Folder Title: Power Agriculture and Industry Project - Italy, Cote d' Ivoire - Loan 0189 - P037417 - Negotiations - Volume 2

Folder ID: 1854152

Project ID: P037417

Dates: 11/01/1957 - 12/31/1957

Fonds: Records of the Europe and Central Asia Regional Vice Presidency

ISAD Reference Code: WB IBRD/IDA ECA

Digitized: 11/30/2018

ITALY - Loan (189IT) Negotiations II

Italy - 5th ap.
files

Working Party on Italy December 31, 1957

Murray Ross

Draft Report "Cassa per il Mezzogiorno and the Economic Development of Southern Italy"

Attached hereto is a draft report on the Cassa per il Mezzogiorno and the Economic Development of Southern Italy for the consideration by the members of the Working Party on Italy.

Please send all your comments on this draft to me not later than January 7, 1958.

Unless specifically requested to do so, no meeting of the Working Party on this report is intended.

Italy - 5 wp

December 16, 1957

Dr. P. Vicinelli
Cassa per il Mezzogiorno
Piazza dei Congressi
Rome, Italy

Dear Dr. Vicinelli:

The rush of writing draft reports on the irrigation projects which Mr. Finne and I studied is now over, so that I have some time to put my affairs in order.

In the first place I want to express my thanks to you and your associates at the Cassa for the very pleasant way in which you assisted me in my work. It is always a pleasure for me to work on Italian projects because of the kindness of the people with whom I have to deal and also because of the close cooperation afforded me by the officials of the various organizations.

There are, however, two items of information which are still missing. The Chief of the Agriculture Division of the Ente Irrigazione of Puglia promised to send me a condensed report of the results obtained from the experimental fields of the Ente. Secondly, Mr. d'Assarte of the Ministry of Agriculture undertook to ensure that I would receive information on the strength of the extension services of the Ministry of Agriculture in the areas in which we are especially interested (Catania, Flumendosa, Volturno and Fortore). I would appreciate it very much if you would enquire whether this information is already in the mail and if not, perhaps you could see that it is sent to me as soon as possible.

My best wishes to you and Mrs. Vicinelli for a joyous Christmas Season and a prosperous 1958.

Sincerely yours,

D. Groenveld
Agriculture Division
Department of Technical Operations

DGroenveld:ccb

Cantieri Metallurgici Italiani

Soc. p. Az. Capitale L. 1000.000.000 int. vers. – Sede e Direzione Generale: Napoli

NAPOLI
PIAZZA MUNICIPIO N 84
CASELLA POSTALE 335 N. 25.075 (IN PBX)
TELEGRAMMI: METALLURGICI C.C. POSTALE N. 6/3832
C.C.I. DI NAPOLI N. 23488
CODICI: CODITAL-ITALCABLE A.B.C. 5ª & 6ª ED.-ACME-PRIVATI
BENTLEY'S COMPLETE & 2ND PHRASE

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

VS. RIFER. DATA VS. LETTERA DA CITARE NELLA RISPOSTA N.S. RIFER. SIGLA DATA

December 7 , 1957

Gentlemen:

(1) This will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER), and Cantieri Metallurgici Italiani S.p.A. (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to install and operate at our plant in Naples an electrolytic tinning line of a capacity of 24,000 tons per year tinplate of international standard types. We have informed you that the pro-forma balance sheet of the Company, on completion of the project, would be as follows:

Assets		Liabilities	
Project	Lit. 1,040,000,000	Share capital	Lit. 1,000,000,000
Other fixed assets (net)	" 1,710,000,000	Surplus and reserves	" 1,499,000,000
		IBRD Loan	" 600,000,000
Total fixed assets	" 2,750,000,000	Other long-term debts	" 1,311,000,000
Net current assets	" 1,230,000,000		
"Additional assets"	430,000,000		
	Lit. 4,410,000,000		Lit. 4,410,000,000

It is understood that the amounts shown as surplus and additional assets may be reduced by the amount of dividends paid during the interim period subject to the restrictions of this letter.

(4) The cost of the project should be considered as Lit.1,040,000,000 for fixed assets and Lit. 800,000,000 for additional net current assets. We have explained to you that during the first three years of operation the net current assets requirements will be increased to an estimated Lit. 1,830,000,000. The increase in net current assets from Lit. 1,230,000,000 to Lit. 1,830,000,000 will be provided from anyone or the combination of any of the following sources: retained earnings, depreciation accruals, share capital or shareholders' advances.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER and Cassa to provide the necessary funds from share capital or shareholders' advances, as and when required;

B. Shareholders' advances provided under subparagraph A.-

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

C. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make other payments to shareholders or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time after completion of construction of the project, than 1.5 : 1 ; or

II. The excess of current assets over current liabilities being less than:

a. Lit. 1,230,000,000 on completion of construction of the project;

b. Lit. 1,680,000,000 at the end of the first year of operation of the project and at any time during the second year of operation of the project; and

c. Lit. 1,830,000,000 at any time thereafter.

CC

(7) For the purpose of this letter "<u>current assets</u>"shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "<u>current liabilities</u>" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 600,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly

[signature]

checked against draft of 21 Nov AV
as amended by cable of 26 Nov.

C.C.I.A. Napoli N. 192811

Marzotto Sud S.p.a.

Capitale Sociale L. 1.000.000 interamente versato

SEDE SOCIALE IN NAPOLI

CORSO UMBERTO I N. 22

UFFICIO RECAPITO
di VALDAGNO (Vicenza)

Lì 6/12/1957

International Bank for
Reconstruction and Development
1818 H Street N.W.

Washington 25, D.C.

Gentlemen:

1) This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and Marzotto Sud S.p.A. (the Company).

2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

3) We have proposed that there should be financed out of the proceeds of the loan our project to construct and operate in Salerno a plant for the manufacture of ready-made clothing, with a normal capacity of about 290,000 units per year when operating on a one shift basis (a unit consisting of jacket and trousers, or overcoat or three trousers). We have informed you that the pro forma balance sheet of the Company, after completion of construction would be as follows:

Fixed assets	Lit. 1,625,000,000	Share Capital	Lit. 950,000,000
Net current assets	1,200,000,000	Shareholders' advances	575,000,000
		IBRD Loan	1,300,000,000
	Lit. 2,825,000,000		Lit. 2,825,000,000

4) The cost of the project should be considered as Lit. 1,625,000,000 for fixed assets and Lit. 2,100,000,000 for net current assets. We have explained that by the end of the third year of operation of the project, the net current assets requirements will have increased to an estimated Lit. 2,100,000,000.
The increase in net current assets from Lit. 1,200,000,000 on project completion to Lit. 2,100,000,000 by the end of the third operating year will be provided from any one or a combination of any of the following sources: additional share capital, shareholders' advances, retained earnings or depreciation accruals.

MARZOTTO SUD S.p.A.
Il Presidente

./.

Marzotto Sud S.p.a.

Capitale Sociale L. 1.000.000 interamente versato

SEDE SOCIALE IN NAPOLI
CORSO UMBERTO I N. 22

UFFICIO RECAPITO
di VALDAGNO (Vicenza)

Li 6/12/1957

5) We have been informed that if the proposed loan should be made, it would be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and ISVEIMER shall otherwise agree:

I. On completion of the project the share capital of the Company shall be at least Lit.950,000,000 paid in as required, and shareholders' advances shall total at least the difference between Lit.1,525,000,000 and paid in share capital;

II. During the second year of operation of the project the share capital of the Company shall be increased to at least Lit. 1,100,000,000 paid in as required and share-holders' advances shall be increased to at least the difference between Lit. 2,000,000,000 and paid in share capital, and

III. During the third year of operation of the project the share capital of the Company shall be increased to at least Lit. 1,500,000,000 paid in as required, and share-holders' advances shall be at least the difference between Lit.2,400,000;000 and paid in share capital.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER and the Cassa to provide the necessary funds as and when they are required;

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

MARZOTTO SUD S.p.A.
Il Presidente
Marzotto

./.

C.C.I.A. Napoli N. 192811

Marzotto Sud S.p.a.

Capitale Sociale L. 1.000.000 interamente versato

SEDE SOCIALE IN NAPOLI

CORSO UMBERTO I N. 22

UFFICIO RECAPITO
di VALDAGNO (Vicenza)

Lì 6/12/1957

D. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time than 2:1; or

II. The excess of current assets over current liabilities being less than:

a. Lit.1,200,000,000 on completion of construction;
b. Lit.1,400,000,000 at the end of the first operating year;
c. Lit.1,700,000,000 at the end of the second operating year and
d. Lit.2,100,000,000 at any time after the end of the third operating year.

7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentiondd purpose in the approximate amount of Lit. 1,300,000,000.

9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

MARZOTTO SUD S.p.A.
Il Presidente
Marzotto

Italy - 5th mp.

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

MRS

CLASS OF SERVICE: **FULL RATE** DATE: **DECEMBER 2, 1957**

TO: **F. SVOBODA**
GRANOTEL
ROME

COUNTRY (**ITALY**)

EXT:

Cable No. **THIRTY**

PHONE CIRCUITS OUT CMI APPROVED DRAFT LETTER OK STOP

SEE YOU AT OFFICE NEXT WEEK

Signed: **ARMSTRONG**
(Type in last name of sender)

AUTHORIZED BY:

NAME: **B. Chadenet**

DEPT: **Technical Operations**

SIGNATURE: B. Chadenet
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

DEC 2 4 55 PM 1957

DESPATCHED

Italy - 5 m. nego.

December 2, 1957

Dear Dr. Faina:

Thank you very much for your cable and your letter of November 8, concerning the Crotone Aluminum plant. As you point out, this project has been fully discussed between representatives of the Bank and of your company in Italy.

We understand fully your view that the project is economic at existing prices paid for power. However, since the profitability of the new plant would depend to such a large extent on the price of power we felt unable to include the project in the forthcoming loan while this matter was in doubt. I much appreciate your understanding of our position on this point.

Yours sincerely,

(Signed) Eugene R. Black

Eugene R. Black

Dr. Carlo Faina, President
Montecatini
Via Turati 18
Milan, Italy

JHCollier:lmj
11-29-57
(Cleared with Technical Operations)

Arch. d. against monte... H

"MONTECATINI"

SOCIETÀ GENERALE PER L'INDUSTRIA MINERARIA E CHIMICA

GLI AMMINISTRATORI DELEGATI

Telegrammi GABBRO MILANO
Telefono 6333
Telefoni interurbani
chiedere GABBRO MILANO
SEDE MILANO
Via F.Turati, 18

Milan, November 30, 1957

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

Gentlemen,

(1) This will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) and Società Generale per l'Industria Mineraria e Chimica, S.p.A. (Montecatini) (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to develop our potash mine at Serradifalco and to construct and operate at Campofranco a processing plant together with connecting cable rope-way. We have informed you that the project would be operated within the framework of the Montecatini organization and would not be a separate financial entity. We have informed you that the pro forma balance sheet of the mine and plant, on completion of the project, would be as shown below:

Fixed Assets	Lit. 8,830,000,000	Head Office	
Net Current Assets	300,000,000	Advances	Lit. 5,130,000,000
		IBRD loan	4,000,000,000
	Lit. 9,130,000,000		Lit. 9,130,000,000

"MONTECATINI"
SOCIETÀ GENERALE PER L'INDUSTRIA MINERARIA E CHIMICA

Seguito alla lettera del ..... November 30, 1957 to IBRD - Washington

(4) We have explained to you that during the first 12 months of operations the net current assets requirements will be increased to Lit. 1,500,000,000.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company with respect to head office advances and working capital.

(6) The assurances which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that the Company will provide the necessary funds as and when required, to supplement the loan to be made by IRFIS, in order to complete the proposed plant and to provide it with the necessary working capital.

(7) The undersigned hereby gives you the assurances set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof IRFIS agrees to make a loan to the Company for the above-mentioned purpose in the approximate amount of Lit. 4,000,000,000.

(8) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

MONTECATINI
Soc. Gen. per l'Industria Mineraria e Chimica
GLI AMMINISTRATORI DELEGATI

Yours truly,

checked H

SINCAT

SOCIETÀ INDUSTRIALE CATANESE

SOCIETÀ PER AZIONI - SEDE LEGALE PALERMO
CAPITALE SOCIALE L. 5.000.000.000 - VERSATO

MILANO, 30th November, 1957.

CORSO SEMPIONE, 2 - TEL. 932.741 - 932.851
INDIRIZZO TELEGRAFICO: SINCAT
C. C. I. A. MILANO 493280 - C/C POSTALE 3-1353

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

NELLA RISPOSTA INDICARE IL N. 7354
SEZIONE Dir./Amm. AFF/

PALERMO Via Costantino Nigra 3 | MILANO Corso Sempione 2 | STAB. DI PRIOLO (SR) Casella Postale N. 11 | UFFICI COMM.LI Palermo-Catania-Napoli | DIREZIONE MINERARIA E RICERCHE MINERARIE

Gentlemen:

(1) This letter will confirm certain understandings which have been reached between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS), and Società Industriale Catanese S.p.A.- SINCAT (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be provided out of the proceeds of the loan, additional financing towards a proposed expansion of our project (hereinafter called the First Project) which under Loan No.117-IT has received financing in the amount of Lit.3,600,000,000. The First Project, to construct and operate at Augusta (Priolo), Sicily, a fertlizer plant with a production capacity of 100,000 tons per year of double and triple compound fertilizers, is expected to be completed by the end of 1958. The expansion program (hereinafter called the Second Project) would provide: (a) for the construction and operation at Augusta (Priolo) of (1) additional facilities for the production of 200,000 tons per year of compound fertilizers including a sulfuric acid plant with an annual capacity of 170,000 tons, a nitric acid plant with an annual capacity of 70,000 tons, an anhydrous ammonia plant with an annual capacity of 36,000 tons, and facilities for the production of ammonium sulfate; (2) facilities for the annual production of

5,000 tons of caustic soda and 4,500 tons of chlorine and the manufacture of chlorine derivatives; (b) for the opening and operation of a potash ore mine at Sta. Caterina, Sicily, and erection and operation of a plant at Augusta (Priolo) for the processing of about 130,000 tons annually of potash ore and the manufacture of potassium sulfate and Shoenite.

We have informed you that the proforma balance sheet of the Company on completion of the two projects would be as follows:

Assets		Liabilities	
Fixed assets:		Capital	Lit. 5,000,000,000
1st project	Lit. 7,500,000,000	Shareholders' advances	8,200,000,000
2nd project	16,000,000,000	Surplus	150,000,000
Less: Depreciation	2,145,000,000	IBRD Loan 117 IT	3,600,000,000
	21,355,000,000	Less Amortization	718,000,000
Net Current Assets:			
1st project	700,000,000	Total outstanding	2,882,000,000
2nd project	1,100,000,000	IBRD 2nd loan	8,000,000,000
Additional Assets	1,077,000,000		
Total Assets	Lit.24,232,000,000	Total Liabilities	Lit.24,232,000,000

(4) The cost of the First Project should be considered as Lit.7,500,000,000 for fixed assets and Lit.700,000,000 for net current assets. The cost of the Second Project should be considered as Lit.16,000,000,000 for fixed assets and Lit.1,100,000,000 for net current assets.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the existing loan to the Company under Loan No.117 IT or of the proposed loan to the Company will be outsdanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least 5,000,000,000 ~~Lire~~ paid in as required and shareholders' advances, on completion of the project, shall total at least the difference between Lit.13,200,000,000 and paid in share capital.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS/to provide the necessary funds as and when they are required. and the Cassa

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company, and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without the approval of the Cassa and IRFIS, pay dividends or make any other payments to shareholders, or adopt any policy, which would result in, or envisage:

I. The ratio of current assets to current liabilities being less, at any time, than 2:1; or

II. The excess of current assets over current liabilities being less, at any time, after completion of the project, than 1,800,000,000 Lire.

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets, which would within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective and to supersede the assurances and undertakings given in our letter to you dated May 12,1955, on the condition that IRFIS agrees to make an additional loan to the Company for the above

Mod. 10 - 1000 - 8-55 - O.S.A.

mentioned purpose in the approximate amount of Lit.8,000,000,000, thereby increasing the total amount of financing of the project by IRFIS to Lit.11,600,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in in an agreement to be negociated and entered into between the undersigned and IRFIS and that the substance of the assurance and undertakings given in this letter will be incorporated therein.

Yours truly,

SINCAT
SOCIETA' INDUSTRIALE CATANESE S.p.A.
IL CONSIGLIERE DELEGATO
(dott, Ing. Carlo Cirielle)

checked against 700 draft 48

COMPAGNIA NAPOLETANA APPARECCHI ELETTRICI

SOCIETÀ PER AZIONI CON SEDE IN SAN GIORGIO A CREMANO (NAPOLI) - VIA UMBERTO
CAPITALE VERSATO L. 1.50.000.000

TELEGRAMMI: CONE - S. GIORGIO A CREMANO
TELEFONO N. 55144
U. P. C. I. NAPOLI: N. 160828
STAZIONE F. S.: NAPOLI - S. GIOVANNI BARRA

INTERNATIONAL BANK for
RECONSTRUCTION and DEVELOPMENT
1818 H Street, N.W.

WASHINGTON, D.C.

VS. RIFERIMENTO .... DATA VS. LETTERA ....

NS. RIFERIMENTO (DA CITARE NELLA VS. LETTERA) 15052/IAS/rdv DATA 29th november 1957

Gentlemen:

1. This will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and Compagnia Napoletana Apparecchi Elettrici (the Company).

