company's position.
3. The report of the mission, which consisted of Mr. Spottswood and Mr. Kanters, is attached. The report recommends that the Bank agree to make a loan to the Vorarlberger Illwerke, A.G. for the equivalent of \$3.5 million. The proceeds of the loan would be used to meet expenditure in Austrian schillings. The forecast of receipts and payments over the next decade indicates that, if all the available cash receipts were to be used for debt repayment the VIW would be able to repay the loan by the end of 1965. However, as the company plans to expand further, it would like to use some of its future revenues for this purpose and the report accordingly recommends that the proposed loan be for 22 years, which would give it the same maturity as the Bank's previous loan i.e. 1960-1979. Like the earlier loan, the new loan would be secured by mortgage on the Lünersee properties and an assignment of revenues from power deliveries to Germany.
4. There are no objections on creditworthiness grounds to a loan of this amount to Austria at the present time. I concur with the conclusion and recommendation contained in paragraph 29 of the report and propose that the company be informed that the Bank is prepared to enter into negotiations for the proposed loan.

S. R. Cope
Director of Operations

Attachments

MEMORANDUM ON SUPPLEMENTARY LOAN

TO

VORARLBERGER ILLWERKE A. G.

Introduction

1. On June 14, 1955 the Bank made a loan (No. 118 AUA) of \$10 million to the Vorarlberger Illwerke A.G. (VIW) in Austria for the purpose of financing part of the construction cost of the Lünensee project, the total cost of which was estimated at the equivalent of \$38.6 million. The loan is guaranteed by the Republic of Austria and became effective on November 9, 1955. As of May 31, 1957 the project was estimated to be about 80% completed. The equivalent of about \$8.6 million had been disbursed on the loan.
2. Substantial increases in costs, mainly payable in local currency, have occurred since the loan was made. A sizeable portion of the increase which totals the equivalent of \$11.4 million has been covered from increased revenues and from recent borrowing by the Company in Switzerland, but a deficit in the financing still exists. Owing to the tight capital market in Austria, the Government has been reluctant to grant the Company permission for a public issue and has requested the Bank to consider a supplementary loan for the project to make up the still remaining deficit, which amounts to the equivalent of \$3.5 million.

The Project

3. The Lünensee project is essentially a scheme to produce winter peak power from pumped storage. The project, which will have an effective capacity of 190,000 kw, consists of the construction of a small dam across the lower end of Lünensee Lake (Lünensee) to increase its storage capacity, the diversion of the run-off of a glacier into the lake and the construction of 9.7 kilometers of tunnels, syphons and penstocks to convey water from the lake to a new powerhouse in which five generating and five pumping units will be installed. The pumps, driven by the generators in the powerhouse acting as motors and using cheap off peak power imported from Germany, will pump annually about 60 million cubic meters of the 76 million cubic meters of water required to fill the lake to its maximum capacity. Detailed information on the project and on the VIW Company is contained in T.O.'s report 75-C of May 25, 1955 which appraised the project.

Status of Company

4. Although the VIW is one of the Companies mentioned in the Nationalization Act of 1947, the Company has not yet been proclaimed as a nationalized company (Sondergesellschaft). VIW's status, therefore, is still the same as at the time the loan was negotiated.

Market for Power

5. Under the terms of the Illwerke Agreement of 1952, which is a long term contract, the bulk of VIW's production is exported to two German companies, the Rheinisch Westfälisches Elektrizitätswerk A.G. of Essen (RWE) and the Energie Versorgung Schwaben of Stuttgart (EVS), and the remainder is taken up by the two Austrian provinces, Vorarlberg and Tirol. Instead of paying for the energy at fixed rates, the RWE and EVS and the two Austrian provinces reimburse the Company for its annual costs including overhead, depreciation, interest, taxes, and also pay a return on VIW's share capital by way of profit. This return depends on the average dividend paid by the two German companies, with a minimum, however, of 4 1/2%.

Status of Construction

6. Very satisfactory progress has been made in carrying out the project. At the end of May 1957 construction on the whole was somewhat ahead of schedule. All five generating and pumping units are now scheduled to be completed by the end of 1957. The original schedule envisaged the operation of two units by the end of 1957 and the remaining three units before the end of 1958. Although all five units are now expected to be completed by the end of 1957, tests and preliminary operation will continue until the end of March 1958. The plant is expected to go into commercial operation on April 1, 1958. At that time only a small amount of work will remain to be done such as landscaping, final painting, etc.

Increases in Costs

7. The original estimate of cost of the project based on 1954 prices and wages was Sch 1,004 million (\$38.6 million), of which only 13.6% (\$7.2 million) was for imported equipment and 81.4% for equipment to be purchased in Austria and other local construction costs. Since the time the original estimates were made increases in estimated costs have amounted to Sch 296 million (\$11.4 million) bringing the total estimate to Sch 1,300 million (\$50 million), of which the equivalent of about \$37 million had been spent as of May 31, 1957. The increase of Sch 296 million represents an increase of 29.5% over the original estimates. An analysis of this increase shows that a very substantial part is attributable to the general rise in the internal price level of Austria. Since January 1955 increases in wages have amounted to 29% and there has been an average increase of about 20% in the cost of local materials.

8. In addition to the increases in prices and wages, as mentioned above, there have been increases in costs for various other reasons, as shown in the following breakdown.

	Increases in Costs (in millions of Schillings)	% of total original estimates	% of Total Increase
Increases in Prices and Wages	117	11.6	39.5
Unforeseen Geological Conditions	71	7.1	24.-
Project Improvements	51	5.1	17.2
Requirements of Water Rights Authorities	42	4.2	14.3
Interest During Construction	15	1.5	5.-
	<u>296</u>	<u>29.5</u>	<u>100</u>

9. Nothing was included in the original allowance for contingencies for increases in wages and prices, but about 8% was included for other increases. The 8% proved to be inadequate; the principle reasons other than increases in wages and prices were:

a) Unforeseen Geological Conditions - Although the geological conditions encountered in general were as expected, actual excavation and further drilling revealed unforeseen weathered sandstone, lenses of gypsum, and shattered rock resulting from tectonic movements. In these sections of the tunnels and shafts, extensive shoring was required and additional thicknesses of lining and pipe were necessary.

b) Project Improvements - In the course of detailed designing and in consultations with suppliers and contractors various technical improvements were developed in the project, the cost of which is considered justified from the long term advantages to be obtained. The power house, for example, now provides space for a sixth unit, which was not included in the original design.

c) Requirements of Water Rights Authorities - By law the Water Rights Authorities must review the detailed plans of the project. In the course of this review, the authorities required the VIW to build their cableways heavier than previously required, to install more safety devices and to increase the thickness of the penstocks in some sections. These account for the increases in cost shown in the above table under this heading.

10. The latest revised estimate of Sch 1,300 million includes Sch 35 million for contingencies. Of the Sch 35 million, Sch 15 million is included to cover contractors' claims, Sch 10 million to cover differences in quantities of excavation, concrete, etc., and Sch 10 million to cover further wage and material price increases. These contingencies, which amount to 10% of the estimated cost to complete the project, are considered reasonable and adequate at this stage of completion of the project.

Financing Available for the Project

11. According to the latest figures obtained from the Company, the following sources of financing are presently available for the project. The original financing plan is also shown for comparison.