2. You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

3. We have proposed that there should be financed out of the proceeds of the loan our projedt for modernization and expansion of the Company's production facilities to a total capacity of 50,000 refrigerators and 30,000 water heaters per year. We have informed you that the pro forma balance sheet of the Company, on completion of the project, would be as follows:

Assets		Liabilities	
Fixed Assets	Lit. 1,221,000,000	Capital	Lit. 300,000,000
Less Depreciation	47,000,000	Surplus	68,000,000
Net Fixed Assets	1,174,000,000	Shareholders' advances	1,186,000,000
Net Current Assets	1,164,000,000	IBRD Loan	700,000,000
"Additional Assets"	26,000,000	Other long-term loan	110,000,000
	Lit. 2,364,000,000		Lit. 2,364,000,000

4. It is understood that the amounts shown as surplus and additional assets may be reduced by the amounts of dividends paid during the interim period subject to the restrictions of this letter.

./.

5. The cost of the project should be considered as Lit. 980,000,000 for additional fixed assets and Lit. 600,000,000 for net current assets. We have axplained that during the first year following completion of the project the net current assets requirement will be increased to Lit. 1,304,000,000. The increase of Lit. 140,000,000 will be provided from earnings and depreciation accruals during the year and through additianal shareholders' advances.

6. We have been informed that if the proposed loan should be made, it will be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to the treatment of shareholders' advances and working capital.

7. The assurances and undertaking which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and ISVEIMER shall otherwise agree, the share capital of the Company shall be at least Lit. 300,000,000 paid in as required, and shareholders' advances, twelve months after completion of the project will total at least the difference between Lit. 1,619,000,000 and the paid in share capital.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER and the Cassa to provide the necessary funds as and when they are required.

C. Shareholders' advances already made and any new funds provided under sub-paragraphs A or B in the form of shareholders' advances:
- I Shall not be withdrawn;
- II Shall in all respects be subordinated to all debts of the Company; and
- III Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders, or adopt any policy if such payments or policy will result in or envisage:

./../.

I The ratio of current assets to current liabilities being less, at any time, than 2:1;

II The excess of current assets over current liabilities being less, at any time after the end of the first twelve months following completion of the project, than Lit. 1,300,000,000.

8. For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be conside= red as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

9. The undersigned hereby gives you the assurances and under= takings set forth in paragraph 7 above to be effective on the con= dition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 700,000,000.

10. It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

CONE
Compagnia Napoletana Apparecchi Elettrici
Il Consigliere Delegato

Rechecked against master HS

C/C POSTALE 16/8241 RAGUSA

C.C. PALERMO N° 18033n29n
C.C. RAGUSA N° 15 211

Asfalti Bitumi Cementi e Derivati

A.B.C.D.

Società per Azioni Capitale ~~intero L. 900.000.000~~ L. 2.000.000.000 - Versato L. 1.500.000.000

Sede Sociale in Palermo

Direzione Regionale e Stabilimenti in Ragusa

Rappresentanza in ROMA
Via del Corso, 267
Tel. 687.541 - 62.155

N° S/836=P/mz

November 29th, 1957

Oggetto:

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

Gentlemen:

(1) This will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) and Asfalti Bitumi Cementi e Derivati (the Company).

(2) On June 26, 1956, we wrote you a letter setting forth certain understandings in respect of a loan to be made to us by IRFIS out of the proceeds of a loan proposed to be made by the Bank to the Cassa.

(3) On April 11, 1957, we entered into an agreement with IRFIS providing for such loan in the amount of Lit. 3,100,000,000 representing the amount lent by the Cassa to IRFIS out of the proceeds of a loan from the Bank to the Cassa provided for in a loan agreement, dated October 11, 1956, between the Bank and the Cassa.

./.

(4) Since the date of the agreement, dated April 11, 1957, between us and IRFIS, the project proposed to be financed by the loan provided for in said agreement has been revised and we have requested that the amount of the loan to us be increased by Lit. 2,800,000,000.

(5) We have been informed that before such increase could be considered it would be necessary to amend in certain respects the statements contained in said letter dated June 26, 1956. This letter is intended to set forth those modifications.

(6) The project which we proposed should be financed by said loan, as so increased, is the construction and operation at Ragusa of a polyethylene plant with a capacity of 10,000 tons per year, a crude oil stripping plant with a capacity of 200,000 tons per year, a special cement plant with a capacity of 30,000 tons per year, and a thermal electric plant with a generating capacity of 10,000 kw. The special cement plant and the first section of the oil stripping plant were completed and put into operation in 1957; the remaining facilities, representing the major part of the project, are scheduled to be completed by September 30, 1960. We have informed you that the pro forma balance sheet of the Company, on completion of the project, would be as follows:

Fixed Assets	Lit.13,895,000,000	Share Capital	Lit.3,000,000,000
Less Depreciation	1,061,000,000	Surplus	2,720,000,000
Net Fixed Assets	12,834,000,000	Shareholders' advances	2,220,000,000
Net Current Assets	1,790,000,000	IBRD Loans	5,900,000,000
"Additional Assets"	600,000,000	Other debt long term	660,000,000
		short term	724,000,000
	Lit.15,224,000,000		Lit.15224,000,000

Mod. S 13 b - 2.000 - 7.57 - Russo

./.

It is understood that the amount shown as surplus and additional assets may be reduced by the amounts of dividends paid during the interim period subject to the restrictions of this letter.

(7) The cost of the project should be considered as Lit. 12,348,000,000 composed of Lit. 11,548,000,000 for additional fixed assets and Lit. 800,000,000 for additional net current assets. In addition to the project, an amount of Lit. 754,000,000 will be required to increase the net current assets pertaining to the other activities of the Company.

(8) We have been informed that the Cassa would lend to IRFIS for the purposes of the increased loan to the Company amounts out of proceeds of loans provided for in loan agreements, dated June 1, 1955 and October 11, 1956, between the Bank and the Cassa. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(9) The assurances and undertakings which you have requested, to be effective while any part of the loan from IRFIS to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least Lit.3,000,000,000 paid in as required and shareholders' advances on completion of the project will total at least the difference between Lit. 5,220,000,000 and paid in share capital;

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or

./.

delay because the funds available are inadeguate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS and the Cassa to provide the naces sary funds as and when they are required;

C. During the construction period the aggregate amount of borrowings maturing within one year or which could be called for payment within one year shall not at any one time exceed the amount of Lit.800,000,000;

D. Shareholders' advances already made and any new funds provided under subparagraphs A and B in the form of shareholders' advances-

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividendswould be payable thereon if such shareholders' advances had originally been paid in as share capital;

E. The undersigned will not without approval of the Cassa and IRFIS pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy would result in or envisage at any time after the completion of the project:

I. The ratio of current assets to current liabilities being less than 2;1;or

II. The excess of current assets over current liabilities being less than Lit.1,790,000,000.

(10) For the purpose of this letter "<u>current assets</u>" shall be considered as cash and assets readily convertible to cash and all other

./.

assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(11) It is understood that the substance of the assurances and undertakings set forth above are to be incorporated in an amendment of the agreement, dated April 11, 1957, between IRFIS and the Company providing for the proposed increase in the loan presently provided for therein.

(12) It is further understood, however, that the above assurances and undertakings are to be effective and that the letter dated June 26, 1956 is to be deemed superseded hereby only when the agreement, dated April 11, 1957, between IRFIS and the Company shall be amended to provide for an increase from Lit.3,100,000,000 to Lit.5,900,000,000 in the amount of the loan therein provided for.

Yours truly,

ASFALTI BITUMI CEMENTI E DERIVATI
L'Amministratore delegato
J. G. Doggart

Italy - 5 m np

FORM NO. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 29, 1957

TO: L. M. SVOBODA
GRANOTEL
ROME

MRT

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY NINE

RECEIVED CMI SEE NO PROBLEMS BUT WILL CALL YOU MONDAY

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

FORM NO. 26
(1.50)

Mr. Rygmian   Italy - 5th Mp.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 29, 1957 1130

TO: ARMSTRONG INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING	
ACTION COPY TO	TECH. OP.
INFORMATION COPY TO	
Decoded By	

TEXT:

14

FIVE COMPANIES AGREED LETTERS INTENT WILL SIGN PRIOR MY DEPARTURE DECEMBER 4TH. FINAL MEETINGS MARZOTTO CMI PLANNED TUESDAY 3rd MEANWHILE DISCUSSING INSTITUTES ENDUSE PROCEDURES. JOUSSELIN RETURNING PARIS TODAY

SVOBODA

Mrs. Svoboda being notified.

ORIGINAL

Letter of Understanding
TRINACRIA.

i checked HJ

Telegr. POTASSICI - ROMA
POTASSICI - PALERMO

SALI POTASSICI TRINACRIA

S. P. T.

S. p. A. CAPITALE SOCIALE L. 750.000.000 - VERSATO L. ~~285.000.000~~ interamente

SEDE IN PALERMO: VIA STABILE, 200
UFFICIO DI ROMA: ~~VIA SALARIA, 89~~ ... 88
UFFICIO DI CALTANISSETTA - VILLINO ALESSI

ROMA, li 28 Novembre 1957
Telefono 847.738

Ns. Rif. 2717/CM/ld Vs. Rif.

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

Gentlemen:

1. This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) and Sali Potassici TRINACRIA S.p.A., Palermo (the Company).

2. You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

3. We have proposed that there should be financed out of the proceeds of the loan our project to open and operate a mine for the extraction of potash ore, and to costruct and operate near the town of Calascibetta, Sicily, a plant for the processing of 560,000 tons of potash ore per year and the manufacture of "Kalimagnesia" and potassium sulfate. We have informed you that the pro forma balance sheet of the Company, on competion of the project would be as follows ;

Fixed Assest	Lit. 7,600,000.000	Share Capital	Lit. 3,000,000,000
Net Current Assets	300,000,000	Shareholders' advances	1,150,000,000
		BIRS loan	3,750,000,000
	Lit. 7,900,000,000		Lit. 7,900,000,000

./.

4. We have explained to you that during the first two years of operations net current assets requirements will increase to Lit.600,000,000. The increase of Lit. 300,000,000 will be provided from earnings and depreciation accruals during these years or through additional advances by the shareholders.

5. We have been informed that if the proposed loan should be made, it would be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require: a) the completion of two additional boreholes confirming, to the sactisfaction of the Bank, the Cassa and IRFIS, the existence of adequate reserves of potash ore in our Corvillo properties; and b) certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

6. The assurance and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements be made, under which :

A. - Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least Lit. 3,000,000,000 paid in as required, and shareholders' advances on completion of the plant, will total the difference between Lit. 4,150,000,000 and paid in share capital ;

B. - If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS and the Cassa to provide the necessary funds as and when they are required ;

C. - Shareholders' advances provided under subparagraphe A or B :

I. Shall not be withdrawn ;

II. Shall in all respects be subordinated to all debts of the Company : and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extend that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

./.

D. - The undersigned will not, without approval of the Cassa and IRFIS, pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy will result in or envisage ;

I. The ratio of current assets to cufrent liabilities being less, at any time, than 2:1; or

II. The excess of current assets over current liabilities being less than :

a) - Lit. 300,000,000 on completion of construction of the project ;

b) - Lit. 500,000,000 at the end of the first operation year; and

c) - Lit. 600,000,000 at any time after the and of the second operation year.

7. For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

8. The undersigned hereby gives you the assurances and undertakings set forth in paragraph 6) above to be effective on the conditions that you make a loan to the Cassa and that from the proceeds thereof IRFIS agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 3,750,000,000.

9. It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

SOC. SALI POTASSICI TRINACRIA
Il Presidente

(Corrado Moncada)

Italy-5th mp.
File
12/11/57

"MONTECATINI"

SOCIETÀ GENERALE PER L'INDUSTRIA MINERARIA E CHIMICA

DEC 3 REC'D

VICE PRESIDENTE

Milan, 28th November 1957

Dear President,

I owe to your kindness the sending me of the papares concerning the International Bank for Reconstruction and Development.

I am very flattered for your kind attention in my respect.

While assuring you that these publications are always considered with a particular interest by me, I beg you to accept my best personal regards.

Yours sincerely,

L. Morandi

Luigi Morandi

Mr.
Eugene R. BLACK
President of the "Bank for Reconstruction and Development"
Washington 6, D. C.

"MONTECATINI"

SOCIETÀ GENERALE PER L'INDUSTRIA MINERARIA E CHIMICA

VICE PRESIDENTE

DEC 3 REC'D

Milan, 28th November 1957

Dear President,

I owe to your kindness the send_
ing me of the papares concerning the International
Bank for Reconstruction and Development.

I am very flattered for your kind
attention in my respect.

While assuring you that these pu_
blications are always considered with a particular
interest by me, I beg you to accept my best perso-
nal regards.

Yours sincerely,

L. Morandi

Luigi Morandi

Mr.
Eugene R. BLACK
President of the "Bank for Reconstruction
and Development"
Washington 6, D. C.

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.
DEC 3 9 15 AM 1957

Italy-5th npp.

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

MRT

CLASS OF SERVICE: LT

DATE: NOVEMBER 27, 1957

TO: L. M. SVOBODA
GRANOTEL
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY EIGHT

YOUR THIRTEEN AGREE YOUR PROPOSAL ABCB

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W.J. Armstrong

DEPT: T.O.D.

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

For Use by Archives Division

Checked for Dispatch
RK

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

2Italy-5th mp

November 27, 1957

Files

To: Mr. Armstrong

From: L. Svoboda

Re: CMI

Attached is Annex II to CMI report giving summary of the Company's balance sheets and financial statements for the past five fiscal years.

The preliminary balance sheet for 1957 is still subject to adjustment, pending receipt from the Company of the final distribution of the total amount set aside during this year to reserves as to (a) capital reserves, and (b) operational reserves and provisions

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

November 27, 1957

To: Mr. Armstrong

From: I. Svoboda

Re: CMI

Attached is Annex II to CMI report giving summary of the Company's balance sheets and financial statements for the past five fiscal years.

The preliminary balance sheet for 1957 is still subject to adjustment, pending receipt from the Company of the final distribution of the total amount set aside during this year to reserves as to (a) capital reserves, and (b) operational reserves and provisions

C. M. I. — ANNEX II

Financial Statements
(million lire) — XI-27-57

Balance Sheets

Year ended Oct. 31	1953	1954	1955	1956	1957 (preliminary)
ASSETS					
Current Assets					
Cash	1	3	2	4	
Receivables	717	939	731	1,114	
Inventories	893	985	2,236	2,028	
Other		12	23	78	
Total Current Assets	1,611	1,939	2,992	3,224	3,310
Fixed Assets	3,721	3,985	4,223	4,583	4,980
Less Depreciation	1,177	1,432	1,699	1,970	2,270
Net Fixed Assets	2,544	2,553	2,524	2,613	2,710
Total Assets	4,155	4,492	5,516	5,837	6,020
LIABILITIES & EQUITY					
Current Liabilities					
Creditors	846	939	2,050	2,228	
Long termdebt maturing within fiscal year	211	222	281	297	
Other	228				
Total Current Liabilities	1,285	1,161	2,331	2,525	2,280
Provisions	179	199	217	237	277 1/
Long term debt	1,688	1,954	1,775	1,695	1,561
Equity					
Share Capital	375	375	375	900	1,000
Revaluation Reserve	287	287	287	-	-
Reserves	338	461	464	380	782 1/
Net Profit for year	3	55	67	100	120
Total Equity	1,003	1,178	1,193	1,380	1,902
Total Liabilities & Equity	4,155	4,492	5,516	5,837	6,020
Ratios					
Current assets/current liabilities	1.3:1	1.7:1	1.3:1	1.4:1	1.4:1
Debt/Equity	63/37	62/38	60/40	55/45	45/55

1/ IBRD estimate

Income Statements
(million lire)

Year ended October 31	1953	1954	1955	1956	1957 (preliminary)
Sales	4,925	7,581	9,255	10,785	12,498
Other Income	1	1	2	2	2
Total Income	4,926	7,582	9,257	10,787	12,500
Expenditures					
Operating expenditures	4,464	6,865	8,607	10,089	11,950
Depreciation	122	256	267	271	300
Interest	144	165	127	151	100
Other	193	242	189	176	30 1/
Total Expenditures	4,923	7,528	9,190	10,687	12,380
Net Income	3	54	67	100	120
Net Income as % of Equity		4.6	5.6	7.2	6.3
Net Income as % of Share capital		14.4	17.8	11.1	12.0
Net Income as % of Gross Income		0.7	0.7	0.9	10.0

1/ Tax only

Form No. 26
(1.50)

Italy-5

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 27, 1957 1940

TO: ARMSTRONG INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING	
ACTION COPY TO	TECH. OP.
INFORMATION COPY TO	
Decoded By	

TEXT:

13

YOUR 25 ABCD AGREES LIT EIGHTHUNDRED MILLION MAXIMUM SHORT TERM BORROWINGS CONSTRUCTION PERIOD RATHER THAN INCREMENT. PROPOSE THEREFORE AMEND END PARAGRAPH 9 C DRAFT LETTER QUOTE SHALL NOT AT ANY ONE TIME EXCEED THE AMOUNT OF LIRE EIGHTHUNDRED MILLION UNQUOTE PLEASE CONFIRM BY CABLE

SVOBODA

ORIGINAL

INTERNATIONAL BANK FOR
RECONST. AND DEVELOP

NOV 27 4 15 PM 1957

Jills 2Italy-5th np

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W.

TELEPHONE EXECUTIVE 3-6360 WASHINGTON 25, D. C. CABLE ADDRESS-INTBAFRAD

Rome, November 26, 1957

No. 22

Mr. Walter J. Armstrong
Assistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington 25, D.C.

Dear Walt: Re: CMI - Second Draft Report

Enclosed is second draft of report on CMI together with draft Letter of Commitment as reviewed by Hugh Scott.

NOV 15

The report is a revised presentation of the project as agreed with the Company in the light of the comment of your letter No. 17. The major changes are briefly reviewed below:

1) Construction

With reference to para 3 of your letter, after carefully investigating into the construction schedule of the project I have confirmed that a 18 months construction period may be considered reasonable, in view of the time required by Ruthner to manufacture the equipment. Assuming that the loan will become effective in March 1958, the project may be expected to be completed by September 1959. After a 2-3 months trial period it should come into production by November/ December, i.e. the first quarter of fiscal year ending October 31, 1960. This by itself would not justify the rather low production figures for that year (50%) and for the following year (75%). These have been conservatively estimated taking into account the need for a gradual introduction of the product in the market and the time required by the customers to adjust their production facilities to the new type of product. I do not think that there is any intention on part of the Company to prolong construction of the project for financial reasons, since sufficient funds should be available from operations (disclosed and hidden) to meet sbheduled expenditures on the project.

2) Profitability of Project

The revised earnings forecast is a refinement over the previous figures inasmuch as it is based on detailed estimates for main production lines (see table attached) rather than a simple adjustment of overall costs and revenues, as previously applied, to reflect the expansion of production of the project on the one hand and constraction of production in other lines on the other. You will note from the Company's revised estimates of "real" results, that the project, when in normal operation, would show a gross profit margin (after depreciation prior to financial charges) of about 7% and yield a return on the capital investment (including working capital) of about 11%. It would contribute with about 33% to the Company's total profits while sharing only 27% on its costs. Depreciation and retained earnings would be more than sufficient to cover the cost of the project, leaving substantial funds in the form of "additional assets".

3) CMI Financial Position
The Company's official balance sheets and financial statements in general show a rather poor capitalization and liquidity position with a steady improvement in both during the past few years. However, as customary in Italy, these figures do not reveal the actual situation and in this particular case require a considerable upward adjustment to show the company's real position. According to the company's general manager, net profits realized in the past two years have averaged Lit. 400 million per year on sales of Lit. 12 billion. Of this only about Lit. 100 million per year were actually declared, the balance being spent on construction (charged to operations) and/or accumulated in hidden inventory reserves. This has been generally confirmed by the ISVEIMER auditor, who has reported that between 1953 and 1956 the company had charged Lit. 472 million construction expenditures to operations and in fiscal 1955/56 alone had in this way written off Lit. 169 million. The auditor reports that the actual value of CMI's fixed assets on October 31, 1956 may be estimated in the neighborhood of Lit. 6.0 billion, as compared to a book value of only Lit. 4.6 billion, the difference being due mostly to the above method of depreciation. Moreover, inventories stated on October 31, 1956 at a book value of Lit. 2.0 billion had an actual value of Lit. 2.8 billion due to substantial undervaluation of stock and products, some items being carried at as far back as 1938 prices. No bad debts or other offsetting items are reported. In the light of the above, and considering CMI's past performance in technical and commercial management, as well as its strong backing by the Falck Group, there would appear little doubt of the creditworthiness of this company.

4) Presentation of Report
In order to bring the company's forecasts in line with its past financial statements, I had to make certain major adjustments in the earnings forecasts and the pro forma balance sheets. Using the simplest possible method I increased the company's figures of operational costs each year by approximately 2% and reduced sales by 1%. In addition I set aside each year a reasonable amount to operational reserve (provisions) and made certain other minor adjustments, to arrive at annual profit figures corresponding to the company's fiscal policies. In discussing the economics of the project I tried to separate it from the rest of the company's operations and to demonstrate its profitability within the framework, and in relation to the company's overall operations.

I have also made several textual adjustments in the report with reference to your specific comments, in regard to description of project, comparative costs, method of foreign exchange savings computation,etc. I apologize for the inaccuracies noted in the first draft which have slipped my attention due to heavy pressure of work.

I have further refined the financial estimates, using round figures whenever indicated. For example, total additions to net current assets are now Lit. 800 million, rather than Lit. 774 million as estimated in the first draft (not Lit. 776 as stated page 2, para 3 of the letter) and estimated total working capital at the end of the third year of operations Lit.1,830 million. I have made appropriate provisions in the Letter of Commitment for the gradual increase in net current assets to the above total. Following your suggestion, I have therein provided for a 1.5:1 current ratio, after completion of the project, with no restrictions during the construction period.

Attached to the report is summary of past financial statements for the Falck Company. I expect later today to dispatch by separate mail the financial summary for CMI, pending receipt of some supplementary data for 1957. Also enclosed is copy of the company's revised production and financial forecasts, reflecting the estimated real results rather than "official" results as shown in the report.

I hope the revised report together with the above explanations will have sufficiently demonstrated the soundness of this project to enable a final judgement on its suitability for Bank financing.

With kind regards.

Sincerely
Lada

Ladislav Svoboda

Encls.

cc: Mr. Ripman

2nd draft
XI-25-57

C. M. I.

Borrower

The prospective borrower is Cantieri Metallurgici Italiani (CMI) incorporated in Naples in 1916. The company owns and operates two plants, one at Naples for the production of hot dipped tin plates, galvanized sheets and cold rolled sheets, and one at Castellammare, near Naples, for the production of nuts and bolts, repair of railway rolling stock and various structural work and forgings. CMI would install a line for the production of electrolytically tinned plate in their plant at Naples. The cost of the project, including additional working capital and interest during construction, is estimated at Lit. 1.8 billion ($2.7 million) of which Lit. 600 million ($0.96 million) are requested from IBRD funds to finance the imported equipment for the project. CMI is owned by Acciaierie e Ferriere Lombardi Falck S.p.A. of Milan, large manufacturers in Italy of iron and steel products.

Description of the Project

The project contemplates the installation of a modern electrolytic tinning line where cold reduced steel strip in coils will be electroplated with tin on both surfaces. This line would have an estimated production capacity of 24,000 tons per year of tin plate of international standard types. An increase in capacity of an additional 12,000 tons per year can be accomplished at moderate cost through minor modifications and enlargements of the line. At present CMI produces 39,000 tons per year tinplate all of which of the hot dipped type. After the project has been completed, tin plate production is planned to be increased to 54,000 tons of which 30,000 tons would be hot dipped tin plate produced by the existing plant, and 24,000 tons electrolytic tin plate produced by the new facilities. The cost of the new installation[1/] is estimated as Lit. 990 million broken down as follows: (million lire):

working capital

1/Exclusive of Lit. 50 million interest during construction capitalized

Buildings	92
Machinery and spare parts	774
Contingencies	84
Start up expenses	40
Total	990

Of the above total, about Lit. 600 million would be required for imported machinery and equipment, financing of which is proposed from the Bank loan.

The electric power required will be about 5.4 million kwh per year with an estimated peak load of 1000 kw and will be supplied by Società Meridionale di Elettricità.

Present Status

The planning and engineering of the project have been completed; tenders for machinery and equipment received and analyzed; orders can be placed on short notice. No work has been started. Manufacture by the Austrian supplier of the tinning line (Rüthner), because of its small capacity and special features, will require about 10 months and deliveries and erection of the equipment about 8 months. On the assumption that orders can be placed in the first quarter 1958, the plant should be completed and in trial operation before the end of 1959.

Management

CMI has over thirty years of experience in tin plate manufacturing. The company has a managerial and technical staff which has the necessary experience to operate the electrolytic tin plate section. It can also obtain technical assistance, if needed, from the Falck Group.

Financing

It is proposed that of the Lit. 1.8 billion estimated total cost of the project, Lit.0.6 billion would be covered by the proposed Bank loan. The remaining Lit.1.2 billion would be covered by retained earnings and depreciation accruals. While the project is under construction, company contributions to the project would amount to Lit. 614 million (fixed assets - Lit.440 million, additions to net current assets - Lit. 174 million) Lit 600 million more would be added to net current assets from the enhanced earnings of the company after the completion of the project, which it is assumed will occur by the end of 1959. The financial position of the company at the end of fiscal year 1957, and its estimated position upon completion of the project at the end of three years of operation of the new electrolytic line are as follows: (million lire)

	Oct. 31 1957 (preliminary)	Oct. 31 1959 (estimated)	Oct. 31 1962
Fixed Assets: Project	-	1,040	1,040
Other Fixed Assets	4,980	4,980	4,980
Less depreciation	2,270	3,270	5,040
Net Fixed Assets	2,710	2,750	980
Net Current Assets	1,030	1,230	1,830
Additional Assets		430	1,698
Total Assets	3,740	4,410	4,508
Share Capital	1,000	1,000	1,000
Surplus and Reserves	1,179	1,499	2,094
IBRD Loan	-	600	508
Other long term debt	1,561	1,311	906
Total Liabilities & Equity	3,740	4,410	4,508

The company's sales have increased from Lit.7.6 billion in fiscal year 1954 to Lit. 12.5 billion in 1957. Net income has risen from Lit.54 million to Lit. 120 million, representing net return on share capital of 14% and 12% respectively. The smaller return in 1957 is due to the fact that during 1956 and 1957 the company had increased its share capital from Lit. 375 million to Lit.1,000 million. It should be noted that the CMI in general conducts its business in accordance with sound financial principles. An investigation made by ISVEIMER has confirmed that the company has followed very conservative policies in the valuation of inventories and has set aside substantial reserves for the depreciation of its fixed assets. (Summaries of balance sheets and profit and loss statements are shown in Annex III).

Markets

Tin plate consumption in Italy for home use and export requirements has increased by 150% from the prewar years. In 1956, 116,000 tons were used of which 57,000 were imported. CMI location in Naples, which is the center of a very important canning industry, would have the advantage of selling tin plate for canned foods under the so-called "duty-bound" regulations, that is, tin plate produced with temporarily imported raw materials without payment of import duties which can be sold at especially low prices. for export use -

The project would enable CMI to meet the increasing local demand for electrolytic tin plate at a price competitive with present prices of other producers within the European Common Market. It would contribute to considerable savings in the company's production costs and would increase the profitability of its operations. The company's estimates show that at an assumed sales price somewhat below the present lowest price for imported tin plate (USA), the project, when operating at normal capacity, should show a return (after depreciation prior to interest charges) of about 6% per ton of product sold. This compares to a return of about 3-1/2% per ton on the present sales price for standard type hot dipped tin plate of comparable thickness, produced by the company's existing plant.

The company expects to export about 30% of the electrolytic tin plate produced to countries in the Mediterranean market using its existing export sales organization.

Another electrolytic tinning plant is being installed in Northern Italy. It is estimated that the output of both plants can be placed in the local and export markets since their hot dip plating production will be decreased according to market requirements. Electrolytic tinning is displacing hot-dipped tinning all over the world due to its economic and technical advantages.

Earnings and Debt Service Coverage

The company estimates that in accordance with the market requirements, the production of the project would be gradually increased from 50% capacity in 1960 to 100% in 1962, adding 24,000 tons per year of electrolytic tin plate to the output of its Naples plant. This would increase total output of the plant, after the planned reduction in hot dipped tin plate and some minor cuts in other lines, to 75,000 tons per year of rolled products, representing the present capacity of the company's cold rolling mill. On the basis of conservative assumptions in respect to costs and sales prices, CMI's total sales in 1962 would increase to Lit.12.9 billion and net profit to Lit.175 million, representing a return of 17.5% on share capital and of 5.6% on total equity. It should be noted that while the project would account for about 27% in the company's sales, it would share with 33% in its net profits. Estimated depreciation accruals have been based on conservative rates, providing for a rate of 10% per annum for equipment and buildings, both of the project and the existing plant. Forecasts of the company's sales and earnings as a whole are given in Annex I.

Estimated company earnings before interest and depreciation when all facilities are operating at a normal rate, should cover the debt service of the proposed IBRD loan about 9 times and the total debt service requirements about 3.3 times. The project should be able at 40% capacity to break even and cover the IBRD loan service about 1.6 times.

Economic Justification

The CMI project will produce electrolytic tin plate of international standards and thereby will reduce the need for increased imports of this product to meet the growing demand of the canning industry and other users. The plant will be located in Naples, the center of Italy's important canning industry. The foreign exchange savings resulting from the project may be estimated as Lit.2.2 billion ($3.5 million) based on the assumption that the increase of 15,000 tons p.a. in the company's production of tin plate, due to the operation of the project (54,000 tons - 39,000 tons), would result in an equivalent reduction of imports of electrolytic tin plate. Some additional foreign exchange benefits would also arise from the reduced requirements of imported tin, due to the substitution of 9,000 tons of electrolytic tin plate for dipped tin plate made possible by the project.

Hot rolled Check - saving
strip - saving of

Security Arrangements

If the proposed loan is granted, ISVEIMER would secure it by a mortgage on CMI's plant which would rank second to mortgages granted to IMI in connection with previous loans from this institution. As additional security, ISVEIMER would require a performance guarantee by the Falck Co., Milan, which owns a 95% interest in CMI. A summary of Falck's ~~official~~ financial statements for the past four years is given in Annex III. These statements reveal only partially the financial strength and earnings capacity of this well known, entirely privately owned corporation, the only one of its kind in the metallurgical field in Italy.

Conclusion and Recommendations

The CMI project is sound and could form the basis for a loan of Lit. 600 million ($960,000) excluding interest during construction. The term of the loan could be ~~12-1/2~~ 13 years, including ~~2-1/2~~ 3 years grace period.

ANNEX 1

XI-25-57

C. M. I.

Financial Forecasts
(Million lire)

Year ending October 31	Construction, Operation Existing Plant 3/ 1958	1959	Operation all Facilities 1960	1961	1962
I. Earnings Statement					
Production of Project - %			50	75	100
Operating Costs 1/					
Project			1,630	2,460	3,270
Other facilities	10,480	10,480	9,300	8,980	8,650
Interest IBRD capitalized	(15)	(35)	42	40	38
Other Long-Term Debt	100	100	90	90	80
Depreciation:					
Project			70	100	100
Other Facilities	500	500	500	500	500
Operating Reserves	40	40	40	50	90
Taxes	30	30	37	40	42
Total Costs	11,150	11,150	11,709	12,260	12,770
Net Sales - Project 1/			1,770	2,650	3,540
Other Facilities 1/	11,270	11,270	10,059	9,740	9,405
Total Net Sales	11,270	11,270	11,829	12,390	12,945
Net Profit	120	120	120	130	175
II. Sources and Application of Funds					
Net Income before Interest	220	220	252	260	293
Depreciation Accruals	500	500	570	600	600
Net Increase in Operational Reserves	40	40	40	50	90
IBRD Loan	200	400			
Total Sources	960	1,160	862	910	983
Fixed Assets (Project)	500	490			
Interest during Construction	15	35			
Total Fixed Assets	515	525			
Net Current Assets		200	450		150
Debt Service:					
IBRD Loan 2/			42	85	85
Other Long-term Debt	225	225	225	225	215
Additional Assets	220	210	145	600	533
Total Applications	960	1,160	862	910	983

1/ For the purpose of a conservative forecast, the company's estimates of operating costs each year have been increased about 2% and net sales reduced 1%.
2/ Assuming loan of Lit. 600 million at 7% for 10 years plus 2-1/2 years grace period
3/ Based on 1957 operation after some adjustments in output and sales to account for the closing down of the company's obsolete hot rolling mill.

(million lire)

Year ending October 31.	Operation 1957 (prelimin.)	Construction Existing Plant 1959	Operation Existing Plant 1959	Operation all Facilities 1960	1961	1962
III. Balance Sheets						
Fixed Assets						
- Project		515	1,040	1,040	1,040	1,040
- Existing Plant	4,980	4,980	4,980	4,980	4,980	4,980
Less Depreciation	2,270	2,770	3,270	3,840	4,440	5,040
Net Fixed Assets	2,710	2,725	2,750	2,180	1,580	980
Net Current Assets	1,030	1,030	1,230	1,680	1,680	1,830
Additional Assets		220	430	575	1,175	1,708
Total Assets	3,740	3,975	4,410	4,435	4,435	4,518
Share Capital	1,000	1,000	1,000	1,000	1,000	1,000
Surplus & Reserves	1,179	1,339	1,499	1,659	1,839	2,104
IBRD Loan	—	200	600	600	555	508
Other Long-term Debt 1/	1,561	1,436	1,311	1,176	1,041	906
Total Liabilities & Equity	3,740	3,975	4,410	4,435	4,435	4,518

1/ Outstanding at Nov. 2, 1957:
Lit. 1,134 million loans from IMI, ~~expiring~~ repayable during 1959/1968,
Lit. 119 million from Banco di Napoli, expiring 1960/64, and
Lit. 294 million debentures, expiring 1971/74.

ANNEX

3rd draft
XI-25-57

CANTIERI METALLURGICI ITALIANI

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

Gentlemen:

(1) This will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell' Italia Meridionale (the Cassa), the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER), and Cantieri Metallurgici Italiani S.p.A. (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to install and operate at our plant in Naples an electrolytic tinning line of a capacity of 24,000 tons per year tinplate of international standard types. We have informed you that the pro forma balance sheet of the Company, on completion of the project, would be as follows:

Assets		Liabilities	
Project	Lit.1,040,000,000	Share Capital	Lit.1,000,000,000
Other Fixed Assets(net)	1,710,000,000	Surplus and Reserves	1,499,000,000
Total Fixed Assets	2,750,000,000	IBRD Loan	600,000,000
Net Current Assets	1,230,000,000	Other long-term debt	1,311,000,000
"Additional Assets"	430,000,000		
	Lit.4,410,000,000		Lit.4,410,000,000

It is understood that the amounts shown as surplus and additional assets may be reduced by the amount of dividends paid during the interim period subject to the restrictions of this letter.