	<u>(in millions of Schillings)</u>	
	<u>Latest figures</u>	<u>original financing plan</u>
a) <u>Borrowing</u>		
1) IBRD loan \$10 million	260	260
2) Construction loans from power consumers	219	220
3) Länder Bank credit	200	200
4) Credits from Swiss Banks (net) a/	77	---
5) Other short-term financing (net) a/	<u>15</u>	<u>---</u>
_____ carried forward	771	680

a/ net during construction period

	<u>Latest figures</u>	<u>original financing plan</u>
brought forward	771	680
b) Company Resources (net profits, tax savings, depreciation allowances, cash reserves)	<u>439</u>	<u>324</u>
<u>Total financing available</u>	1210	1004
<u>Estimated cost of project</u>	<u>1300</u>	1004
<u>Additional funds required to complete project</u>	<u>90</u>	

12. The Swiss credits listed above were obtained last March from the Schweizerische Bankverein and the Schweizerische Kreditanstalt. There are two credits, one of S Frs 10 million and one of S Frs 6.5 million, in which both banks participate for 50% each. Both credits are repayable in 10 semi-annual installments, starting in October of this year. The credits are secured by assignments of revenues from power deliveries by VIW to RWE and EVS. The assignments rank pari passu with the assignment made as security for the Bank's loan.

13. Revenues from operations available for the project have been considerably in excess of figures originally estimated. The actual rates of return on share capital included in the reimbursement of annual costs by the power consumers over the past three years have been 6 1/2% in 1954/5, 7 1/2% in 1955/56 and 8% in 1956/57, as compared with a return of 5% assumed in the original financing plan. A rate of 8% is expected for the current fiscal year. These increased rates of return together with corresponding increased tax savings derived from the application of the Electricity Promotion Law account for the higher revenues available for the project, namely Sch 439 million as compared with Sch 324 million, an increase of Sch 115 million or about \$4.4 million.

Additional Funds Required

14. The above summary shows that VIW will have to raise about Sch 90 million (\$3.5 million) more to complete the project. The need for these funds will first arise some time during September of this year and is estimated to develop according to the following schedule.

	(in millions of Schillings)		
	<u>Project Expenditures</u>	<u>Financing Available</u>	<u>Deficit quarterly cumulative</u>
<u>Actual up to March 31, 1957</u>	887.9	887.9	-
<u>Forecast</u>			
2nd quarter 1957	124.-	124.-	-
3rd quarter 1957	116.2	114.-	2.2
4th quarter 1957	76.6	18.3	58.3
1st quarter 1958	49.7	20.2	29.5
	<u>366.5</u>	<u>276.5</u>	<u>90.-</u>
From April 1, 1958 to Mid 1959	45.6	45.6	
	<u>1,300.-</u>	<u>1,210.-</u>	<u>90.-</u>

15. The development of the need for these additional funds is also presented in Annex A, which shows in detail the various sources of receipts and items of expenditure for the period in question.

16. The Company, in order not to slow down construction of the project and in anticipation of additional borrowing, has been exhausting all its available cash normally required as working capital and has, in addition, been accumulating current debts. Provision, therefore, has been made in the forecast to restore the working cash required, taking also into consideration the increased needs when the Lünensee plant will be in operation. Provision has also been made to reduce the level of current liabilities. A condensed balance sheet showing VIW's financial position as of March 31, 1957 is given in Annex B. A pro-forma balance sheet, showing the position one year later, i.e. as of March 31, 1958, is given in Annex C. This balance sheet reflects the improvement in the working capital position as a result of the provisions just mentioned, which are reasonable.

Supplementary Loan by IBRD

17. The Bank has been asked to make a supplementary loan for the project to cover the deficit in construction funds. A loan of \$3.5 million equivalent, which is equivalent to about Sch 90 million, should be adequate for this purpose. The loan proceeds would be used to cover local currency expenditures only, because the foreign exchange cost of all equipment imported for the project is already fully covered by the existing loan.

18. If the Bank makes this supplementary loan the total Bank financing for the project would amount to \$13.5 million equivalent, or 27% of the total estimated cost of the project of \$50 million. Total borrowing raised by the Company for the project would then amount to \$33.1 million equivalent, or two thirds of the total cost, of which \$10.7 million in the form of medium term financing and \$22.4 million on a long term basis.

19. The Company has requested that the repayment period of the supplementary loan be the same as the repayment period applying to the present loan, that is with amortization spread over a 20 year period starting in 1960 and ending in 1979. This would make the term of the new loan 22 years.

20. The supplementary loan of \$3.5 million equivalent could be repaid in a shorter period than the term requested by the Company, i.e. full repayment would be possible by about 1965, but only if all revenues estimated to accrue during that period would be used for debt repayment. However, the Company would like some of its revenues to be available for the purpose of assisting it in financing part of future expansion. This is a reasonable position. Also in view of the fact that this supplementary loan would be used for the same project as the present loan, a term of 22 years is justified and suitable.

Forecast of Revenues and Cash Position

21. Although some construction work will still remain to be done after April 1, 1958, it will only be minor and the project for the purpose of charging annual cost to the power consumers, will be considered to be in operation

as of that date. This means that from that date the power consumers will be charged with all costs relating to the operation of the Lünensee project, including interest on all borrowing raised for the project.

22. A forecast of revenues and expenditures for the 10-year period 1958/9 to 1967/8 is shown in Annex D. The forecast of revenues is based on the assumption that the power consumers will pay VIW a 6% rate of return on its share capital as part of the annual costs. As already mentioned this rate in any one year depends on and is equal to the average dividend rate of the two German Companies RWE and EVS. Although an average rate of 8% was earned in 1956/7, which is also assumed for the fiscal year 1957/8, the lower rate of 6% has been assumed for the longer range forecast as being more conservative. This compares with the minimum rate of 4 1/2% guaranteed to the Company in the Illwerke Agreement.

23. Most of the cash from operations during the first 5 years after the completion of Lünensee will be needed for the repayment of the medium term credits obtained for the project. Although the Länderbank credit, which is a credit in current account, has no definite annual repayment requirements, it must be liquidated five years after the start of operations of the project, that is by April 1963. Within this period the Swiss credits must also be repaid. After 1963 cash accruals would amount to about Sch 40 million annually, after yearly debt amortization of approximately Sch 46 million. This is a comfortable margin. The total debt service coverage, based on the projections in Annex D, which include the retirement of the medium-term credits, would be 1.7 in the year 1963/64. Thereafter the coverage ratio would gradually increase, and by 1967/68 it would be 2.

Future Expansion

24. No investments in any major projects beyond the completion of the Lünensee project are provided for in the cash flow forecast. The Company's plans for expanding its facilities include the following items:

(millions of Schillings)

6th Unit Lünensee	60
2nd Storage pump Rodund	20
Arlberg Transmission Line 110 kv	7
" " " 220/380 kv	90
Kops Dam	<u>450</u>
	<u>627</u>

25. These cost figures were submitted by the Company at the Bank's request but should be considered only as very rough estimates. The tentative schedule for these investments is as follows:

(in millions of Schillings)

<u>1957/8</u>	<u>1958/9</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>
11	73	120	191	172	60

No commitments have as yet been made for any of these projects, which will only be undertaken if and when their financing is fully assured.

Capital Structure

26. Assuming that the Sch 90 million still needed by the Company will be raised by additional borrowing, its total indebtedness at the start of operations of Lünensee would amount to Sch 1,162 million (net).^{1/} As already mentioned in paragraph 18, a substantial part of the debt is represented by medium term credits (about 25%). The Company's equity, including Sch 1,522.5 million of capital reserves and surplus, is estimated to amount to Sch 1,955 million. These figures represent a debt to equity ratio of 38/62, which is a satisfactory ratio. A few years ago the Company's assets were revalued to compensate for the decline of the value of the currency in the postwar period. The net write up of the assets, which was effected in accordance with the "Schilling Opening Balance Sheet Law", enacted in 1954, amounted to Sch 1,340 million and is reflected in the equity figure given above.