(4) The cost of the project should be considered as Lit.1,040,000,000 for fixed assets and Lit. 800,000,000 for additional net current assets. We have explained to you that during the first three years of operations the net current assets requirements will be increased to an estimated Lit.1,830,000,000. The increase in net current assets from Lit.1,230,000,000 to Lit. 1,830,000,000 will be provided from anyone or the combinations of any of the following sources: retained earnings, depreciation accruals, share capital or shareholders' advances.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER and the Cassa to provide the necessary funds from share capital or shareholders' advances, as and when required;

B. Shareholders' advances provided under subparagraph A -

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

C. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make other payments to shareholders or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time after completion of construction of the project, than 1.5:1; or

II. The excess of current assets over current liabilities being less than:

a. Lit.1,230,000,000 on completion of construction of the project;

b. Lit.1,680,000,000 at the end of the first year of operation of the project and at any time during the second year of operation of the project; and

c. Lit.1,830,000,000 at any time thereafter.

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above-mentioned purpose in the approximate amount of Lit.600,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

CANTIERI METALLURGICI ITALIANI S.p.A.

ANNEX III

XI/22/57

ACCIAIERIE e FERRIERE LOMBARDE FALCK, MILAN

(Parent Company of C.M.I.)
Balance Sheets
(Billion lire)

Year ended Dec. 31	1953	1954	1955	1956
ASSETS				
Cash and banks	0.1	0.2	0.2	0.5
Receivables	4.0	5.3	5.7	7.6
Inventories	4.7	4.5	7.0	8.4
Other current assets	3.6	3.6	4.6	3.9
Total Current Assets	12.4	13.6	17.5	20.4
Fixed assets	57.7	61.9	65.8	70.2
Less depreciation	35.7	37.3	39.6	43.1
Fixed Assets net	22.0	24.6	26.2	27.1
Participations	1.7	1.9	2.0	2.3
Total Assets	36.1	40.1	45.7	49.8
LIABILITIES AND EQUITY				
Banks	2.1	4.3	3.6	3.5
Creditors	2.8	3.3	4.5	5.0
Other current liabilities	2.1	3.0	2.7	3.2
Total current liabilities	7.0	10.6	10.8	11.7
Provisions	3.3	3.6	3.7	4.0
Long-term debt	7.9	7.6	12.4	13.8
Share Capital	7.8	7.8	7.8	12.0
Reserves	1.7	2.0	2.3	3.2
Revaluation reserve	7.8	7.8	7.8	4.1
Surplus	0.6	0.7	0.9	1.0
Total Equity	17.9	18.3	18.8	20.3
Total Liabilities & Equity	36.1	40.1	45.7	49.8
Current Assets/Current Liabilities	1.8:1	1.3:1	1.6:1	1.7:1
Debt/Equity	30/70	29/71	40/60	40/60

ANNEX III
XI-22-57

ACCIAIERIE e FERRIERE LOMBARDE FALCK, MILAN

(Parent Company of CMI)

Income Statements
(Billion Lire)

Year ended Dec. 31	1953	1954	1955	1956
Gross Income	5.8	6.4	7.7	9.8
Expenditures	5.2	5.7	6.8	8.8
Net Profit	0.6	0.7	0.9	1.0
Net Profit as % of Equity	3.3	3.8	4.7	4.9
Net Profit as % of Share Capital	7.7	9.0	11.5	8.3
Net Profit as % of Gross Income	10.3	10.6	11.6	10.2

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Italy-5th: mp.

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 26, 1957

TO: L. M. SVOBODA
~~GRAND HOTEL~~
ROME

MRT

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY SEVEN

MARZOTTO APPROVED USE DRAFT LETTER OF NOVEMBER TWENTYONE STOP WITH CHANGE IN PROFORMA TO REFLECT POSITION ON CONSTRUCTION COMPLETION SEE NO NEED FOR PARA SIX D THREE RESTRICTION DIVIDEND PAYMENTS BUT WILL LEAVE TO YOUR JUDGMENT STOP IF RETAINED INSERT AFTER PROFORMA QUOTE WE HAVE EXPLAINED TO YOU THAT SOME SECTIONS OF THE PLANT WILL BE IN PARTIAL OPERATION BEFORE THE COMPLETION OF CONSTRUCTION UNQUOTE STOP PAGE ONE PARA FOUR LAST LINE AFTER AMOUNT CHANGE TO QUOTE BY THE END OF THE THIRD OPERATING YEAR UNQUOTE STOP PARA SIX A TWO LINE TWO PUT QUOTE TO UNQUOTE INSTEAD OF FIRST QUOTE AT UNQUOTE STOP PARA SIX A THREE ADD TO SENTENCE QUOTE AND SHAREHOLDERS ADVANCES SHALL BE AT LEAST THE DIFFERENCE BETWEEN LIT TWO BILLION FOUR HUNDRED MILLION AND PAID IN SHARE CAPITAL UNQUOTE STOP INSERT NEW PARA SIX D TWO A QUOTE LIT ONE BILLION TWO HUNDRED MILLION ON COMPLETION OF CONSTRUCTION UNQUOTE AND RELETTER OTHERS

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Italy - 5th rp

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

ART

CLASS OF SERVICE: LT

DATE: NOVEMBER 25, 1957

TO: ~~L. M.~~ SVOBODA
GRAND HOTEL (GRANOTEL)
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY SIX

BOTH SCOTT AND WHEELOCK AGREEABLE INSERT CASSA'S NAME IN LETTERS AS DISCUSSED BY PHONE

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

NOV 25 3 15 PM 1957

DISPATCHED NOV 25 3 20 PM 1957

Italy - 5th neg.

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

MRS

CLASS OF SERVICE: LT

DATE: NOVEMBER 25, 1957

TO: L. M. SVOBODA
GRAND HOTEL (GRANOTEL)
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY FIVE

ABCD PROJECT APPROVED USE DRAFT LETTER DATED NOVEMBER SEVENTEEN AS CORRECTED BY SCOTT STOP TAJANI APPROVED IN PRINCIPLE BUT TO SAVE TIME SUGGEST FOLLOWING PROCEDURE OUTLINED LETTER EIGHTEEN STOP YOUR LETTER NINETEEN RECEIVED

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

FORM No. 75 (3-52)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date

NAME	ROOM NO.
~~Mr. Wheelock~~	
Files	210

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

From

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D. C.

TELEPHONE EXECUTIVE 3-6360 CABLE ADDRESS-INTBAFRAD

No. 21

Grand Hotel
Rome, November 25, 1957

Mr. Walter J. Armstrong
Assistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Re: Distribution of Loan Funds

Dear Walt:

/original on file.

I enclose copy of a letter dated November 22 from Cassa to the Bank on the above subject, the content of which I have already transmitted to you by telephone.

The letter is the result of a discussion called by Professor Pescatore for the purpose of clarifying our mutual understanding concerning the allocation of loan funds to the three sectors. From a summary, prepared by his staff, of the mission's findings, Professor Pescatore had noted that under the proposed new loan, power was allocated $32.9 million for three projects (SME, SGES and Calabria). This is in contrast with Pescatore's understanding of the tentative agreement reached by him with Sid Wheelock prior to Sid's departure, which provided for only $29.2 million for SME and SGES, exclusive Calabria. Pescatore felt that this latter amount was a proportionate allocation to the power sector and that any balance left, after covering the requirements of the industrial sector, should be allocated to irrigation. However, should the Bank consider it important to have Calabria included in the loan, he would be willing to go along on the former basis. He also proposes that, should Tajani be cleared in time to be included in the new loan, the required amount for this project could be deducted from irrigation. As regards the utilization of the balances in the previous two loans, as recently increased by the withdrawal of the SIL second loan request, Cassa would prefer to have the surplus, left after financing ABCD, allocated to irrigation rather than for any of the new industrial projects covered under the new loan.

We finally agreed that a letter by the Cassa to the Bank at this point would be useful, as it would help to clarify the still outstanding questions concerning the final distribution of loan funds and would enable the Bank to reach an early decision in this matter.

With kind regards.

Sincerely
Ladislav

Ladislav Svoboda

Encl.

x Italy - Ln 117

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D.C.

TELEPHONE EXECUTIVE 3-6360 CABLE ADDRESS-INTBAFRAD

No. 21

Grand Hotel
Rome, November 25, 1957

Mr. Walter J. Armstrong
Assistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Re: Distribution of Loan Funds

Original on file

Dear Walt:

I enclose copy of a letter dated November 22 from Cassa to the Bank on the above subject, the content of which I have already transmitted to you by telephone.

The letter is the result of a discussion called by Professor Pescatore for the purpose of clarifying our mutual understanding concerning the allocation of loan funds to the three sectors. From a summary, prepared by his staff, of the mission's findings, Professor Pescatore had noted that under the proposed new loan, power was allocated $32.9 million for three projects (SME, SGES and Calabria). This is in contrast with Pescatore's understanding of the tentative agreement reached by him with Sid Wheelock prior to Sid's departure, which provided for only $29.2 million for SME and SGES, exclusive Calabria. Pescatore felt that this latter amount was a proportionate allocation to the power sector and that any balance left, after covering the requirements of the industrial sector, should be allocated to irrigation. However, should the Bank consider it important to have Calabria included in the loan, he would be willing to go along on the former basis. He also proposes that, should Tafjanl be cleared in time to be included in the new loan, the required amount for this project could be deducted from irrigation. As regards the utilisation of the balances in the previous two loans, as recently increased by the withdrawal of the SIL second loan request, Cassa would prefer to have the surplus, left after financing ABCD, allocated to irrigation rather than for any of the new industrial projects covered under the new loan.

We finally agreed that a letter by the Cassa to the Bank at this point would be useful, as it would help to clarify the still outstanding questions concerning the final distribution of loan funds and would enable the Bank to reach an early decision in this matter.

With kind regards.

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.
NOV 29 9 39 AM 1957

Ladislav Svoboda

Encl.

C
O
P
Y

November 22, 1957

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

Gentlemen:

Subject: Proposed Allocation of Funds under IBRD Loans

Following the meeting of this morning with Mr. Svoboda of the Bank, we are illustrating below the Cassa desire as to the allocation of the proposed Loan funds and of the balances available under Loan 117 and 150 IT.

A. New Loan

1. Six industrial projects	$29,360,000
2. Two power projects	$29,200,000
3. Two Irrigation projects	$16,440,000
	$75,000,000

B. Balances on Previous Loans

- Availability under Loan 117 IT	$2,400,000
- Availability under Loan 150 IT	$3,450,000
Total available	$5,850,000

Proposed allocation :

1. ABCD Industrial project (2nd loan)	$ 4,480,000
2. Addition to irrigation,(additional loan)	$ 1,370,000
	$ 5,850,000

In the same meeting, we have also discussed the following two points with Mr. Svoboda:

a. In the event that the Taiani Industrial Project should be cleared in time for consideration under the new Loan, then the Cassa would suggest that the necessary amount for financing such Project ($1,440,000) be made available by deducting it from the proposed allocation to irrigation under the new Loan;

b. In the event that the Bank would consider it important to include the Calabria Project ($3 million) in consideration of a 60% financing on the expenditure still outstanding after September 1, 1957, then the Cassa would agree to have the necessary deduction made from the amount proposed for irrigation under the new Loan.

Consequently, the Cassa would agree that the allocation of $16,440,000 to irrigation proposed above, could be reduced in the following alternative ways:

i. Under event a., $15,000,000
ii. Under event b., $13,440,000
iii . Under both event a. and b., $12,000,000.

It is understood that no change is involved in Loan 88 IT which, in accordance with the understanding reached with the Bank's Mission, will remain reserved for the Agri Project.

We hope that the clarifications herein given will enable the Bank to make an early decision on fund allocations under the Loans, and permit the prompt signing of the letters of commitment by the industrial borrowers.

With best regards.

Sincerely yours,

THE PRESIDENT

Gabriele Pescatore

Consequently, the Cassa would agree that the allocation of $16,440,000 to irrigation proposed above, could be reduced in the following alternative ways:

i. Under event a., $15,000,000
ii. Under event b., $13,440,000
iii. Under both event a. and b., $12,000,000.

It is understood that no change is involved in Loan 88 IT which, in accordance with the understanding reached with the Bank's Mission, will remain reserved for the Agri Project.

We hope that the clarifications herein given will enable the Bank to make an early decision on fund allocations under the Loans, and permit the prompt signing of the Letters of commitment by the industrial borrowers.

With best regards.

Sincerely yours,

THE PRESIDENT

Gabriele Pescatore

Italy Mission

FORM NO. 26
(1.50)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 23, 1957 1735

TO: ARMSTRONG INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING	
ACTION COPY TO	TECH. OP.
INFORMATION COPY TO	MR. REAMY MR. PRINS
Decoded By	

TEXT:

12. PLEASE AIRMAIL 200,000 LIRE TO COVER MAILING AND ADDITIONAL MISSION EXPENDITURES

SVOBODA

Mr. Reamy
airmailing money
11/25/57

ORIGINAL

INTERNATIONAL BANK FOR
RECONST. AND DEVELOP.

NOV 25 11 13 AM 1957

Italy - [illegible]

INDIRIZZO TELEGRAFICO: CASMEZ - ROMA

CASSA PER OPERE STRAORDINARIE DI PUBBLICO INTERESSE
NELL'ITALIA MERIDIONALE
(CASSA PER IL MEZZOGIORNO)

1/40925

Prot. N. .... Posiz. PdP/mg

22 NOV. 1957.

Allegati ....

ROMA ....
VIA ANIENE, 14
TEL. 849.420 — 25 - 27 - 28 - 29

Risposta a ....

del .... N. ....

OGGETTO: ....

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

Gentlemen:

Subject: Proposed Allocation of Funds under IBRD Loans

Following the meeting of this morning with Mr. Svoboda of the Bank, we are illustrating below the Cassa desire as to the allocation of the proposed Loan funds and of the balances available under Loans 117 and 150 IT.

A. New Loan

1. Six industrial projects	\$ 29,360,000
2. Two power projects	\$ 29,200,000
3. Two Irrigation projects	\$ 16,440,000
	\$ 75,000,000

B. Balances on Previous Loans

- Availability under Loan 117 IT	\$2,400,000
- Availability under Loan 150 IT	\$3,450,000
Total available	\$ 5,850,000

Proposed allocation :

1. ABCD Industrial Project (2nd loan)	\$ 4,480,000
2. Addition to irrigation, new Loan	\$ 1,370,000
	\$ 5,850,000

Copy in Italy - Ln 117 ack Nov 27/57

In the same meeting, we have also discussed the following two points with Mr. Svoboda:

a. In the event that the Taiani Industrial Project should be cleared in time for consideration under the new Loan, then the Cassa would suggest that the necessary amount for financing such Project ($1,440,000) be made available by deducting it from the proposed allocation to irrigation under the new Loan;

b. In the event that the Bank would consider it important to include the Calabria Project ($3 million, in consideration of a 60% financing on the expenditure still outstanding after September 1, 1957), then the Cassa would agree to have the necessary deduction made from the amount proposed for irrigation under the new Loan.

Consequently, the Cassa would agree that the allocation of $16,440,000 to irrigation proposed above, could be reduced in the following alternative ways:

i. Under event a., $15,000,000;
ii. Under event b., $13,440,000;
iii. Under both events a. and b., $12,000,000.

It is understood that no change is involved in Loan 88 IT which, in accordance with the understanding reached with the Bank's Mission, will remain reserved for the Agri Project.

We hope that the clarifications herein given will enable the Bank to make an early decision on fund allocations under the Loans, and permit the prompt signing of the letters of commitment by the industrial borrowers.

With best regards.

Sincerely yours,

THE PRESIDENT

Pescatore

Gabriele Pescatore

c.c.: Mr. Aldewereld

In the same meeting, we have also discussed the following two points with Mr. Svoboda:

a. In the event that the Talani Industrial Project should be cleared in time for consideration under the new Loan, then the Cassa would suggest that the necessary amount for financing such Project ($1,440,000) be made available by deducting it from the proposed allocation to irrigation under the new Loan;

b. In the event that the Bank would consider it important to include the Calabria Project ($3 million) in consideration of a 60% financing on the expenditure still outstanding after September 1, 1957), then the Cassa would agree to have the necessary deduction made from the amount proposed for irrigation under the new Loan.

Consequently, the Cassa would agree that the allocation of $16,440,000 to irrigation proposed above, could be reduced in the following alternative ways:

i. Under event a., $15,000,000;
ii. Under event b., $13,440,000;
iii. Under both events a. and b., $12,000,000.

It is understood that no change is involved in Loan 88 IT which, in accordance with the understanding reached with the Bank's Mission, will remain reserved for the Agri Project.

We hope that the clarifications herein given will enable the Bank to make an early decision on fund allocations under the Loans, and permit the prompt signing of the letters of commitment by the industrial borrowers.

With best regards.

Sincerely yours,
THE PRESIDENT

Gabriele Pescatore

c.c.: Mr. Aldewereld

Italy - 5th ...

FORM No. 26
(1.50)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 22, 1957

TO: ARMSTRONG, INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROMA

ROUTING
ACTION COPY TO TECH. OPER.
INFORMATION COPY TO
Decoded By

TEXT:

TEN CASSA RELUCTANT AGREE NEW PROCEDURES RE CLEARING LETTERS COMMITTMENT. FEELS PROPOSED WRITTEN STATEMENTS BY BORROWERS OF INTENT TO SIGN LETTER WHEN REQUESTED BY BANK WILL FURTHER COMPLICATE ALREADY INVOLVED PROCEDURES AND MIGHT CAUSE RESENTMENT BORROWERS. RECOMMENDS THAT BANK FOR PRACTICAL AND PSYCHOLOGICAL REASONS SHOULD PERMIT PROMPT SIGNING LETTERS ALL APPROVED PROJECTS. ROSS WILL REPORT FURTHER DETAILS ON ARRIVAL WASHINGTON. AM LEAVING TOMORROW NOON FOR NAPLES TO ACCELERATE REVISION CMI PROJECT COMMA WILL RETURN ROME SATURDAY

SVOBODA

MRS. SVOBODA BEING NOTIFIED.

DUPLICATE

...NAL BANK FOR
RECONST. AND DEVELT.

NOV 22 11 16 AM 1957

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVELT.

NOV 22 11 16 AM 1957

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 22, 1957

MRT

TO: ~~L. M.~~ SVOBODA
~~GRAND HOTEL~~ GRANOTEL
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY FOUR

AREA AGREES YOUR REQUEST TO HAVE COMPANIES SIGN LETTERS PROMPTLY STOP YOU MAY PROCEED THIS BASIS WITH MONTECATINI CONE SINCAT TRINACRIA IMMEDIATELY AND LATER WITH OTHERS AS EACH APPROVED STOP HOWEVER AREA REQUESTS THAT YOU TELL COMPANIES BANK RESERVES RIGHT TO REQUEST AMENDMENTS IF FOR SOME REASON THIS BECOMES NECESSARY LETTER FOLLOWS STOP ARRANGE FOR COMPANIES TO SIGN PROMPTLY AS POSSIBLE GIVING ORIGINAL TO CASSA FOR FORWARDING WASHINGTON STOP WOULD HOPE HAVE LETTERS HERE BY END SECOND OR THIRD WEEK DECEMBER

Signed: Armstrong
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Form No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Twaty-5 ns. wp.

OUTGOING WIRE

MRT

CLASS OF SERVICE: LT

DATE: NOVEMBER 22, 1957

TO: ~~L. M.~~ SVOBODA
~~GRAND HOTEL~~ GRANOTEL
ROME

COUNTRY (ITALY)

EXT:

Cable No. TWENTY THREE

YOU MAY DISCUSS TRINACRIA DRAFT LETTER WITH COMPANY ~~ON SAME BASIS AS OTHERS~~ STOP USE THIRD DRAFT DATED NOVEMBER EIGHTEEN MODIFYING PARAGRAPH SIX D FROM LINE THREE QUOTE IF SUCH PAYMENTS OR POLICY WILL RESULT IN OR ENVISAGE COLON ONE THE RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES BEING LESS COMMA AT ANYTIME COMMA THAN TWO TO ONE SEMICOLON OR TWO THE EXCESS OF CURRENT ASSETS OVER CURRENT LIABILITIES BEING LESS THAN COLON A LIT THREE HUNDRED MILLION ON COMPLETION OF CONSTRUCTION OF THE PROJECT SEMICOLON B LIT FIVE HUNDRED MILLION AT THE END OF THE FIRST OPERATING YEAR SEMICOLON AND C LIT SIX HUNDRED MILLION AT ANYTIME AFTER THE END OF THE SECOND OPERATING YEAR PERIOD UNQUOTE

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

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

For Use by Archives Division

Checked for Dispatch
RL

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

NOV 22 5 53 PM 1957

NOV 22 5 00 PM 1957

DESPATCHED

Form No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

2Italy-5m rp

OUTGOING WIRE

MRT

CLASS OF SERVICE: LT

DATE: NOVEMBER 22, 1957

TO: ~~L.M.~~ SVOBODA
~~GRAND HOTEL~~ GRANDOTEL
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY TWO

YOU MAY DISCUSS DRAFT LETTER WITH SINCAT USING SECOND DRAFT DATED NOVEMBER TWELVE WITH CHANGES AGREED BETWEEN YOU AND SCOTT PLUS FOLLOWING PARAGRAPH ONE ~~STOP~~ RETAIN SINCAT IN BRACKETS BEFORE QUOTE THE COMPANY UNQUOTE IN BRACKETS STOP MIDDLE PARAGRAPH TWO DELETE QUOTE THREE HUNDRED THOUSAND TONS IN TOTAL UNQUOTE STOP PARAGRAPH SEVEN CHANGE SHOULD TO SHALL IN EACH OCCURRENCE

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

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

For Use by Archives Division

Checked for Dispatch

RK

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Mr. Sidney P. Wheelock — November 22, 1957

W. J. Armstrong

Italy - New Loan

Svoboda called today and gave me the following information.

The Cassa does not wish to use one of the new projects as a substitute for the SIL project withdrawn. Mr. Pescatore has said that he would like the new loan to be allocated as follows:

		$ million
6 Industrial Projects		$29.36
2 Power Projects		29.20
2 Irrigation Projects		16.44
	Total	$75.00

The balance of $5.85 million available from Loans 117 and 150IT would be covered, $4.48 million for ABCD and $1.37 million for Irrigation.

If the Tajani project should be approved by the Cassa, the amount $1.44 million would be taken from the Irrigation.

Allocation of the new loan

Although the Cassa is not keen on including the Calabria power plant, if the Bank would insist on this project, the amount of $3.0 million should also be subtracted from the new Irrigation allocation. Thus four possibilities exist for the Irrigation allocation:

	$ million
1. As above	$16.44
2. Tajani only	15.00
3. Calabria only	13.44
4. Both Tajani and Calabria	12.00

Svoboda said Pescatore would appreciate your concurrence in this.

Svoboda also said that (1) the withdrawal of the SIL request would not affect our earlier loan to the Company; and (2) the Cassa wishes the Bank to permit the companies to sign the letters as soon as the projects are approved.

c.c.--Messrs. Bateson and Street, Lejeune, Ripman, Clark/Scott, de Alba
Ross, Finne, Groenveld

WJArmstrong:pgn

Files 2Italy-5th mp

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W.

TELEPHONE EXECUTIVE 3-6360 WASHINGTON 25, D.C. CABLE ADDRESS-INTBAFRAD

Rome, November 22, 1957

No. 20

Mr. Walter J. Armstrong
Assistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Walt: Re: SIL & Letters of Commitment

1) As I have already cabled you (cable No. 8) the SIL application for an additional Bank loan has been withdrawn. Cassa informs me that the Company in financing the project, for fiscal reasons has decided to make extensive use of its credit facilities with the Fucino bank. Since under the proposed second loan the IBRD has put up a limitation on such borrowings, the Company has decided to withdraw its loan request rather than change its financing plan. I have stressed to Dr. Besuso the importance of a careful follow up on the financing of this project, in the light of the financial commitments (debt/equity provisions) undertaken by the Company under the first Bank loan. Besuso assured me that this will be done, but felt that in view of the financial strength of the group, there was no reason for concern over the financing of this project.

2) Concerning the Letters of Commitment, I have cable you yesterday (22nd) (Cable No. 10) that the Cassa is reluctant to agree to the new procedures of having the borrower make a written statement of intention that he will sign the Letter when requested by the Bank. Besuso believes that this will further lengthen the procedures and will have a very bad psychological effect on the borrowers. He feels the companies, after the strict examination of their project, are now anxiously waiting for final word from the Bank and would resent any further delays in the already established procedure of signing the letters, once the projects have been approved. I explained to Besuso that some flexibility in these procedures was necessary to conform with the various actions still to be taken under the new loan which in their timing in some respects differ from the previous Bank loans. In particular, I stressed that a final decision was still to be made regarding the distribution of loan funds among the sectors and the allocations to the industrial projects from the new loan and from the balances on the previous loans. Besuso was not entirely convinced of this reasoning and strongly recommended that once the projects have been approved we should not delay final clearing and signing of the Letters. Murray Ross whom I have asked to sit in on the meeting, meanwhile will have reported to the Bank, and, I presume that shortly I will received further guidance in this matter. Until such time I am holding further action on the Letters.

With best wishes.

Sincerely yours
Ladi

Ladislav Svoboda

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D.C.

CABLE ADDRESS-INTBAFRAD

TELEPHONE EXECUTIVE 3-6360

Rome, November 22, 1957

No. 20

Mr. Walter J. Armstrong
Assistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Walt: Re: SIL & Letters of Commitment

1) As I have already cabled you (cable No. 8) the SIL application for an additional Bank loan has been withdrawn. Cassa informs me that the Company in financing the project, for fiscal reasons has decided to make extensive use of its credit facilities with the Fucino bank. Since under the proposed second loan the IBRD has put up a limitation on such borrowings, the Company has decided to withdraw its loan request rather than change its financing plan. I have stressed to Dr. Besuso the importance of a careful follow up on the financing of this project, in the light of the financial commitments (debt\equity provisions) undertaken by the Company under the first Bank loan. Besuso assured me that this will be done, but felt that in view of the financial strength of the group, there was no reason for concern over the financing of this project.

2) Concerning the Letters of Commitment, I have cable you yesterday (Cable No. 10) that the Cassa is reluctant to agree to the new procedures of having the borrower make a written statement of intention that he will sign the Letter when requested by the Bank. Besuso believes that this will further lengthen the procedures and will have a very bad psychological effect on the borrowers. He feels the companies, after the strict examination of their project, are now anxiously waiting for final word from the Bank and would resent any further delays in the already established procedure of signing the Letters, once the projects have been approved. I explained to Besuso that some flexibility in these procedures was necessary to conform with the various actions still to be taken under the new loan which in their timing in some respects differ from the previous Bank loans. In particular, I stressed that a final decision was still to be made regarding the distribution of loan funds among the sectors and the allocations to the industrial projects from the new loan and from the balances on the previous loans. Besuso was not entirely convinced of this reasoning and strongly recommended that once the projects have been approved we should not delay final clearing and signing of the Letters. Murray Ross whom I have asked to sit in on the meeting, meanwhile will have reported to the Bank, and, I presume that shortly I will received further guidance in this matter. Until such time I am holding further action on the Letters.

With best wishes.

Sincerely yours

Ladislav Svoboda

P.S. I have just received your cable No. 21. The withdrawal of the SIL application for a second loan does not affect the first Bank loan. The total of unutilized funds under loan 117 IT and 150 IT has now increased to Lit. 856 million. I will talk to Cassa and cable you today concerning Cassa's wishes in regard to a possible utilization of this suplus for financing one of the new projects.

L.S.

FORM NO. 26
(1.50)

Files   Italy - 5th np

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 22, 1957

TO: ARMSTRONG, INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROMA

ROUTING
ACTION COPY TO TECH. OPER.
INFORMATION COPY TO
Decoded By

TEXT:

TEN CASSA RELUCTANT AGREE NEW PROCEDURES RE CLEARING LETTERS COMMITTMENT. FEELS PROPOSED WRITTEN STATEMENTS BY BORROWERS OF INTENT TO SIGN LETTER WHEN REQUESTED BY BANK WILL FURTHER COMPLICATE ALREADY INVOLVED PROCEDURES AND MIGHT CAUSE RESENTMENT BORROWERS. RECOMMENDS THAT BANK FOR PRACTICAL AND PSYCHOLOGICAL REASONS SHOULD PERMIT PROMPT SIGNING LETTERS ALL APPROVED PROJECTS. ROSS WILL REPORT FURTHER DETAILS ON ARRIVAL WASHINGTON. AM LEAVING TOMORROW NOON FOR NAPLES TO ACCELERATE REVISION CMI PROJECT COMMA WILL RETURN ROME SATURDAY

SVOBODA

MRS. SVOBODA BEING NOTIFIED.

ORIGINAL

Form No. 26
(1-50)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 22, 1957

TO: ARMSTRONG, INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROMA

ROUTING
ACTION COPY TO TECH. OPER.
INFORMATION COPY TO
Decoded By

TEXT:

TEN CASSA RELUCTANT AGREE NEW PROCEDURES RE CLEARING LETTERS COMMITMENT. FEELS PROPOSED WRITTEN STATEMENTS BY BORROWERS OF INTENT TO SIGN LETTER WHEN REQUESTED BY BANK WILL FURTHER COMPLICATE ALREADY INVOLVED PROCEDURES AND MIGHT CAUSE RESENTMENT BORROWERS. RECOMMENDS THAT BANK FOR PRACTICAL AND PSYCHOLOGICAL REASONS SHOULD PERMIT PROMPT SIGNING LETTERS ALL APPROVED PROJECTS. ROSS WILL REPORT FURTHER DETAILS ON ARRIVAL WASHINGTON. AM LEAVING TOMORROW NOON FOR NAPLES TO ACCELERATE REVISION CMI PROJECT COMMA WILL RETURN ROME SATURDAY

SVOBODA

MRS. SVOBODA BEING NOTIFIED.

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVELOP.

NOV 22 11 17 AM 1957

ORIGINAL

Italy - 5th up

No. 18 November 22, 1957

Mr. L. M. Svoboda
Grand Hotel
Rome, Italy

Dear Ladya:

Further to our telephone conversation of today, I find that the draft report on Tajani did not include a draft Letter of Agreement. Since time is running short and there is little likelihood that the project will be approved before you leave, I would suggest the following procedure. Clear up all the points mentioned in our cable No. 14 Nov. 6/57 and arrange with the Cassa that as soon as possible after you have returned to Washington, an approved draft letter will be sent to them for use when and if they approve the project for inclusion in the loan.

I think the same procedure should be followed even in the event that all of the differences surrounding the project are cleared before you come home because we should like to have a chance to go over all of the figures and discuss with you the proposed financial arrangements before having any letter signed.

With best regards,

WJA
W. J. Armstrong

c.c.--Messrs. Bateson, Wheelock and Street

WJArmstrong:pgn

FORM No. 26
(1.50)

Italy 5 m: rp.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 21, 1957 1705

TO: ARMSTRONG INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING	
ACTION COPY TO	TECH.OP.
INFORMATION COPY TO	
Decoded By	

TEXT:

8

SIL LOAN REQUEST WITHDRAWN BECAUSE BANK CONDITION OF LIMITATION ON FUCINO BANK LOANS UNACCEPTABLE

SVOBODA

DUPLICATE

INTERNATIONAL BANK FOR
RECONST. AND DEVELN

NOV 21 12 20 PM 1957

Italy - 5th mp. files

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D.C.
TELEPHONE EXECUTIVE 3-6360
CABLE ADDRESS-INTBAFRAD

No. 19

Grand Hotel
Rome, November 21, 1957

Mr. Walter Armstrong
Asistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Walt:

Re; MARZOTTO

Enclosed is second draft of report on Marzotto and draft letter of agreement as reviewed by Hugh Scott.

I have revised the report in the light of the comments in your Letter No. 16, and have tried to firm up our information on those points which have caused particular concern in Washington. In this respect I would like to refer to three major questions asked in your letter, i.e. the market, Marzotto past performance, and the financial forecast.

Concerning the market, we have had recently some encouraging news as to future trends. The research chief of the Bank of Italy, who takes a keen interest in development concerning the ready-made clothing industry, in discussions with Murray Ross has expressed the opinion that there are definite indications of an expansion of this industry's market. In particular he stressed the tendency to buy ready-made clothes, among younger people, who outweigh the more conservative older generation. I think your proposed paragraph on the market expresses very well the situation. I have incorporated it in the report and have added a sentence on Italy's favorable export prospects, as agreed with Murray.

As regards the operation of Marzotto's present ready-made clothes plant at Valdagno, I have made further extensive investigations into its past performance. From examination and discussion of the figures submitted so far it appears that after three years of losses (in amounts yet to be determined), in 1957 they are at least breaking even, if not making a profit on the operation. It should be noted that this year's results may have been even somewhat better , were it not for the training program for the Salerno project now being carried out in the Valdagno factory, which naturally has some adverse effects on the efficiency of its operation.

As you will appreciate, under the circumstances it would be difficult (if at all possible) to determine exactly the results of the Valdagno plant, which operates as an integrated part of Marzotto's other textile factories. To the extent possible I have carefully examined each item of its costs analysis in comparison with that for the new project. While certain additional information has yet to be received to complete this work, I think at this point it is safe to make a general statement as suggested in my redraft of second sentence of your section on the Management. We could be more specific in the final report, if the figures yet to be submitted so permit. No doubt the management question is a matter which requires careful consideration, although little more can be expected from further investigations here short of a consultant's visit to the company.

Finally, concerning the financial forecasts, in accordance with your suggestions I have agreed with the company and the institutes on a more conservative earnings forecast by reducing estimated output in the first year of operation and increasing somewhat operating costs in the second and third year. Start up expenses are included in project cost.. I have noted your concern over the fact that depreciation of plant would be at a faster rate than loan repayment. While I fully appreciate your position in this matter I can understand Cassa's argument, that while being conservative in respect to depreciation we should exercise also some caution in regard to loan repayments. In trying to work out a reasonable solution I found Besuso rather firm in regard to the proposed cut in the amortization period. He insisted that, in accordance with Italian practice, loans to industry, with a few exceptions (chemicals), are not made for repayment periods shorter than 10 years. He also felt that this point should not be of too much consequence to the Bank and that the Cassa would prefer to have the money left in productive use with the borrower rather than retire it at an earlier date. Eventually we agreed on a shortening of the grace period by one year, but left the amortization period unchanged as 10 years. I hope that this will find your approval.

As regards the additional Lit.200 million to be spent after completion of construction, they represent mostly payments under performance guarantee. However in order to avoid any complications in the letter of agreement, I inserted into the forecasts a supplementary pro forma balance sheet as of the date of completion of the project. I have accordingly revised all figures in the letter with minor adjustments in its text. I have included a 2:1 current ratio as suggested.

I hope that the revised report will have sufficiently strengthened the presentation of this project to enable a final opinion on the main issues involved.

With kind regards
Sincerely
Lato

Encls.