Proposed Settlement of Matured Debt Service

a) Former RM - Bond Issues

27. Between 1938 and 1944 the VIW raised RM 125 million through five separate bond issues. About 80% of the bonds were sold in Germany and 20% in Austria. Service on the Austrian bonds has been paid regularly. The service on the bonds held in Germany was blocked in 1945. As of March 31, 1957 the matured but unpaid principal amount of German held bonds and interest coupons had accumulated to Sch 84.8 million. At the request made recently by the Austrian Government, the Company has submitted its proposals for a settlement of the accumulated debt service which will be in the form of funding operations. The Company's proposals which are based on an agreement reached between Austria and Germany for the settlement of debts between these countries, provide for the paying off of the accumulated debt service on each bond issue over the still remaining term of each issue. A part, however, amounting to about Sch 40 million, would be due to the Austrian Government,^{2/} for which the Company has proposed a 15-year repayment period with 3 years of grace. Although the Government has not yet formally accepted this proposal,

^{1/} After deduction of a Sch 60.5 million loan due to the Verbundgesellschaft, because this debt to V.G. is compensated by a loan of equal amount and term made by VIW to V.G. VIW had to make this loan to V.G. in order to receive the tax benefits of the Electricity Promotion Law. V.G., however, relented the amount involved on the same terms and conditions to VIW.

^{2/} Part of the accumulated interest would not be restituted to the former German owners; further, the Peace Treaty prohibits the restitution of former German property to other than German natural persons and also the restitution of claims in excess of certain amounts.

it has indicated that it will agree to a funding operation. The forecasts attached to this memorandum assume the settlement of the matured debt service on the basis of the Company's proposals.

b) Unclaimed Bonds - 6% Sterling Loan 1929

28. The Sterling Loan 1929 was called for redemption on January 2, 1956. All bonds have been paid off with the exception of bonds in the amount of £ 183,100 (equivalent to Sch 22.1 million including interest) which were not claimed. These bonds were lost or stolen at the end of the war and they consist of £ 182,000 of bonds formerly owned by the Konversionskasse in Berlin and £ 500 of bonds owned by private persons. The time set by the Austrian Validation Law for applications for validation expired on December 31, 1956. The Company has now requested the trustees in London to discharge the mortgage by which this loan was secured. This discharge is expected to take place in the near future. Although according to the Austrian Validation Law the £ 183,100 bonds are considered cancelled, the Company assumes that the equivalent amount of Sch 22 million may have to be paid to the Austrian Government according to the articles in the Austrian State Treaty dealing with the disposition of German assets. The Company has assumed in its forecast of cash flow that in that case the Government would agree to a settlement by which the amount due would be converted into a long term loan.

Conclusion and Recommendation

29. A supplementary loan of about \$3.5 million equivalent to the VIW is considered to be justified and adequate to cover the deficit in the financing of the Lünensee project. The Company has the financial ability to carry this supplementary loan. A term of 22 years, with a grace period of 2 1/2 years is recommended. It is also recommended that if the loan is made, it be secured in the same way as the Bank's existing loan to VIW, i.e. by a mortgage on the Lünensee properties and an assignment of revenues from power deliveries to RWE and EVS. The disbursement of the loan should be limited to certain amounts per calendar quarter as indicated by VIW's needs for additional funds for the Project.

VII - FORECAST OF RECEIPTS AND EXPENDITURES AND ESTIMATE OF ADDITIONAL FUNDS REQUIRED
FOR FISCAL YEAR 1957/1958 (April 1 - March 31)
(in millions of Schillings)

Receipts	1957			1958	Total
	April/June	July/Sept.	Oct/Dec.	Jan/March	1957/1958
From Operations:					
Net profit <u>1/</u> (after interest)	19.-	19.-	19.-	19.-	76.-
Depreciation allowances	11.75	11.75	11.75	11.75	47.-
Total	30.75	30.75	30.75	30.75	123.-
From Borrowing:					
IERD - loan No. 118 AUA - Withdrawals	19.54	9.97	10.60	3.58	43.69
Building Contributions (loans from power consumers)	19.-	7.-	7.-	7.-	40.-
" " (interest) <u>2/</u>				12.50 <u>2/</u>	12.50
Swiss Banks Credits	97.76				97.76
Länderbank Credit	(-) 18.05 <u>3/</u>	113.59			95.54
Total Receipts	149.-	161.31	48.35	53.83	412.49
Expenditures					
Capital Investments					
Construction Länsees Project	124.04	116.24	76.59	49.67	366.54
Other	6.-	6.-	6.-	6.-	24.-
Repayment of Debts (long and medium term)	5.13	14.78	8.63	19.80	48.34
Reduction Current Liabilities	13.83	9.40	4.40	4.10	31.73
Increase in outstanding balances due from power consumers for operating expenses <u>4/</u>		3.50	3.50	3.70	10.70
Other payments		6.10			6.10
Total Expenditures	149.-	156.02	99.12	83.27	487.41
Building up of cash balance required for operations	149.-	7.50	7.50	15.-	15.-
	149.-	163.52	106.62	83.27	502.41
Additional Funds Required (quarterly)	-	2.21	58.27	29.44	
" " " (cumulative)	-	2.21	60.48	89.92	89.92

1/ Based on 8% return on share capital currently included in reimbursement of annual cost by power consumers; net profit figures also include tax savings

2/ Interest due on construction loans added to principal amount of loans; an equivalent amount for interest is included in construction expenditures

3/ Represents estimated reduction in balance of Länderbank credit during April/June 1957

4/ Represents estimated lag in reimbursement by power consumers of increased operating expenses

VIW - BALANCE SHEET 1/
as of March 31, 1957
(in millions of Schillings)

A S S E T S

Fixed Assets	2,456.-	
less: Reserve for Depreciation	<u>644.7</u>	
Net Book Value		1,811.3
Construction Work in Progress (including construction stores, down payments, etc.)		938.2
Investments		1.4
Loans: to Verbundgesellschaft (see contra)	60.8	
Other	<u>4.2</u>	65.-
Current Assets:		
Cash	.9	
Stores	1.-	
Due from Power Consumers	19.3	
Other	<u>3.2</u>	24.4
Other Accounts		<u>14.3</u>
		<u>2,854.6</u>

L I A B I L I T I E S

Share Capital	440.-	
Not paid in	<u>7.5</u>	432.5
Reserves		1,447.3
Balance Profit and Loss Account		5.3
Equity		<u>1,885.1</u>
Debts		
(Long and Medium Term)		
Verbundgesellschaft (see contra)	60.8	
IBRD loan No. 118 AUA	213.4	
Construction loans Power Consumers	153.1	
Länderbank Credit	104.5	
Other	<u>253.3</u>	
	785.1	
Matured Debt Service (to be funded)	<u>106.9</u>	892.-
Current and Accrued Liabilities		<u>77.5</u>
		<u>2,854.6</u>

1/ Provisional figures

VIW - PRO FORMA BALANCE SHEET
as of March 31, 1958
(in millions of Schillings)

A S S E T S

Fixed Assets	3,765.4	
less: Reserve for Depreciation	<u>691.7</u>	
Net Book Value		3,073.7
Investments		1.4
Loans		65.- ^{1/}
Current Assets (Cash, Stores and Receivables)		50.1
Other Accounts		14.3
		<u>3,204.5</u>

L I A B I L I T I E S

Share Capital	440.-	
Not Paid in	<u>7.5</u>	432.5
Reserves		1,522.5
Equity		<u>1,955.-</u>
Debts: (medium and long term)		
IBRD loan No. 118 AUA	257.1	
Proposed IBRD loan	90.-	
Other	<u>875.9</u> ^{2/}	1,223.-
Current and Accrued Liabilities		26.5
		<u>3,204.5</u>

^{1/} includes loan to Verbundgesellschaft of Sch 60.8 million.

^{2/} includes loan from Verbundgesellschaft of Sch 60.8 million; also includes Sch 106.9 million matured debt service assumed to have been funded

VIW - FORECAST OF RECEIPTS AND EXPENDITURES
FOR PERIOD 1958/9 - 19
(in millions of Schillings)

<u>Receipts</u>	<u>1958/9</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>
From Operations:										
Net Profit <u>1/</u> (after interest)	64.40	64.40	64.40	29.20	29.20	29.20	29.20	29.20	29.20	29.20
Depreciation allowances	77.-	77.-	77.-	77.-	77.-	77.-	77.-	77.-	77.-	77.-
	<u>141.40</u>	<u>141.40</u>	<u>141.40</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>
Borrowing:										
IBRD loan 118 AUA (balance)	2.38									
Building Contributions	28.-									
Total Receipts	<u>171.78</u>	<u>141.40</u>	<u>141.40</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>	<u>106.20</u>
Expenditures										
Capital Investments:										
Lünersee project	43.18	3.25								
Other	24.-	18.-	18.-	18.-	18.-	18.-	18.-	18.-	18.-	18.-
Repayment of Debts:										
IBRD loan No. 118 AUA			8.05	8.44	8.83	9.27	9.69	10.16	10.65	11.19
Proposed Supplementary IBRD loan			2.50	2.65	2.80	2.96	3.13	3.31	3.50	3.70
Other debts	49.32	49.90	65.48	58.45	34.92	35.97	33.23	33.26	29.03	27.62
Lag. in reimbursement of operating expenses	7.70									
Other payments	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10
	<u>126.30</u>	<u>73.25</u>	<u>96.13</u>	<u>89.64</u>	<u>66.65</u>	<u>68.30</u>	<u>66.15</u>	<u>66.83</u>	<u>63.28</u>	<u>62.61</u>
Cash Accruals (annually)										
Before prepayment Landerbank Credit	45.48	68.15	45.27	16.56	39.55	37.90	40.05	39.37	42.92	43.59
(ditto - cumulative)	(45.48)	(113.63)	(158.90)	(175.46)	(215.01)					
Repayment of Landerbank Credit										
To be effected during 5 year period 1958/9 - 1962/63					200.-					
Remaining Cash <u>2/</u>										
After repayment of Landerbank Credit					15.01	37.90	40.05	39.37	42.92	43.59
(ditto - cumulative)					(15.01)	(52.91)	(92.96)	(132.33)	(175.25)	(218.84)

1/ Based on estimated 6% return on share capital included in reimbursement of annual cost by power consumers; net profit figures include tax savings calculated according to Electricity Promotion Law up to 1960/61, the last year in which these tax benefits will be received by VIW.

2/ Available for dividends and for financing of future expansion.

July 8, 1957

Mr. Pius Fink
Director, Vorarlberger Illwerke
Aktiengesellschaft
Bregenz, Austria

Dear Director Fink:

Thank you very much for your letter of June 19, 1957 (your reference Pri/Hz) enclosing the organization chart of the Illwerke, as well as the text of the financial agreement between Austria and Germany. The technical report on the proposed supplemental loan for the Linersee is nearing completion and will be considered shortly by our Staff Loan Committee. I expect that we will be able to inform you of the results of the Committee's considerations before long.

May I also take this opportunity to express to you, to Director Wirnschimmel and to Secretary Fridun, on behalf of Dr. Oppenheimer and myself, our sincere appreciation for the cooperation and hospitality shown to us during our visit in Bregenz.

Very sincerely yours,

Douglas J. Fontein

June 5, 1957

AIR MAIL

Vorarlberger Illwerke Aktiengesellschaft
Bregenz, Austria

Dear Sirs:

This will serve to acknowledge receipt of your letter of May 10, 1957 with enclosures, which arrived during the absence of Messrs. Fontein and Oppenheimer, who, as you know, are at present in Austria. Should they have any comments upon their return here, they will undoubtedly write you.

Sincerely yours,

(Signed) A. Broches

A. Broches
Associate General Counsel
Director, Legal Department

cc. Mr. Spettswood
Messrs. Fontein/Oppenheimer

Lussery

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: April 26, 1957

TO: Dr. Ernst Wagner, Karntnerring 10, Vienna, Austria.

FROM: Franz M. Oppenheimer

FILED UNDER: Austria - Industry negotiations

SUMMARY: Regarding trip of myself & Mr. Fontein about proposed new loans 1) a second loan to the Illwerke ans 2) a loan for some twenty industrial projects.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

DATE

APR 4 1957

ROUTING SLIP
GENERAL FILES

ROUTING OF INCOMING MAIL

MR. BEEVOR	1013	OFFICE SERVICES	203
MR. BLACK	1024	MR. PERRY	620
MR. BROCHES	1113	PERSONNEL DIV.	A-521
MR. CONSOLO	521	MR. POORE	A-318
MR. COPE	403	MR. REAMY	A-321
MR. DEMUTH	421	RESEARCH FILES	1215
MR. DOUCET	1009	MR. RILEY	1126
EDI		MR. RIST	A-417
MR. GARNER	1013	MR. RUCINSKI	620
MR. HAMILTON	1103	MR. SCHMIDT	521
MR. HOWELL	1107	MR. SOMMERS	1003
MR. ILIFF	1003	TECHNICAL OP.	308
MR. JOHNSTON	A-318	MR. WOOLLEY	1007
MR. KNAPP	1024	MR. WORTHINGTON	A-316
MR. MENDELS	1009	2 FILES	210
OFFICE OF INFO.	221		

REMARKS:

FROM: GENERAL FILES & CORRESPONDENCE SECTION

Austria - Lunersee

DR. RUDOLF STAHL

GENERALDIREKTOR DER ÖSTERREICHISCHEN
ELEKTRIZITÄTSWIRTSCHAFTS-AG.
(VERBUNDGESELLSCHAFT)

WIEN I,
AM HOF 6
TEL.: U 29-6-60 1.4.1957.

U.

Mr. S.R. C o p e ,
International Bank for
Reconstruction and Development

1818 H Street, N.W.
Washington 25, D.C.

Verehrter Mr.Cope !

Ich danke Ihnen für Ihr Schreiben vom 26.3. und bestätige Ihnen unser Einvernehmen mit den Mitteilungen des ersten Absatzes Ihres Schreibens.

Aus dem weiteren Inhalt Ihres Briefes entnehme ich, daß wir das Vergnügen haben werden Mr.Spottswood und Mr.Kanters in absehbarer Zeit in Österreich begrüßen zu können und sehe den Nachrichten über die Ankunft der Herren in Wien und ihr Programm, soweit es den Verbundkonzern betrifft, gerne entgegen. Wir würden natürlich besonderen Wert darauf legen, den Herren die Fortschritte vorzuführen, die der Bau jener Kraftwerke gemacht hat, die durch die Anleihe 1956 mit Krediten Ihrerseits bedacht worden sind und bitten, hierauf bei der Erstellung des Programms für die beiden Herren besonders Rücksicht zu nehmen.