Ladislav Svoboda

MARZOTTO

Borrower

The prospective borrower is Marzotto Sud S.p.A., incorporated in 1956. The company would build a plant in Salerno for the manufacture of ready-made clothing. The cost of the project including working capital and interest during construction is estimated at Lit. 3.7 billion ($5.9~~8~~2 million) of which Lit. 1.3 billion ($2.08 million) is requested from IBRD funds.

The stock of Marzotto Sud is ~~totally~~ wholly owned by Manifattura Lane Gaetano Marzotto & Figli, S.p.A., one of the largest textile companies in Italy, owned by the Marzotto family. The Marzotto family also owns other companies in the sugar, soap and glass industries, tourist hotels in Italy, etc.

Description of the Project

The plant at Salerno would be able to manufacture 290,000 units (one "unit" ~~is~~ consists ~~represented~~ of either ~~by~~ a jacket and a pair of trousers, ~~one~~ an overcoat, or three pairs of trousers) of ready-made clothing per year (290 days, one 8 hour shift).

The plant would have modern buildings covering a working area of about 12,000 m² and housing about 660 cutting, sewing and pressing machines and 3,000 m² for offices and services.

Ancillary installations include a thermo-electric plant with (two boilers), water softening and heating and ventilating equipment.

Electric power requirements would be provided by ~~their~~ the company's own plant (using back pressure turbines). Water will be supplied from the city water service.

~~This~~ The industry is of the labor-intensive type and when operating at full capacity will employ about 1,200 people.

Present Status

Project engineering has been completed; the plant site has been acquired; and work on the ~~building~~ foundations of the building has ~~have~~ been started. The equipment, with the exception of the thermo-power plant, can be obtained on very short notice; quotations have been received and analyzed. The plant is ~~estimated~~ expected to be completed and in operation in early 1959.

Management

Manifattura Lane G. Marzotto & Figli has operated a ready-made clothing plant at Valdagno for three years as part of their textile manufacturing activities there. Although the plant, like the company's other textile operations, has not been entirely successful in the past three years, there has been a steady improvement in the plant's results. Production has increased from 137,000 units in 1955 to 203,000 units in 1956 and 1957 production is estimated ~~to reach~~ at 250,000 units. ~~in 1957,~~ (about 80% capacity of ~~the~~ plant). Sales have increased from Lit.1.5 billion in 1955 to Lit.1.8 billion in 1956; ~~they~~ and are ~~estimated as~~ expected to amount to Lit. 2.4 billion in 1957. The operational losses in the initial years have been gradually reduced; ~~and~~ during the first half of 1957, the ~~company~~ plant has been able to break even and is expected to show a moderate profite for the entire year. The improvement in its operating results appears to be due to the correction of deficiencies in production techniques and sales methods revealed in the first years of operation. The company has now engaged a new manager for the Valdagno plant who has had experience with other firms in the industry, and the prospect of continued successful operation seems good.

The company's experience at Valdagno should be very helpful to it in setting up and operating the Salerno plant, for which it is now hiring additional personnel. The Valdagno management can provide expert advice for the solution of any technical or sales problems that arise at the Salerno plant.

Markets

The ready made clothing industry is just beginning to be established in Italy. Statistics on sales are not complete but production of ready-made garments amounted to about two million units in 1956, including trousers and children's clothing. Available statistics indicate that this represented about 20% of the total number of garments manufactured in Italy, where most garments are still produced to order by individual tailors or very small concerns. About 14% of the ready-made garments produced were exported.

In other European countries, such as France, Belgium, Germany, Norway and the U.K., about 80% of all garments produced are ready-made. In spite of the fact that there is still a prejudice against ready-made garments in Italy, Marzotto believes that the market can be expanded there as elsewhere in Europe, provided that the garments are of good quality and sold at reasonable prices, and that a sound sales organization is built up. Although Marzotto's financial forecasts for the Salerno plant are based on the assumption that it will produce medium-quality clothing, the company intends to maintain considerable flexibility in operations, so that it can meet market demand with respect to quality and price.

Marzotto expects to sell its garments through agents operating on a commission basis. It has arrangements with some such agents already. If necessary, the company will also market its ouput through its own stores. Success will depend to a considerable extent on the effectiveness of the sales organization, but the satisfactory results that the company is now obtaining at Valdagno suggest that it can work out a good distribution system for a larger output.

Through its existing export sales organization, Marzotto expects to develop the export market furher, and to dispose of about 20% of the Salerno plant's output abroad. In view of the already existing pattern of acceptance of ready-made clothes in the major Western European countries, and ~~because~~ of Italy's lower labor costs, this objective does not appear unduly optimistic under the forthcoming European Common Market. The company recognizes the importance of aggressive sales activity in this field, too, and is studying the market and distribution methods intensively.

<u>Financing</u>

The cost of the project is estimated ~~as~~ at Lit. 3.7 billion, including Lit. 1.6 billion for fixed assets and Lit. 2.1 billion for net current assets. Of ~~this~~ the total, Lit. 1.5 billion would be financed from share capital and Lit. 0.9 billion from shareholders' advances. The remaining Lit. 1.3 billion, representing 35% of the total, would be covered from the proposed Bank loan. The relatively large working capital requirements, representing 57% of the total capital investment, are due mainly to the extensive use of sales credits which form an essential part of the contemplated sales promotion for this project and its distribution system. The estimated balance sheets when the project is completed and at the end of the fourth year of operations are shown below:

	Mar.31 1959	Dec. 31 1962		Mar.31 1959	Dec.31 1962
Fixed assets	1,625	1,625	Share Capital	950	1,500
Less depreciation		599	Shareholders' advances	575	900
Net Fixed Assets	1,625	1,026			
Net Current Assets	1,200	2,100	Surplus		427
"Additional Assets"		698	IBRD loan	1,300	997
	2,825	3,824		2,825	3,824

Financial forecasts of the company are given in Annex I and a letter of financial conditions agreed with the company is given in Annex 2.

The ~~operations of the~~ Marzotto textile mills at Valdagno have shown poor results for several years ~~in the past have shown poor results~~, due in part to the adverse conditions ~~developments~~ in the textile market, in particular in ~~for~~ woollen textiles. Since late 1956, however ~~there has~~ operating results have shown a steady substantial improvement. ~~been a marked improvement in the company's operation which during 1957 has attained an accelerated rate.~~ Sales ~~Sales in~~ the first nine months of this year totalled Lit.22.4 billion; for the full year ~~and~~ they are expected ~~estimated~~ to amount to ~~reach~~ Lit. 31.0 billion ~~at the end of the year~~, as compared with ~~to~~ Lit.23.6 billion in 1956. ~~A net~~ Profits for 1957 are estimated at ~~of~~ Lit.1.5 billion, ~~is foreseen for this year as~~ compared with ~~to~~ Lit.0.6 billion ~~actual profit~~ in 1956.

Earnings and Debt Service Coverage

Operating at normal capacity and selling medium quality clothing at prices somewhat lower than ~~below~~ those presently prevailing, the project is expected to ~~in the fourth year of operations would~~ have net sales of an estimated Lit.5.3 billion in the fourth year of operation ~~and produce a net~~ and to yield a net profit of approximately Lit.0.3 billion. This would represent a return of about 12% on share capital and shareholders' advances. The company has estimated that, if ~~required by the market~~ conditions make that desirable, it could produce lower quality clothing and show a return corresponding to about 13% of total equity.

Estimated company earnings before interest and depreciation, when the plant is operating at normal capacity, should cover the service of the proposed IBRD loan about 2.8 times. The project should be able to reduce its output to about 50%

capacity and still generate sufficient cash from operations to meet the service requirements of the Bank loan.

Economic Justification

The project represents an important step towards the rationalisation ~~and integration~~ of the Italian ~~textile and~~ clothing industry. It will supply low price ready-made clothing of standard quality to a potentially large market particularly in the south of Italy and will thereby help to raise ~~the~~ living standards ~~of its population~~. It will provide an important outlet for the products of the parent company's textile mills in the north and thereby strengthen their operational position against the adverse effects of drastic fluctuations in the textile market. Last but not least the project will benefit a poverty-stricken area in the south of Italy by ~~in~~ providing direct employment for up to 1,200 people.

Conclusions and Recommendations

The Marzotto project is sound and could form the basis for a loan of Lit. 1.3 billion ($2.1 million) excluding interest during construction. The terms of the loan could be for 12 years, including a two years grace period.

ANNEX I

XI-21-57

MARZOTTO

Financial Forecasts
(million lire)

	Construction			Operation			
	1957 Dec.31	1958 Dec.31	1959 Mar.31	1959 Dec.31	1960 Dec.31	1961 Dec.31	1962 Dec.31
I. Earnings Statement							
Production (% of capacity) 1/				50	80	90	100
				51	82	92	
Operating costs 2/				2,414	3,900	4,357	4,720
Interest IBRD loan 2/				91	91	84	77
Depreciation				110	163	163	163
Taxes				10	10	10	10
Total costs				2,625	4,164	4,614	4,970
Net sales				2,625	4,200	4,725	5,250
Net income after taxes				-	36	111	280
Net Income as % of share capital and shareholders' advances					1.8 2	4.6	11.7
II. Sources and Application of Funds							
Net income before interest			-	91	127	195	357
Depreciation accruals			-	110	163	163	163
Share Capital		400	550		150	400	
Shareholders' advances	400	125	50	125	200		
IBRD loan		1,100	200				
Total sources	400	1,625	800	326	640	758	520
Fixed assets	400	994	200				
Interest and financial charges		31					
Total Fixed assets	400	1,025	200				
Net current assets		600	600	200	300	400	
IBRD debt service 2/				91	185 (183)	185	185
"Additional Assets"				35	155	173	335
Total Applications	400	1,625	800	326	640	758	520

1/ Company's estimates of rate of output in 1959 reduced about 30% and estimated operating costs in 1960 and 1961 increased 2%, to provide for lower productivity and higher costs during early years of operation.

2/ Assuming loan of Lit.1.3 billion at 7% for 12 years including 2 years grace period.

XI-21-57

MARZOTTO

Financial Forecasts
(million lire)

	Construction			Operation			
	1957 Dec.31	1958 Dec.31	1959 Mar.31	1959 Dec.31	1960 Dec.31	1961 Dec.31	1962 Dec.31
III. Balance sheets							
Fixed assets	400	1,425	1,625	1,625	1,625	1,625	1,625
Less depreciation				110	273	436	599
Net Fixed Assets	400	1,425	1,625	1,515	1,352	1,189	1,026
Net Current Assets		600	1,200	1,400	1,700	2,100	2,100
"Additional Assets"				35	190	363	698
Total Assets	400	2,025	2,825	2,950	3,242	3,652	3,824
Share capital		400	950	950	1,100	1,500	1,500
Shareholders' advances	400	525	575	700	900	900	900
Surplus					36	147	427
IBRD loan		1,100	1,300	1,300	1,206	1,105	997
Total liabilities & equity	400	2,025	2,825	2,950	3,242	3,652	3,824

MARZOTTO

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

Gentlemen:

(1) This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and Marzotto Sud S.p.A. (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to construct and operate in Salerno a plant for the manufacture of ready-made clothing, with a normal capacity of about 290,000 units per year when operating on a one shift basis (a unit consisting of one jacket and one pair of trousers, or one overcoat or three pairs of trousers). We have informed you that the pro forma balance sheet of the Company, after completion of construction would be as follows:

Fixed assets	Lit. 1,625,000,000	Share Capital	Lit.	950,000,000
Net Current Assets	1,200,000,000	Shareholders' advances		575,000,000
		IBRD Loan		1,300,000,000
	Lit. 2,825,000,000			Lit. 2,825,000,000

(4) The cost of the project should be considered as Lit.1,625,000,000 for fixed assets and Lit. 2,100,000,000 for net current assets. We have explained that by the end of the third year of operation of the project, the net current assets requirements will have increased to an estimated Lit.2,100,000,000. The increase in net current assets from Lit.1,200,000,000 on project completion to Lit. 2,100,000,000 by the end of during the third operating year will be provided from any one

or a combination of any of the following sources: additional share capital, shareholders' advances, retained earnings or depreciation accruals.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and ISVEIMER shall otherwise agree:

I. On completion of the project the share capital of the Company shall be at least Lit.950,000,000 paid in as required, and shareholders' advances shall total at least the difference between Lit.1,525,000,000 and paid in share capital;

II. During the second year of operation of the project the share capital of the Company shall be increased ~~at~~ to at least Lit.1,100,000,000 paid in as required and shareholders' advances shall be increased to at least the difference between Lit.2,000,000,000 and paid in share capital, and

III. During the third year of operation of the project the share capital of the Company shall be increased to at least Lit.1,500,000,000 paid in as required.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER to provide the necessary funds as and when they are required;

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

D. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time than 2:1 ; or

II. The excess of current assets over current liabilities being less than:

a. Lit.1,400,000,000 at the end of the first operating year;

b. Lit.1,700,000,000 at the end of the second operating year; and

c. Lit. 2,100,000,000 at any time after the end of the third operating year.

III. Any payment of dividends before, or out of earnings accrued before, the completion of the construction of the project.

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would,

within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit.1,300,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

MARZOTTO SUD S.p.A.

FORM No. 26
(1.50)

Italy - 5th mp

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 21, 1957 1040

TO: ARMSTRONG INTERNATIONAL BANK FOR
RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING	
ACTION COPY TO	TECH. OP.
INFORMATION COPY TO	
Decoded By	

TEXT:

7

YOUR 19 SINCAT DEBT SERVICE FIGURES FOR 1958 AND 59 ARE CORRECT
INTEREST SHOULD BE TWO ZERO SEVEN AND ONE NINE SIX RESPECTIVELY.
NO CHANGES IN DRAFT LETTER. SORRY FOR MISTAKE

SVOBODA

ORIGINAL

Italy - 5th Mp.

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

MRT

CLASS OF SERVICE: LT

DATE: NOVEMBER 21, 1957

TO: ~~L. M.~~ SVOBODA
~~GRAND HOTEL~~ GRANOTEL
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY ONE

HAVE DISCUSSED DRAFT LETTERS WITH SCOTT STOP USE HIS VERSION FOR CONE AND MONTECATINI POTASH PROJECTS STOP WILL GIVE FURTHER INSTRUCTIONS ON OTHERS AS APPROVAL COMES THROUGH STOP YOUR EIGHT ASSUME SIL WILL PROCEED WITH PROJECT AND PRESENT ACTION WILL NOT AFFECT PREVIOUS LOAN STOP WILL CASSA WANT TO PUT ONE OF NEW PROJECTS IN ITS PLACE

Signed: Armstrong
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

FORM NO. 26
(1.50)

25aly-5m np.
Files

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 21, 1957

TO: ARMSTRONG, INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROMA

ROUTING
ACTION COPY TO TECH. OPER.
INFORMATION COPY TO
Decoded By

TEXT:

NINE YOUR TWENTY IN ABSENCE ORIGINAL DOCUMENTS NOW IN WASHINGTON PROMPT TRACING FIGURES SINCAT SOMEWHAT DIFFICULT. WORKING PAPER INDICATES INTEREST FOR NINETEEN FIFTY EIGHT AND FIFTY NINE IN EARNINGS STATEMENT SHOULD BE SUPPLEMENTED BY FIVE ZERO EACH FOR FINANCIAL CHARGES CAPITALIZED TO MAKE UP TOTAL INTEREST AND FINANCIAL CHARGES SHOWN IN CASH FLOW. WILL CHECK WITH CASSA TOMORROW AND CABLE IF EXPLANATION OTHERWISE

SVOBODA

add #50,000,000 to cap stmt.

ORIGINAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Form No. 26 (1.60)

INCOMING WIRE

ROUTING
ACTION COPY TO TECH. OPER.
INFORMATION COPY TO
Decoded By

DATE OF WIRE: NOVEMBER 21, 1957

TO: ARMSTRONG, INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROMA

TEXT:

NINE YOUR TWENTY IN ABSENCE ORIGINAL DOCUMENTS NOW IN WASHINGTON PROMPT TRACING FIGURES SINCAT SOMEWHAT DIFFICULT. WORKING PAPER INDICATES INTEREST FOR NINETEEN FIFTY EIGHT AND FIFTY NINE IN EARNINGS STATEMENT SHOULD BE SUPPLEMENTED BY FIVE ZERO EACH FOR FINANCIAL CHARGES CAPITALIZED TO MAKE UP TOTAL INTEREST AND FINANCIAL CHARGES SHOWN IN CASH FLOW. WILL CHECK WITH CASSA TOMORROW AND CABLE IF EXPLANATION OTHERWISE

SVOBODA

NOV 22 11 34 AM 1957

Italy - 5th negs

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: FULL RATE

DATE: NOVEMBER 21, 1957

TO: L. M. SVOBODA
GRAND HOTEL (GRANDOTEL)
ROME

COUNTRY (ITALY)

TEXT:

Cable No. TWENTY

YOUR SEVEN PLEASE REFER TO OUR NINETEEN AGAIN AS UNEXPLAINED DIFFERENCE IS BETWEEN QUOTE CAPITALIZED INTEREST UNQUOTE IN EARNINGS STATEMENT AND QUOTE INTEREST AND FINANCIAL CHARGES UNQUOTE NOT REPEAT NOT DEBT SERVICE

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: B. Chadenet

DEPT: T.O.D.