Ich verbleibe mit besten Grüßen

Ihr ergebener



*Austria -
Lünersee up*

OFFICE MEMORANDUM

TO: Files

FROM: John H. Collier *JH*

SUBJECT: Austria - Discussions with Austrian Delegation

DATE: April 1, 1957

1. During the week of March 18-25, Dr. R. Kamitz, the Austrian Minister of Finance, and Dr. W. Teufenstein were in Washington. Dr. Teufenstein had several discussions in the Bank, and the management met Dr. Kamitz on two occasions. An SLC meeting was held on March 20, at which proposed Austrian operations were discussed. This memorandum summarizes the ~~out~~ *industry* come of these various meetings. Two memoranda, dated March 14 and 15, from Mr. Cope to Mr. Knapp explain the background of the two proposals put forward by the Austrian Government.

Lünersee Project

2. The Bank has agreed to send Messrs. Spottswood and Kanters to Bregenz to examine the latest information on the financial position of the Vorarlberger Illwerke (VIW). A decision can then be taken on whether or not a supplementary loan from the Bank is required.
3. A question arises over the term of any loan which might be made. Once the project is completed the VIW's cash position improves markedly and it should be able to repay the loan quite rapidly. Because of this it might be appropriate for the Bank to make the term of the loan fairly short. This matter is complicated by the VIW's undertaking to repay a loan from the Länderbank "as rapidly as possible". A decision on this problem must await the findings of the mission.
4. Dr. Teufenstein stressed that the Government thought the loan to the VIW should be as small as possible. He appears to think that any amounts lent by the Bank to the VIW mean a reduction in the amount lent to Austria in other ways. Mr. Cope had, however, previously made it clear that, if there were no loan for Lünersee there would not be a correspondingly larger loan for industrial enterprises.

Industrial Projects

5. At the first meeting Dr. Teufenstein explained that the Austrian Government attached great importance to this proposal. The capital market in Austria was particularly tight and it was important to maintain the rate of investment in industry. The impending common market in Europe lent an added urgency to this task since Austrian firms would face greater competition. As proof of the demand for long term capital he said the total of initial applications for assistance under the new loan came to Sch. 2 billion (\$77 million).

*Copy in 2 industry projects
✓ Gen. Negs.*

6. It was agreed that the Austrians would select about 25 enterprises from the list which they had drawn up and that these enterprises would be requested to complete the Bank's questionnaire (as worked out for the Italian loan). Mr. Ripman would go to Vienna early in April to explain how the questionnaires should be answered.

7. When it was suggested that only those enterprises requiring more than \$1 million should be included, Dr. Teufenstein said that the Government was anxious to include some smaller ones since there were many "interesting and worthy" projects around the half million dollar mark.

8. There was considerable discussion, both with the Austrians and within the SLC, on the question of who should be the borrower. There were four principal possibilities:

- a) Direct loans to industrial enterprises. This would mean perhaps 15 to 20 loan agreements and would carry the disadvantage of Government guarantees to particular firms.
- b) Four or five loans to different Austrian banks to be re-lent to enterprises. This would be simpler to manage but was open to the objection that it might seem that the Bank was encouraging the practice of long term lending to industry via the banks.
- c) To form a bank consortium. This proposal was dropped owing to a number of legal and practical obstacles.
- d) To lend to the Osterreichische Kontrollbank A. G. Although the Kontrollbank is owned by five of the commercial banks, a loan to it would be less open to the objections to direct lending to the banks themselves.

9. It was finally decided to proceed with a loan to the Kontrollbank. Since the Kontrollbank has a very small capital of its own it would have to be regarded purely as a vehicle for the Bank's loan. The Austrian proposal is that for each loan to an enterprise the "Hausbank" concerned should guarantee repayment to the Kontrollbank. In order to explore the workability of such an arrangement and to discuss legal questions concerning the Kontrollbank it is proposed to send a member of the Legal Department to Vienna.

Verbundgesellschaft

10. Dr. Teufenstein said that the V.G. needed to raise Sch. 650 million this year. Permission had been granted for a bond issue of Sch. 350 million, but it was unlikely that the remaining Sch. 300 million could be raised by bonds during 1957. A further issue might be possible if the bonds had a valorization clause, but the Finance Ministry was not prepared to agree to one. It was therefore tentatively planned for the V.G. to issue preference shares for the remaining Sch. 300 million.

Export-Import Bank

11. Messrs. Waugh and Sauer of the Eximbank have recently visited Vienna where they expounded the view that loans for the purchase of U.S. exports should be addressed to the Eximbank. But Dr. Teufenstein stated that the list of projects prepared for the Bank had not been greatly affected by the decision to exclude those requiring purely U.S. equipment. The only important proposition which had come forward for the Eximbank was one for the purchase of a rolling-mill by Alpine-Montan, a nationalized enterprise.

Hilton Hotel

12. The Austrians are trying to find Sch. 150 million to build a hotel in Vienna which would be managed by Hilton. They are thinking in terms of Sch. 50 million raised by "People's Shares", Sch. 50 million from counterpart funds and Sch. 50 million from borrowings. Dr. Teufenstein asked whether the Bank would consider including this hotel as a project under the industrial loan. We said that the Bank would prefer to finance other projects, of which there would presumably be more than enough to make up the loan.

JHCollier:fgs

OFFICE MEMORANDUM

TO: FILES

DATE: March 27, 1957

FROM: S. R. Cope

SUBJECT: Austria - Proposed Supplementary Loan to the
Vorarlberger Illwerke A.G.

1. Dr. Dreschler said that the two German firms concerned, the RWE and EVS, have asked what the Bank was proposing to do about the need for more money for the Lunzersee project. They said that they thought the amount required was DM 30 million and that they hoped it could be obtained as a loan with the same life as the Bank's original loan. If it were a short or medium term loan there might have to be a special agreement between the two companies and the Vorarlberger.

2. I told Dr. Dreschler that we were sending two people to Austria in the second half of April to discuss with the companies both the amount and the period for which it was required and until they had looked into the matter it was impossible to say what the Bank could do. I added that the indications at the moment were that the amount required was less than DM 30 million. Dr. Dreschler seemed satisfied with this reply.



SR Cope:eed

Austria -
Lunerssee up.

March 26, 1957

Dear Dr. Ammann:

The Bank has now received a formal request from the Austrian Government to consider a supplementary loan for the Lunerssee project. We have also taken advantage of the presence in Washington of Minister Kamitz and Dr. Teufenstein to discuss the question with them in general terms.

We believe that the next step should be for Mr. Spottswood and Mr. Kanters to visit Bregenz in order to obtain the latest information concerning the financial position of the Vorarlberger Illwerke and the estimated costs of the project. After consideration of their findings, including the question of the length of time for which additional funds would be required in view of the Company's cash flow position and the possibility of obtaining funds from other sources, the Bank would be able to determine what action would be most appropriate. In order to facilitate the work of this forthcoming mission, I am enclosing a list of the information which Mr. Kanters would like to have available when he arrives.

We expect that Mr. Spottswood and Mr. Kanters will be able to arrive in Austria immediately after Easter but we will let you know definite dates as soon as possible. I hope this will be convenient for you.

Yours sincerely,



S. R. Cope
Director of Operations
Europe, Africa and Australasia

Enclosure

Dr. A. Ammann
Vorarlberger Illwerke A.G.
Bregenz
Austria

cc: Mr. Spottswood
Mr. Kanters
Mr. Oppenheimer
Mr. Street

Luncheon
mp.

March 25, 1957

Austria-Industry projects

Dear Mr. Ambassador:

In Mr. Black's absence I am writing to acknowledge your letters to him of February 26 and March 5, and to give you our views on the two proposals which your Government has asked us to consider. As you know we have taken advantage of the presence in Washington of Minister Kautz and Dr. Teufenstein to discuss these questions with them.