SIGNATURE: B. Chadenet
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Italy 5th mp

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 20, 1957

TO: L. M. SVOBODA
~~GRAND HOTEL~~ GRANOTEL
ROME

MRC

COUNTRY (ITALY)

TEXT:

Cable No. NINETEEN

IN LATEST SINCAT FORECASTS FOR NINETEEN FIFTY EIGHT AND FIFTY NINE CAPITALIZED INTEREST IS SHOWN AS TWO NINE ZERO AND FOUR ONE ZERO WHILE INTEREST AND FINANCIAL CHARGES THREE FOUR ZERO AND FOUR SIX ZERO RESPECTIVELY STOP REPLY SOONEST REASON FOR DIFFERENCE AND GIVING CHANGES IN PRO FORMA OF LETTER IF ANY NECESSARY

Signed: ARMSTRONG
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

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

For Use by Archives Division

Checked for Dispatch

Pat

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Italy - 5th mp.

FORM NO. 26
(1.50)

Mr. Reamy

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 19, 1957 2030

TO: ARMSTRONG INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING
ACTION COPY TO MR PRINS
INFORMATION COPY TO MR REAMY TECH. OP.
Decoded By

TEXT:

6. RECEIVED YOUR COMMENTS CMI. ARRANGED MEETING MARZOTTO CMI LATTER PART THIS WEEK AND EXPECT AIRMAIL REPORTS BOTH PROJECTS BY SATURDAY 31. IF APPROVAL THESE PROJECTS AND CLEARANCE ALL LETTERS AGREEMENT POSSIBLE BEFORE END NEXT WEEK WOULD LEAVE SATURDAY NOVEMBER 30 FOR NEW YORK. PLEASE SEND 400,000 LIRE FOR ADDITIONAL EXPENSES MISSION AND MILLER

SVOBODA

called Reamy
Nov 20 '57

Mrs. Svoboda Notified

DUPLICATE

INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

NOV 20 10 46 AM 1957

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Italy - 5th mp -

OUTGOING WIRE

MRT

CLASS OF SERVICE: LT

DATE: NOVEMBER 19, 1957

TO: L. M. SVOBODA
GRAND HOTEL (GRANOTEL)
ROME

COUNTRY (ITALY)

TEXT:

Cable No. EIGHTEEN

YOU MAY DISCUSS DRAFT LETTERS FOR CONE AND MONTECATINI POTASH WITH COMPANIES STOP FOR PRESENT ASK THEM TO GIVE YOU WRITTEN ASSURANCE THEY WILL SIGN LETTERS WHEN REQUESTED ALSO ASK THEM TO TAKE NOW WHATEVER ACTION NECESSARY SUCH AS BOARD MEETING TO ALLOW THEM TO SIGN PROMPTLY ON REQUEST STOP HAVE RECEIVED LETTERS FIFTEEN SIXTEEN AND SEVENTEEN

Signed: Armstrong
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

DISPATCHED INTERNATIONAL BANK FOR RECONST. AND DEVELOP. 1957

Italy - 5th mp.
files

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W.
WASHINGTON 25, D.C.

TELEPHONE EXECUTIVE 3-6360

CABLE ADDRESS-INTBAFRAD

No. 18

Grand Hotel
November 17, 1957

Mr. Walter J. Armstrong
Assistant Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Walt,

Enclosed is second draft of report — Not sent to files. and revised draft Letter of Agreement on the ABCD project.

I have revised the report in the light of the comments contained in your letter of November 1 and have adjusted the financial forecasts to reflect a more conservative estimate, involving the following major changes:

1) earnings in fiscal year 1960 have been reduced to approximately their 1959 levels, representing the operation of the special cements plant and first distillery only, since the polyethylene plant will not be in production before the end of the fiscal year.

2) depreciation rates have been increased to 3% on buildings, 12% on the polyethylene plant and 8% on most of the other equipment.

As regards the life of the loan, following your instructions, I have agreed with the institutes and the Company on a eight year amortization period plus three years grace, corresponding to the terms of the first loan. The grace period for the first loan would be extended by one year, with amortization of both loans to start on January 1, 1961.

In the revised financial forecasts I have included the actual and preliminary figures for 1956 and 1957 as reconciled by the Company and have eliminated the other inaccuracies noted. According to your instructions, I have based the forecasts on the company's official figures supplemented by footnotes where required. I have also supplemented the revised table on page 2 by a breakdown of the IBRD project shown in Annex I, and have commented on the working capital requirements (points 1 and 2 of your letter). Concerning point 23 of the letter, as you have noted, in fiscal 1955/56 there has been a decline in shareholders' advances. However since this decline occurred prior to the signing of the ISVEIMER loan agreement, April 11, 1957 it does not constitute a violation of the Letter of Agreement.

Concerning the Letter of Agreement, the revised second draft enclosed has been prepared by Hugh Scott on the basis of your draft with further textual adjustments, to tie in the proposed new Bank loan into that previously received by the Company. I agree with your proposal to put up a limitation on the short term borrowings during the construction period, but feel that a specific repayment provision may not be necessary, considering the fact that (1) the Letter includes a current ratio provision, effective after completion of the project, and (2) it would be difficult to determine the appropriate amount of short term borrowings within the total of the company's future current liabilities. You will note that in the adjusted paragraph 6 C the amount of Lit. 800 million has been appropriately defined as the permitted "additional" borrowings during the construction period, rather than their total. You may want to await Hugh Scott's return to Washington (November 21st) before cabling me your final instructions concerning this paragraph.

As regards the break down of the estimated Lit.1.554 million increase in net current assets into requirements a) in respect of the project and b) on account of the sales credit expansion, I am still awaiting a satisfactory answer from the Company.

Yesterday I have received your letter No. 16, concerning comments on Marzotto, and have arranged for a meeting with the Company early next week to review the project in the light of your comments. I have also received your cable No. 17. I have already answered your questions in my cable No. 5 but some further explanation concerning the Tajani project may be appropriate. As Eduardo will have already reported, contrary to all previous Cassa and ISVEIMER expectations, the Pirelli cable cartel has not remained unconcerned with the Tajani project, and has left no doubt that it would fight Tajani's further expansion plans. This raises a serious question of Tajani's future market on which so far we have not been able to receive any assurance from the Company or the institutes. Sid has told Minister Campilli that unless satisfactory assurances on this point are soon forthcoming the project will have to be dropped. Campilli answered that "it is a law of nature that the pigmy cannot fight the giant". However, yesterday in his final talk with Dr. Menichella, Sid found the Governor very much interested in the project and shocked by the way it has been handled. The Governor intends to take up this matter at appropriate levels, and so there is still hope that this project can be included in the loan.

I am now awaiting your instructions concerning further procedures in respect to the Letters of Agreement. Because of the time required for clearing the Marzotto and CMI projects (CMI comments not yet received), I have tentatively shifted the date of my departure from Saturday Nov. 23 to Tuesday November 26, for a direct flight to New York, adding two more working days to wind up my business. I have received the additional Lit. 450,000 requested, which, after taking care of the other members of the mission should be sufficient to carry me through.

There has been little news from the Division recently and I believe that everybody is extremely busy. I presume that Hugh is very much tied up with the India, Austria and Japan loan operations and am therefore addressing the letter directly to you. No doubt you must have had a hard time these days in keeping up with your official duties and at the same time attending to the emergency at home. I hope that your family by now has fully recovered from the Asiatic flu and that everybody is doing fine.

With kind regards.

Sincerely yours
Lasto

Ladislav Svoboda

Encls.

Form No. 26
(1.50)

Italy - 5th: mp

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 17, 1957 2100

TO: ARMSTRONG INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: ROME

ROUTING
ACTION COPY TO TECH. OP.
INFORMATION COPY TO
Decoded By

TEXT:

Nov. 15/57

5. REUR SEVENTEEN. ONE HAVE INFORMED CASSA BANK HAS SOME DOUBTS SUITABILITY MARZOTTO CMI PROJECTS PENDING CLARIFICATION MAJOR POINTS TWO WILL INVESTIGATE YOUR QUESTION RE CONE THREE TAJANI DEPENDS ON ASSURANCE MARKETABILITY PRODUCTS. THIS ASSURANCE HAS NOT YET BEEN FORTHCOMING BUT LATEST DEVELOPMENTS INDICATE MAY STILL BE RECEIVED BEFORE FINAL BANK DECISION INDUSTRIAL PROJECTS FOUR HAVE RECEIVED YOUR COMMENTS MARZOTTO AND AM AIRMAILING TODAY LETTER AGREEMENT SIL AND REVISED REPORT AND LETTER ABCD FIVE CASSA INFORMS ME THAT CANCELLATION REQUEST FOR CHIMICA TIRRENO HAS BEEN AIRMAILED TO BANK THREE WEEKS AGO

SVOBODA

ORIGINAL

INTERNATIONAL BANK FOR
RECONST. AND DEVELP.

NOV 18 10 25 AM 1957

Italy - 5 M fin rep.
File

SOCIETÀ FINANZIARIA ELETTRICA NAZIONALE
FINELETTRICA

DIREZIONE CENTRALE

ROMA, November 16 th 1957
VIA ANIENE, 14
TEL. 841.341

Dear Mr. Wheelock,

I enclose herewith the copies of the "Projects Descriptions" you gave me the day before yesterday.

The descriptions have been revised by the Companies concerned and are signed by the same Companies and by Finelettrica.

As for the description of SGES power project, you will note that the figure of the pressure tunnel lehgth has only been modified.

The SEC power project has been signed without any change, while the SME has sent back the description of Napoli power project with some changes, as follows:

1) The completion date has been postponed to June 30th 1961, as a result of the biddings which at present are being received.

2) A bank of single-phase transformers will be installed, in lieu of two three - phase transformers.

3) The connections to SME grid will be operated at 220 and 60 kv.

I regret that it has been impossible to arrange a meeting this morning before your leave. I wish you a very good trip and hope to see you here again very soon.

With best regards to Mrs. Wheelock, I remain,

yours sincerely
Giorgio Cavalieri

To
Mr. Sidney P. Wheelock
Grand Hotel
ROMA

SOCIETÀ MERIDIONALE DI ELETTRICITÀ
PER AZIONI
SEDE IN NAPOLI
Capitale L. 74.982.800.000

C. C. I. A. NAPOLI N. 21917

N.

da citare nella risposta

Napoli (621), November 14, 1957
VIA P. E. IMBRIANI, 42

TELEGR.: TUSCIANO - NAPOLI - TELEF. P B X 25-300

New Cassa Loan
Project Descriptions - POWER PROJECTS

S.M.E. Power Project

This project, to be constructed by Società Meridionale di Elettricità (SME), and scheduled to be completed by June 30, 1961, includes a thermal electric plant and auxiliary works to be constructed on the east side of the existing Vigliena Thermal Electric Plant, in the harbor of Naples. It will be owned by SME and operated as part of its system. The plant will be equipped with two turbo-generating units, with a maximum continuous output capacity of 150,000 kW each and operating at a temperature of 1000 degrees Fahrenheit and at a pressure of 2,400 lbs per square inch. Two boilers will produce 1.06 million lbs. of steam per hour each, and will be fired by fuel oil or pulverized coal. The condensers will be cooled by sea water. There will be a bank of single phase transformers, with a total capacity of about 430,000 KVA, and 220 kV and 60 kV cables connecting the plant with the SME grid. The plant will be equipped with all necessary auxiliaries including a feed water treatment plant, fuel handling and storage facilities, switchgear and control equipment.

SOCIETA' MERIDIONALE DI ELETTRICITA'

APPROVED by
Società Finanziaria Elettrica Nazionale
(FINELETTRICA)

New Cassa Loan November 14, 1957

Projects Descriptions - POWER PROJECTS

S.G.E.S. Power Project

This project, to be constructed by Società Generale Elettrica della Sicilia (SGES), and scheduled to be completed by December 31, 1960, includes a hydro-electric plant to be located at Guadalami, south of Palermo, Sicily. It will be owned and operated by SGES as part of its system. The main works will consist of the following: and intake structure, taking water from the existing Piani dei Greci reservoir, a ~~1.13 km~~ 1,133 meter long intake pressure tunnel, a surgetank, two steel penstocks about 230 meters long, a powerhouse and an earth dam - 25 meters high and 450 meters long - across the upper Belice river, creating a lower reservoir with a useful capacity of 750,000 cubic meters. The water of the Guadalami stream will be diverted into the lower reservoir by means of a small barrage and a 755 meters long canal. The powerhouse will be located on the right bank of the upper Belice river and will be equipped with two horizontal units, each consisting of a turbine, a generator/motor and a pump. The turbines will be of the Francis type and will operate under a head of 170 meters. Each generator will have a capacity of 30,000 kw. The plant will be equipped with all necessary auxiliary equipment. Two 86,000 kva transformers will be installed in an outdoor substation. One 18 km 150 kv transmission line and three 70 kv transmission lines with a total length of 30 km will be constructed to connect the plant with the SGES grid. During the day the plant will supply energy to the SGES system at times of peak load and during the night it will pump water from the lower reservoir to the Piani dei Greci reservoir using energy from the SGES grid.

1.133

SOCIETA' GENERALE ELETTRICA DELLA SICILIA
Il Consigliere Direttore Generale

approved by
Società Finanziaria Elettrica Nazionale
(FINELETTRICA)

Società Elettrica delle Calabrie

PER AZIONI - CAPITALE SOCIALE L. 3.525.000.000

SEDE IN NAPOLI - DIREZIONE IN CATANZARO

Catanzaro, November 14, 1957

PIAZZA MATTEOTTI, 12

New Cassa Loan

Project Descriptions - POWER PROJECTS

S.E.C. Power Project

This project to be constructed by the Società Elettrica delle Calabrie per Azioni (SEC), and to be operated by it as part of its existing network, is scheduled to be completed by June 30, 1960. It includes the necessary transmission and distribution lines, cables, transformers and other facilities to serve an additional 60,000 consumers throughout the province of Calabria.

SOCIETÀ ELETTRICA DELLE CALABRIE
Il Presidente

approved by
Società Finanziaria Elettrica Nazionale
(FINELETTRICA)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
TELEPHONE EXECUTIVE 3-6360 WASHINGTON 25, D.C. CABLE ADDRESS-INTBAFRAD

Grand Hotel
Rome, November 15, 1957

No. 17

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh, Re: Status of Projects

We have now completed analysis of all the projects submitted by the Cassa and mailed the last report to the Bank (SIL) yesterday. After Eduardo's departure, yesterday, I am staying on until the end of next week to revise the remaining draft reports in accordance with TOD comments and to finalize the Letters of Agreement for presentation to the companies, pending their final approval by Washington. Hugh Scott will review the text of the letters prior to his departure, now scheduled for Tuesday November 19.

The following is a brief summary of the status of the projects to date:

Altogether 13 projects have been received and analyzed for a requested total of Lit.29.9 billion ($47.8 million). Of these 5 projects totalling Lit.8.1 billion ($12.9 million) have been rejected or withdrawn for the following reasons:

CEMENTIR -	Lit.1.5 billion	- majority control by Government
TAJANI	Lit.0.4 billion	- poor risk in present cartel controlled market
MARATEA	Lit.0.6 billion	- IBRD loan conditions unsatisfactory to borrower
SIR (resine)	Lit.1.6 billion	- inadequate economic justification
MONTECATINI (Aluminum)	Lit.4.0 billion	- power problem

The supplementary information received on the SIR Resine Plant has not improved the presentation of this project which has a poor economic justification and lacks adequate financing. Consequently, last week, in full agreement with the Cassa, we have informed the institute (CIS) and the borrower that the project was not suitable for Bank financing.

Concerning the Montecatini Aluminum project, we have had a long final discussion with the Montecatini representatives, during which Sid informed them that, in view of the unclarified power dispute now before arbitration, the Mission was not in a position to recommend this project for Bank financing. Subsequently Sid has received and answered Raymond's cable concerning Mr. Black's enquiry into this matter and I presume that Walt has had an opportunity to provide the necessary background.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D.C.

TELEPHONE EXECUTIVE 3-6360 CABLE ADDRESS-INTBAFRAD

Grand Hotel
Rome, November 15, 1957

No. 17

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh, Re: Status of Projects

We have now completed analysis of all the projects submitted by the Cassa and mailed the last report to the Bank (SIL) yesterday. After Edoardo's departure, yesterday, I am staying on until the end of next week to revise the remaining draft reports in accordance with TOD comments and to finalize the letters of Agreement for presentation to the companies, pending their final approval by Washington. Hugh Scott will review the text of the letters prior to his departure, now scheduled for Tuesday November 19.

The following is a brief summary of the status of the projects to date:

Altogether 13 projects have been received and analyzed for a requested total of Lit.29.5 billion ($47.0 million). Of these 5 projects totalling Lit.8.1 billion ($12.9 million) have been rejected or withdrawn for the following reasons:

CEMENTIR - Lit.1.5 billion - majority control by Government
TAJANI - Lit.0.4 billion - poor risk in present cartel controlled market
MARATEA - Lit.0.6 billion - IBRD loan conditions unsatisfactory to borrower
SIR (resine) Lit.1.6 billion - inadequate economic justification
MONTECATINI
(Aluminum) Lit.4.0 billion - power problem

The supplementary information received on the SIR Resine Plant has not improved the presentation of this project which has a poor economic justification and lacks adequate financing. Consequently, last week, in full agreement with the Cassa, we have informed the Institute (CIS) and the borrower that the project was not suitable for Bank financing.

Concerning the Montecatini Aluminum project, we have had a long final discussion with the Montecatini representatives, during which Sid informed them that, in view of the unclarified power dispute now before arbitration, the Mission was not in a position to recommend this project for Bank financing. Subsequently, Sid has received and answered Raymond's cable concerning Mr. Black's interest into this matter and I presume that Walt has had an opportunity to provide the necessary background.

The Tajani project, in the absence of Cassa support, has been dropped.