With regard to the Vorarlberger Alwerke, we should like to send two members of our staff to Austria to obtain the latest information on the company's financial position. After considering the results of their findings we would inform you of our views on the question of additional financing. We propose, therefore, that Mr. A.D. Spottswood and Mr. P. Kesters, both of whom are familiar with the Vorarlberger Alwerke, should arrive in Bregenz in the latter part of April. While in Austria they would also take the opportunity to inspect progress on the other projects which the Bank is helping to finance.

The Bank is also interested in the proposal for a loan for industrial projects in Austria. After our discussions with Dr. Kautz and Dr. Teufenstein, the next step, in our view, should be for the Bank to obtain some detailed information on the financial and economic position of a number of industrial enterprises which might be suitable. To initiate the collection of this information we propose to send Mr. H. Ripman, of our Technical Operations Department, to Vienna in early April.

If the Bank were to make a loan for the benefit of a number of different enterprises, the best procedure might be to make it to some intermediary organization which could then re-lend the funds to the enterprises. This intermediary might be the Oesterreichische Kontrollbank A.G. As there will be various legal questions to be explored concerning, for example, the status and powers of the Kontrollbank and the

Dr. Karl Gruber
Ambassador of Austria
Austrian Embassy
Washington D.C.

*Yellow in Austria-
Industry project*

Dr. Karl Gruber

- 2 -

procedure to be followed in the setting up of any loan, we would propose to send a member of our legal staff to Vienna to discuss these matters. We would expect that he would arrive at the same time as Mr. Ripman.

I should be most grateful if you would convey the above information to your Government.

Yours sincerely,

J. Burke Knapp
Vice President

JHCollier:fgs

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Austria-Lünersee
SLC/M/664 *mp.*
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STAFF LOAN COMMITTEE

Minutes of Staff Loan Committee Meeting held Wednesday, March 20, 1957 at 3:00 p.m. in Room 1005

APR 25 2018

WBG ARCHIVES

1. Present:

Mr. J. B. Knapp, Chairman
Mr. J. Rucinski 1*/ 2/
Mr. S. R. Cope
Mr. S. Aldewereld

Mr. A. Broches
Mr. H. W. Riley
Mr. G. M. Alter
Mr. H. G. A. Woolley, Secretary

In attendance:

Mr. W. A. B. Iliff 1/ 2*/
Mr. D. Sommers 1/ 2*/
Mr. M. M. Mendels 1*/
Mr. O. H. Calika 1/
Mr. B. Chadenet
Mr. J. H. Collier
Mr. G. R. Delaume 2*/

Mr. D. Fontein 1/
Mr. P. Kanters 1/ 2*/
Mr. M. L. Lejeune 1/
Mr. F. M. Oppenheimer 2*/
Mr. H. B. Ripman
Mr. A. D. Spottswood 1/ 2*/
Mr. E. Symonds 1/ 2*/

1/ South Africa only.
2/ Austria only.

* Part only.

2. Union of South Africa

The Committee heard and considered an oral report on the proposed South African operation; and

RECOMMENDED that

- (a) the Bank should be prepared to consider a loan to South Africa of such portion of the \$50 million which the Government is seeking as cannot be obtained from private sources;
- (b) the proposed loan, if made, should not be for a longer term than ten years;
- (c) the Government should be informed accordingly.

3. Austria

The Committee heard and considered oral reports on the request of the Austrian Government for: (i) a supplementary loan for the Lünersee project; and (ii) a loan for industrial financing; and

RECOMMENDED that

(a) Lünersee Project

the Bank be prepared to consider a supplementary loan of approximately \$3 million for the Lünersee project, subject to confirmation of the need for the additional Bank financing by a mission to be sent to Austria shortly;

(b) Industrial Financing

- (i) the Bank be prepared to consider a loan of approximately \$10 million for the expansion and modernization of private industrial enterprises in Austria;
- (ii) the Bank obtain more information on projects suitable for the proposed loan;
- (iii) further consideration be given to the question of the selection of a suitable intermediary for the loans to the individual enterprises.

4. The meeting adjourned at 5:35 p.m.

OFFICE MEMORANDUM

TO: The Files

DATE: March 20, 1957

FROM: Petrus A. Kanter *PK*

SUBJECT: Austria -- Lunersee Project and VG's Expansion Program --
Meeting with Dr. Teufenstein

This morning Mr. Spottswood and I attended a meeting in Mr. Cope's office which was called for the purpose of obtaining from Dr. Teufenstein the latest information with regard to VIW's needs for additional funds for completion of the Lunersee project.

Lunersee Project

1) Swiss Bank Credits

Dr. Teufenstein stated that when he left Austria last week these credits had not yet been signed but that they are expected to become available for the project. The net proceeds during the remaining construction period of Lunersee are expected to amount to Sch. 70 million (\$2.7 million) after deducting interest and early amortization requirements. VIW has already obtained the consent of the Austrian National Bank to conclude these transactions. No authorization of the Finance Ministry is necessary because no Government guaranties are involved.

2) Remaining Gap in Financing to Complete Lunersee

Assuming Sch. 70 million to be available from the Swiss bank credits (Sw. Frs. 16 million gross) the remaining gap in the financing for Lunersee would be about Sch. 80 million, equivalent to \$3.1 million. Dr. Teufenstein stated that the Austrian Government was anxious that the proposed additional loan from the Bank to VIW would be as low as possible so as not to reduce the amount that might be obtained from the Bank for industrial projects. We pointed out to him that the exact amount of an additional loan could of course only be determined after we had analyzed the requirements of the Company, and that the loan should include a safe margin to prevent a recurrence of the Company running out of funds which could happen if the loan was set at too low a figure. In this connection Dr. Teufenstein said that VIW has been authorized by the ~~Company~~ *government* to obtain a loan from us up to \$5 million. With regard to the term of any additional loan he mentioned a possible 25-year period, the same term as applies to our existing loan. This matter, however, was not further discussed because it was realized that a term can only be intelligently discussed after we have made our financial investigation.

Verbundgesellschaft's Expansion Program

VG's financing plan for 1957 provided for Sch. 650 million to be raised in the form of a public bond issue. This is still the amount required. However, due to the very tight bond market in Austria it is not possible to raise this amount in one issue and it is also unlikely that the entire amount can be raised in the form of bonds. The Government has authorized VG to issue Sch. 350 million in bonds during the early part of 1957, of which Sch. 300 million have already been sold to savings banks and other banks. The need for the remaining Sch. 300 million will arise during the second half of 1957. There is the possibility that this sum will be raised in the form of preference shares which according to Dr. Teufenstein are easier to sell to the public than straight bonds, that is, bonds without a revaluation clause to compensate for any decline in the currency. Previous VG bond issues have contained such a clause but the Austrian Government is anxious that this practice be discontinued. We told Dr. Teufenstein that the proposed mission to Austria also intends to go to Vienna to review the status of VG's program and would further carry out a normal end-use supervision of the projects being financed with our existing loans. M ?

PAKanters:fc

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STAFF LOAN COMMITTEE

SLC/A/664

FROM: The Secretary, Staff Loan Committee

March 19, 1957

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Wednesday, March 20, 1957, at 3:00 p.m. in Room 1005.

AGENDA

The Committee will hear oral reports on and consider:

- (a) the proposed South African operation;
- (b) the request of the Austrian Government for:
 - ✓(i) a supplementary loan for the Lünensee project;
 - (ii) a loan for industrial financing.

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Mr. Lejeune
Mr. Wheelock
Mr. Collier

OFFICE MEMORANDUM

TO: Mr. J. B. Knapp

Recommendation approved

DATE: March 14, 1957

FROM: S. R. Cope

Dr. Collier

SUBJECT: Supplementary Loan for Lünensee

Feb. 26, 1957.

1. We have just received a formal invitation from the Austrian Government to send a Mission to Austria. The Government has put forward two distinct proposals which it would like the Bank to consider. The first is for a loan for industrial enterprises, a matter which has been under discussion for some time, and the second is for a supplementary loan to the Vorarlberger Illwerke for the Lünensee project.
2. A memorandum on the Lünensee problem was circulated to the SLC on October 30, 1956 (SLC/O/874, copy attached). This memorandum gives the background to the present proposal for a supplementary loan. At that time the management took view that in the circumstances an operation of this kind might be justifiable.
3. When Mr. Black and I were in Vienna in November 1956, we had a meeting with Dr. Kamitz, the Austrian Minister of Finance, at which this question and that of a possible loan for industry were discussed. Mr. Black said that, of the two, he preferred the latter and the Austrians therefore undertook to prepare a list of possible industrial projects.
4. It now appears, however, that the Austrian authorities have decided to submit both projects to the Bank. The reasons for their so doing are not difficult to understand. The financial situation in Austria has become even more strained since the SLC memorandum was written. Events in Hungary have placed a substantial and quite unexpected burden on the Austrian budget. An internal Government issue floated late last year was a failure; out of a hoped for 400 million schillings the public took up only 180 million. Also the Swiss are, if anything, less anxious to put money into Austria.
5. Of the two projects only one is covered in the present memorandum, which examines the case for the Bank's considering a supplementary loan for Lünensee, irrespective of what the Bank decides to do about industrial financing. In neither case is there any question of the creditworthiness of Austria to take on more foreign debt, as the amounts involved are so small.
6. The Vorarlberger Illwerke has sent a letter to the Bank quoting section 5.02 (b) of the Loan Agreement (the consultation clause) and drawing our attention to the shortage of funds as being a condition which

threatens to interfere with the accomplishment of the purposes of the loan. The estimated increase in the cost of the project since the loan was made is \$9.1 million, bringing the total cost up to \$47.7 million. The company has informed the Bank that it can provide \$3.1 million from its own resources, leaving a gap in its requirements of \$6 million. It is attempting to bridge this gap by borrowing in Switzerland and is negotiating for a 5 year credit of SF 10 million and may be able to obtain a further credit of SF 6 million. Together these two credits, after allowing for interest during construction and early amortization payments, would provide the company with about \$2.7 million net, or a little less than half of its needs. With the help of these funds, work on the project could continue for another four or five months.

7. In the absence of additional funds for the company there is a high probability that work on the project, which is up to now proceeding slightly ahead of schedule, would be slowed down. The Guarantee Agreement does include a performance guarantee and the Bank could therefore demand some action by the Austrian Government. To meet the Company's needs the Government would have either to provide funds itself or permit a public issue by the company. But either course would present the Austrian authorities with great difficulties and I think the Bank would be reluctant to put pressure on them in a direction which would be quite contrary to their present properly restrictive credit and fiscal policy.

8. While we have a good deal of information about the finances of the Vorarlberger Illwerke, I do not think we should take a decision without a full discussion on the spot with officials of the company. The main purpose of these discussions would be to see what the company's cash needs really are and whether they could not be met in some other way than from the Bank. *But we should then be prepared to consider a loan?*

9. I recommend that we give the Austrians the substance of paragraph 8 above. The Department of Technical Operations agrees.



Enclosure

STAFF LOAN COMMITTEE

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MEMORANDUM TO THE STAFF LOAN COMMITTEE

Austria

The attached Memorandum SLC/O/874, "Austria - Loan 118 AUA (Lunersee Project)," is distributed for information.

Herbert G. A. Woolley
Secretary
Staff Loan Committee

October 30, 1956

CONFIDENTIAL

SLC/0/874

October 30, 1956

STAFF LOAN COMMITTEE

Memorandum from Department of Operations
Europe, Africa and Australasia

AUSTRIA -- Loan 118 AUA (Lünersee Project)

1. In June 1955 the Bank made a loan of \$10 million equivalent to the Vorarlberger Illwerke A.G. (VIW) for the construction of the Lünersee project. Already at the time the loan was made the Bank knew that the amount of the loan was the minimum necessary in the circumstances. An important factor which played a part in the determination of the size of the loan was the contractual arrangement, known as the Illwerke Agreement, which governs the relations between the VIW and its power consumers in Germany, principally the German power companies, Rheinisch-Westfälisches Elektrizitätswerk (RWE) and Energie-Versorgung Schwaben (EVS). Under the terms of this agreement RWE and EVS undertake to reimburse the VIW for the cost of the power which they consume and to ensure that the VIW has sufficient liquid resources to meet its debt service. It is, therefore, to the advantage of RWE and EVS that loans to the VIW should be in DM since otherwise they are exposed to an exchange risk in their obligations towards the VIW. The German authorities were prepared to make only a limited amount of 18% DM available for Lünersee and this, in effect, was the reason why the Bank loan was kept to a minimum.

2. Since the loan was made there have been various increases in the cost estimates for the project. An end-use inspection carried out by the Bank in February of this year revealed that the estimated total cost had increased from \$38.6 million to \$47.0 million equivalent. The reasons given for this increase were as follows:

	<u>\$ million equivalent</u>
A. Increase in cost of land acquisition	0.23
B. Unforeseen geological conditions	2.3
C. Project improvements	1.73
D. Requirements of "Water Rights Authorities"	1.54
E. Increased wages, social costs and contractor costs	<u>3.1</u>
Total	8.9

(There were also certain decreases in the estimates which amounted to \$0.5 million).

3. These new cost estimates were regarded by the end-use mission as reasonable. To meet these higher costs the VIW can find some \$2.3 million equivalent from a re-allocation of revenue earmarked for debt service on old Reichsmark debts. Final settlement of these debts has been postponed and the VIW now expects that repayment will take the form of a funding operation. An increase in the VIW's net revenue will provide an additional \$1.7 million equivalent. This increase has occurred because the payments for power by the consumers are now based on a return of 7% on the VIW's capital instead of 5%. These two items together mean that the VIW can provide approximately \$4 million equivalent from its own resources towards the additional requirements of \$8.4 million equivalent.

4. A brief account of the situation was given verbally to the SIC and to the Executive Directors in March, 1956.

5. The VIW has kept the Bank informed about their position. In July Dr. Ammann, Director of the VIW, met Mr. Umbricht in Zürich and explained that he would have to find approximately another \$4-\$5 million equivalent to complete the project. Mr. Umbricht suggested that it might be possible to raise some money in Switzerland if the VIW could provide security in the form of some Swiss franc proceeds of power exports to Switzerland.

6. However, the VIW is encountering considerable difficulties in covering its additional needs. The main obstacle to a possible loan from Switzerland is that the VIW has no additional power available for export to Switzerland. Moreover it would also not be easy for the VIW to obtain additional funds either in the form of an advance from RWE and EVS or from Austrian sources. Because of the tight position of the capital market the Austrian Government would be most reluctant to grant permission for a public issue by the VIW although, in principle, the Bank could ensure the provision of some form of finance by invoking the performance guarantee in the Guarantee Agreement.

7. We have now learned that the VIW would like to raise this question with the Bank and the management has authorized Mr. Umbricht to discuss the matter in Vienna and to indicate that the Bank would be prepared to consider the possibility of a supplementary loan. Mr. Umbricht plans to arrive in Austria during the first half of November.

S. R. Cope
Director

COPY

The Austrian Ambassador

February 26, 1957

diverse copy

My dear Mr. President:

In accordance with instructions received from the Austrian Government I have the honor to convey to you the following:

The Austrian Council of Ministers has positively approved the proposition of the Federal Minister of Finance Dr. Reinhard Kamitz on September 11th. 1956 that negotiations with the International Bank for Reconstruction and Development should be initiated concerning a loan for investments in Austrian Industrial Enterprises.

Pursuant to the negotiations concerning the above mentioned loan, which have taken place in Vienna and in Washington between Dr. Kamitz and the President of the Bank for Reconstruction and Development as well as between the appropriate officials of the Federal Ministry of Finance and the staff of this bank, the Embassy has the honor to convey the desire of the Austrian Government, to have a commission sent to Austria in order to start the necessary negotiations with the Austrian authorities.

Moreover the Austrian Government is interested to discuss a further loan for "Vorarlberger Ill-Werke" at that occasion, if feasible.

The Embassy wishes to draw the attention of the International Bank to the fact, that Minister Kamitz will take part at the International Monetary Conference which will assemble in New York from March 27th. to March 29th.

In view of this fact, the Austrian Government would greatly appreciate to have the Commission sent to Austria as early as possible.

Please find enclosed three copies of a list comprising projects for the use of this loan. It has to be stated, however, that this list is not a definite one.

An information as to the decisions taken in this matter by the International Bank at an earliest convenient time would be highly appreciated.

Yours sincerely

Mr. Eugene R. Black, President
International Bank
Washington, D.C.

Dr. Karl Gruber
Ambassador of Austria
/s/ Karl Gruber

*Original in Austria -
Industry*

*Austria -
File Lüneburg
np.*

Mr. A. D. Spottswood

February 21, 1957

J. H. Collier *JH*

Swiss Credits for Vorarlberger Illwerke

Our information on this matter is that the VIW expect to conclude an agreement with the Swiss Bank Corporation for SF 10 million before the end of February. They thus hope to have this money available before the Landerbank credit is exhausted.

This credit will be repayable over 5 years and the interest rate would be 5 1/2 % plus 1/8 % per quarter "credit commission" i.e. 6 % gross. There is to be a complicated security arrangement by means of a power contract between RWE and the Swiss company "Atel".

In addition to this, EVS is trying to negotiate a similar credit for SF 6 million. There is no indication of when this is likely to be concluded.

Together these would provide SF 16 million gross. This gives SF 12 million net after allowing for interest during construction and early amortisation payments. It would thus provide about 70 million schillings towards the VIW's needs of 150 million schillings.

JHCollier:fgs

cc: Umbricht
Wheelock
Chadenet
Kanters

*✓x Austria-Indebet
✓x Switzerland - Gen.*

*Austria Lunersee
np.*

February 20, 1957

Vorarlberger Illwerke Aktiengesellschaft
Bregenz
Austria

Gentlemen:

J. Kanters

Loan No. 118-AUA

This is to acknowledge receipt of your letter of February 4, 1957, with which you sent us three copies of Progress Report No. 6 for the Lunersee project covering the last quarter of 1956. With reference to the last paragraph of your letter, please be informed that we have taken due note of the information contained in paragraph VI of Annex 7 of your report. It would be appreciated if you could keep us currently informed of developments.

We deeply regret to have to inform you that Dr. Rembert, to whom your letter was addressed, died last October. For your information he was succeeded by the undersigned as head of our Public Utilities Division.

Very truly yours,



Bernard Chadenet
Chief, Public Utilities Division
Department of Technical Operations

CLEARED WITH AREA DEPT (MR. UMBRIGHT)

PAKanters:mec

Mr. J. Burke Knapp

December 27, 1956

S. R. Cope

Austria

1. In the summer and again in the fall the financial needs of the Vorarlberger Illwerke A.G. (VIW) for the Lunzersee project were raised informally by Dr. A. Ammann with Mr. Umbrecht with a view to exploring whether the Bank would be willing to consider an additional loan of \$5 million equivalent. The matter was submitted to the Management, who - while not very enthusiastic - indicated its willingness to consider making a supplementary loan. However, this willingness was not communicated to the Austrians because it was felt that any move should originate from the Austrian authorities and that the Bank should not take any initiative.

2. When Mr. Black was in Austria in November Dr. Kamitz, the Minister of Finance, raised with him the question of the Bank's lending for the VIW. Mr. Black, while not excluding the possibility of a loan, felt reluctant to put forward a supplementary loan for a project which had already received a loan from the Bank and said that the Austrian Government should explore the possibility of making funds available in some other way.

3. Mr. Black also discussed the possibility of financing industrial enterprises with the Chancellor Julius Raab and Dr. Hans Igler of the Industrie und Bergbau Verwaltung. He pointed out that it was not the Bank's policy to lend for industrial enterprises which were owned or controlled by the state, but he would be glad to consider lending for any former USIA enterprises if a majority of its capital had been sold to private investors. It was agreed that this probably ruled out these enterprises for the time being.

4. In discussing the same problem with Dr. Kamitz, Mr. Black indicated his interest in financing industry in Austria: he had for some time past been thinking of a development bank formed as a privately owned institution, preferably with private capital from abroad. He felt that this was still desirable, although in view of the general political situation it might not be possible to do much about it for the time being.

5. But he did not want to defer consideration of lending to privately owned industrial companies until a development bank had been formed. The discussions then turned to possible ways of providing, as an interim measure, a lending mechanism suitable for dealing with a number of small projects. The idea of a consortium of banks came up and it was agreed that this idea was worth exploring if there were projects which seemed likely to meet the Bank's standards. Dr. Kamitz agreed to have this question examined and to send to the Bank as early as possible a list of high priority industrial projects of enterprises in private ownership which might form the basis for a loan. This list might include, but would not be limited to former USIA enterprises now in private hands.

OFFICE MEMORANDUM

TO: Files

DATE: November 23, 1956

FROM: V. Umbricht

SUBJECT: Austria

On my recent trip to Austria the question of an additional loan of approximately \$5 million to the Vorarlberger Illwerke for the Länzersee project was raised officially by the Austrian authorities. They explained that the VIW had submitted a request to the Austrian Government for an additional World Bank loan and that the Finance Minister was prepared to support the request. The Finance Minister expected to obtain Cabinet approval for the new loan application at a Cabinet meeting scheduled for Tuesday, November 20, which would enable him to raise the matter officially with Mr. Black at his forthcoming visit on November 27/28 in Vienna. (This meeting has in the meantime taken place and the Cabinet has approved the request.)

I informed Messrs. Black and Cope of this in London on Sunday, November 18, and handed them the supporting material with the details of the various increases in the project costs which were given to me by the VIW. Mr. Black expressed the opinion that if the circumstances justified an additional loan, he would be prepared to consider it. It was also understood that before new loan negotiations could actually start, a staff member of the Bank should visit the VIW and update the Bank's information on the financial status, earnings, etc. of the Company.

cc: Messrs. Knapp
Aldewereld
Oppenheimer
Wheelock

↓
VUmbricht:ms

ROUTING SLIP		Date <i>11/26</i>
NAME		ROOM NO.
<i>Mr. Alderson</i>		<i>306</i>
Action		Note and File
Approval		Note and Return
Comment		Prepare Reply
Full Report		Previous Papers
Information		Recommendation
Initial		Signature
Remarks		
From		

Files

V. Umbricht

Austria

re
Mr. Chadwell
November 23, 1956

Return to H^r. Aldewereld

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