After eliminating the five projects mentioned above, there remain 8 projects suitable for Bank financing. Of these, 6 projects totalling Lit. 18.4 billion could be included in the proposed new loan and the remaining 2, representing supplementary financing for ABCD and SIL for Lit. 3.4 billion, could be covered from the surplus on loans 117 IT and 150 IT. A summary of the projects is given in table enclosed.

Meanwhile Sid has made tentative arrangements with Prof. Pescatore concerning the allocation to industry in accordance with the above requirements and the distribution of loan funds to the other sectors, all subject to final Bank approval.

I have just received the revised figures on ABCD and expect to mail the second draft report tomorrow.

With best wishes.

Yours,

Lasta.

Ladislav Svoboda

Encl.

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

NOV 19 11 32 AM 1957

ITALY

November 15, 1957

Summary of Industrial Projects

Proposed for IBRD Financing

	Estimated 1/ Total cost (million lire)	Proposed Loan: Million lire	Proposed Loan: $ equivalent thousand $
A. - From Proposed New Loan			
ISVEIMER PROJECTS			
CONE - Electric refrigerators and heaters	1,580	700	1,120
CMI Electric tinning line	1,660	600	960
MARZOTTO - Ready-made clothes	3,730	1,300	2,080
Sub-Total	6,970	2,600	4,160
IRFIS PROJECTS			
SINCAT - Potash, complex fertilizers and Chemicals	25,300	8,000 2/	12,800
MONTECATINI - Potash fertilizers	10,330	4,000	6,400
TRINACRIA - Potash fertilizers	8,200	3,750	6,000
Sub-Total	43,830	15,750	25,200
Total (A)	50,800	18,350	29,360
B. - Supplementary from surpluses in Loans 117 IT and 150 IT			
(1) Requirements			
SIL - Paper mill (ISVEIMER)	6,400	600 3/	960
ABCD - Special Cements & Polyethylene (IRFIS)	13,100	2,800 4/	4,480
Total Required (B)	19,500	3,400	5,440
(2) Available Funds			
Cancelled Projects: 150 IT			
Chimica del Tirreno		1,600	2,560
Vetreria di Latina		400	640
Technical Services		156	250
Sub Total		2,156	3,450
Cancelled Project: 117 IT			
Siculazoto		1,500	2,400
Total Available		3,656	5,850
Balance ($B_2 - B_1$)		256	410

1/ Including working capital
2/ Supplementary to Lit.3.6 billion ($ equiv. 5.8 million) from Loan 117 IT
3/ Supplementary to Lit.2.6 billion ($ equiv. 4.2 million) from Loan 117 IT
4/ Supplementary to Lit.3.1 billion ($ equiv. 5.0 million) from Loan 150 IT

Italy-5th up.

No. 17

November 15, 1957

Mr. L. M. Svoboda
Grand Hotel
Rome, Italy

Dear Ladya:

CMI

On the basis of your report this project appears to be marginal and probably unacceptable. It looks as though the company is trying to operate on a shoestring.

The main question at the moment in our minds is "Is the CMI Company really in sound shape?" If so then the figures in the report should justify this conclusion.

Will it really take until early 1959, or even until 1960, to complete the project? Incidentally, the early 1959 completion date is not consistent with your letter when you say a delay of six months would put the completion date to June, 1960. Also, why such a long "trial" period?

Is this construction schedule made up on technical considerations or is it geared to the cash generation of the company? If the latter then clearly Falck should put up some advances, even on a short-term basis, to get the equipment installed and in production as soon as possible.

It may be possible that the company is being ultra cautious in its earning forecasts, but the figures are too conservative to justify the project.

Why should the line operate for two years at only 75% capacity and then jump to 100% in the third year? Why should operating costs and sales be lower at 100% capacity than at 75%? Net income of only 2.5% of sales seems low. While there is adequate cover on our loan (9 times not 3.6 times) on the present figures, this disappears with a 2% (not 21%) rise in costs and a 2% fall in sales. This is very little protection.

I think you should go over the figures again with the company if necessary, to present a better and I imagine a more realistic picture of the company and its prospects. If the company insists on using the present figures, then we would like to have the real balance sheets and profit and loss statements to study even though they wouldn't be put in the report.

Since the 1956 balance sheets are not included we cannot judge about the necessity for limiting the debt-equity ratio in the future. From the figures available, this would not seem necessary but will leave this up to you.

On the current ratio, I would suggest it be 1.5 to 1 on completion of the project without restrictions during the construction period.

Following are comments on the report:

Page 1, Para. 1, Sentence 2

The description of the company's activities is not clear. Does it build and repair rolling stock at its plants at Castellammare and Naples or at other locations?

Page 1, Line 7

The cost of the project is given here as Lit. 1.7 billion, and on Page 2, Financing, Line 1, as Lit. 1.8 billion. The Financial Forecasts show project costs to be Lit. 1,814 million ($2.9 million) (cost of installation - Lit. 990 million; interest during construction - Lit. 50 million; additions to net current assets - Lit. 800 million minus Lit. 26 million = Lit. 776 million).

Page 1, Description of the Project

Should include information about present capacity and output of tinplate, estimated output after the electrolytic line is installed, and how much of this output is expected to be electrolytic and how much hot dip.

Page 1, Description of the Project, Para. 1, Line 7

The cost of the installations are given as Lit. 920 million. The Financial Forecasts show the cost to be Lit. 990 million. It would be clearer, moreover, to itemize the project costs at this point.

Page 1, Present Status, Line 4

The date of completion given here "early 1959" is not consistent with the statement in your letter that if completion is delayed by six months, the completion date would be June 1960.

It would be clearer to give a fuller account of the timing, giving dates when orders are to be placed, how long deliveries will take, and when completion is expected.

Page 2, Financing, Line 1

See comment on Page 1, Line 7, on cost of project.

Page 2, Financing, Para. 1

Since the project is to be financed out of company earnings, it would be clearer if this description were more detailed. A suggested redraft follows:

"It is proposed that of the Lit. 1.8 billion estimated total cost of the project, Lit. 0.6 billion would be covered by the proposed Bank loan. The remaining Lit. 1.2 billion would be covered by retained earnings and depreciation accruals. While the project is under construction, company contributions to the project would amount to Lit. 616 million (fixed assets - Lit. 440 million, additions to net current assets - Lit. 176 million) Lit. 600 million more would be added to net current assets from the enhanced earnings of the company after the completion of the project, which it is assumed will occur in 1959."

Page 2, Financing, Para. 2

It is difficult to understand (without information on share capital) why a rise in the total net income of CMI from Lit. 54 million in 1954 to Lit. 80 million in 1957 would result in a decline in the net return on share capital from 14% to 8%.

In any event, since the project is to be financed out of CMI's earnings, it would be desirable to give more information about the company's financial experience, preferably through a summary income statement and balance sheet for the last few years.

Instead of referring to "hidden reserves" and estimating actual income, it would be preferable to say that the company follows a very conservative policy in valuing inventories, confirmed by an investigation by ISVEIMER.

Page 3, Markets

Since the project appears to be intended at least as much to reduce costs by substituting electrolytic for hot dip tinplate, some information ought to be included on comparative costs, and the market study ought to emphasize that aspect of the project.

Page 3, Earnings and Debt Service Coverage

Sentence 1 - What does it mean to say that production of all facilities will have increased by about 20% over present levels? In terms of sales, or of what other units? The increase, compared with 1957 sales, which I assume from your letter was Lit. 12,500 billion is only 12.5%.

Sentence 2 - There should be some reduction in unit costs as a result of the installation of the electrolytic line. That fact should be taken into account if only to say that the reduction in costs is so small compared with the total that it canbe disregarded. Will prices remain unchanged?

Para. 2, Line 3

Estimated company earnings, before interest and depreciation when all facilities are operating at a normal rate, should cover debt service on the proposed IBRD loan about 9 times.

Para. 2, Last line

The drop in revenues and increase in costs that the company can sustain simultaneously and still cover debt service is only 2%.

Economic Justification

Give the basis for the estimate of foreign exchange savings.

Financial Forecasts

The figures for operating costs and net sales are lower in 1962 when the plant is to be operating at 100% of capacity than in 1960 or 1961 when it is to operate at 75% of capacity. If they are correct, there should be some explanation. It would be well to show the costs and sales for the project separately from the rest of the products of the company.

Letter of Agreement

The letter specifies net current assets of Lit. 1.7 billion but only Lit. 1.66 is shown in the balance sheet.

See my earlier comment on the current ratio requirement.

With best regards,

W. J. Armstrong

c.c.--Messrs. Bateson, Collier and Street

WJA
WJArmstrong:pgn

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Italy - 5th np.

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 15, 1957

TO: L. M. Svoboda
Grand Hotel
Rome

WRT

COUNTRY (ITALY)

TEXT:

Cable No. SEVENTEEN

AIRMAILING LETTER ON CMI WITH SOME DOUBTS THIS PROJECT ON BASIS OF REPORT STOP WILL AWAIT YOUR COMMENTS ON CMI AND MARZOTTO PROJECTS BEFORE ACCEPTING THESE BUT SEE NO PROBLEMS ON OTHERS STOP HOPE TO GIVE YOU INSTRUCTIONS NEXT WEEK ON PROCEDURE FOR LETTERS STOP RE CONE RECEIVED TODAY IS THERE NOW A TARIFF ON IMPORTED APPLIANCES IF SO HOW MUCH AND HOW WILL ITS REMOVAL AFFECT COMPANYS COMPETITIVE POSITION REGARDING IMPORTS FROM PRESENT OR POSSIBLE NEW SOURCES STOP RE WHEELOCK LETTER THREE COMMA SEVEN INDUSTRIAL PROJECTS TOTAL THIRTY POINT EIGHT MILLION STOP RECEIVED TODAY FROM CLARK SIL MINUS LETTER INTENT STOP WHEN WILL CANCELLATION OF CHIMICA TIRRENO BE REQUESTED STOP WHAT IS HAPPENING ON TAJANI

M. Lejeune

Signed: Armstrong
(Type in last name of sender)

AUTHORIZED BY:

NAME: W. J. Armstrong

DEPT: T.O.D.

SIGNATURE: WJA
(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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Italy - 5th mp.

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: NL

DATE: NOVEMBER 15, 1957

TO: WHEELOCK
GRANOTEL
ROME

~~LIKE~~ LMRT

COUNTRY (ITALY)

EXT:

Cable No. 8

M. Lejeune

THANKS YOUR LETTER 4 GIVING STORY ON CROTONE STOP WE FULLY SUPPORT YOUR ACTION STOP THANKS ALSO YOUR LETTER 3 STOP GLAD ALL GOES WELL

M. Lejeune

LEJEUNE

Signed: ____________
(Type in last name of sender)

AUTHORIZED BY:

NAME: MLLEJEUNE/pnn

DEPT: OPERATIONS, E.A.A.

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Italy - 5th rep.

Form No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. M. L. Lejeune

DATE: November 14, 1957

FROM: J. H. Collier

SUBJECT: Italy - Marzotto Project for Manufacture of Ready-made Clothing

On Wednesday, November 13 the Working Party (Messrs. Collier, Armstrong, Bateson, Street and Jones) met to discuss whether or not the Bank should include the above project in the new Italian loan.

The project has been approved by the mission in the field despite the fact that it felt that "in some respects it presents a somewhat greater than normal risk". However, Mr. Armstrong said he did not think it was really any riskier than some other projects we had financed in Italy.

On the quality of management the mission pointed out that some of Marzotto's ventures had not been too successful in the past. They had, however, hired an experienced manager for the new project. The management could not be regarded as unsatisfactory.

Mr. Armstrong said that, for the industrial sector of the new Italian loan, there was no question of selecting a limited number of projects from a large number of possibilities. We were proceeding on the basis that we would accept all the sound projects which were put forward. Hence we should have to have a solid reason for rejecting this one or there would be protests from the Italians. In these circumstances, the Working Party agreed that there was no real ground for objecting to the project. Mr. Aldewereld later accepted the Working Party's conclusions.

Mr. Collier
Italy - 5th mp.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

No. 4

Grand Hotel
Rome, November 14, 1957

Mr. S.R. Cope
Director of Operations
Europe, Africa and Australasia
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Raymond,

I think the quickest way to give you the information requested in your cable No. 7 is to ask Ellsworth Clark to bring this letter by hand to Washington.

In the Montecatini presentation of the Crotone aluminum project the cost of power is shown as 2.21 lire per kwh. This power cost is based on an old contract with SME at 2 lire plus a "safety factor" of 10-1/2%, and a written statement from the Montecatini company says that this contract is valid until 1976.

Assuming that this would be the power cost for the life of the project, the cost of power would be 1/5th of the cost of the finished product. Assuming that the cost of power were doubled the proportion of the cost of the power in the finished product would rise from 1/5th to 1/3rd and would wipe out all the profits forecast by Montecatini to be derived from the Crotone project. A knowledge of what the cost of power will be is therefore essential to an economic appraisal of the project.

A Government regulation on the price of power, Regulation No. 630, was promulgated on January 1, 1957. This regulation provides minimum prices to the power companies for contracts of this sort more than twice the price which Montecatini has quoted to us on the basis of their contract as being the price of power for this project.

Shortly after my arrival in Italy when I began to look into this matter, I was informed by Pescatore that the validity of this specific power contract was in dispute between SME and Montecatini. I was told that each company had appointed an arbitrator and that the two arbitrators had appealed to the Court of Appeals to appoint a third arbitrator. As of yesterday the third arbitrator has not yet been appointed. The fact that the contract had been submitted to arbitration was never at any time brought to our attention by Montecatini.

Faina's statement to Mr. Black that "at the last moment some difficulties have arisen" is somewhat misleading. On October 25 I told the Cassa that this contract would be a problem and that I would like to speak to Giustiniani, the General Manager of Montecatini, about the contract as soon as he could see me. Giustiniani never did come to see me. On November 12 he sent two representatives to see me at the hotel. I asked them if my information was correct that the contract was under arbitration and they said that this was so. I asked them why they had not disclosed this fact to the Bank representatives and they said that their lawyers had advised them that their contract with SME was valid and that therefore they had not thought it necessary to mention the arbitration proceedings to the Bank representatives. I asked them if they would recommend to the Board of Montecatini to spend money on this project before the result of the arbitration would be known and they evaded the question and when pressed refused to answer it in the affirmative.

I have tried to find out from Montecatini, from Pescatore, and from Campilli how long an arbitration proceeding of this sort might take. No one will commit himself to a guess, even of 18 months or two years.

The position of the mission here is a very simple one. It is that until the cost of power is known it is impossible to make an economic appraisal of the project. We have stated this view to Montecatini, to the Cassa and to the Government and in each case have been told that they understand our position.

The Crotone project is therefore not recommended for inclusion in the loan presently under discussion nor does any member of this mission wish to press the Bank to consider it further at this time.

Best regards.

Yours sincerely,

S. P. Wheelock

2864 - 5th np.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Rome, November 14, 1957

No. 16

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh,

Enclosed is complete draft report on the SIL project. This paper supplements and supersedes the draft, previously submitted, of the technical and economic section of the report which in part has been revised (markets). The draft letter of intentions is under review by the lawyers and will be furnished shortly.

Completion of the report has been somewhat delayed because of the difficulty in working out with the Company an appropriate financing plan for the project. Contrary to the financing methods previously agreed on, the Company subsequently has presented us a plan whereby a substantial part of their contribution would have been in the form of additional loans, of a quasi equity nature, from the Fucino bank which is also owned by the Torlonia interests. While we did not exclude this form of financing in principle, we insisted that it should be limited to a reasonable proportion. After several frustrating meetings with Prof. Colaioli, the Company replaced him by Prof. Parillo with whom I was able to work out a reasonable proposal.

The new financial plan, as outlined in the report, contains the following pertinent provisions:

1) SIL would, in addition to the second Bank loan, obtain a loan from the Fucino bank for Lit. 350 million, renewable each year, repayable from current earnings in the early years of operations. This would increase the company's debt/equity ratio to 55/45 representing the proportion envisaged under the first Bank loan.

2) The Fucino bank, as a commercial bank, cannot grant loans for periods longer than one year. It would be willing, however, to undertake a commitment in written form that the loan to SIL would be renewed on maturity each year. Alternatively the shareholders would be willing to undertake a commitment that they would advance the money if the loan should not be renewed by the bank. This latter alternative is recommended by the Working Party and an appropriate provision has been included in the letter of intentions. (Ellsworth Clark is reviewing the text of the letter, and, on his return to Washington will bring with him the complete draft).

From this round about way of financing, the company and the shareholders expect to derive important tax savings and therefore would want the Bank to

consider an increase in the total amount of the proposed loan from Fucino, possibly to Lit. 700 million. I have agreed to submit this request to the Bank but do not feel, and the Working Party agrees, that we should make any further concessions to this company towards which the Bank has already shown more lenience than to any other, less difficult, borrower.

3) On Cassa's and ISVEIMER's suggestion the terms of the new IBRD loan have been set in accordance with those of the 1st Bank loan. They provide for a 17 years loan including a 3 years grace period. You will note that this is in contrast with the recommendations of the Technical Report, which proposed for the first loan a 15 year term including a 3 years grace period. I understand that the Bank has subsequently agreed to these easier terms. I have stressed the need for final approval by Washington of the above arrangement.

Incidentally, after mailing the 2nd draft of the SINCAT letter of intentions we have noted that, due to a typing error, one line has been omitted from the definition of "current liabilities, the complete text being as follows:
... that "current liabilities" should be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

With the Asiatic Flu receding, things are getting better here, and, in the last few days, we have been able to make better progress in our work. It does not appear that in Washington you are better off, despite the protective shots. We all sympathise with Walt in this emergency at home and wish his family an early recovery.

With best regards.

Yours,

Ladislav Svoboda

Encls.

consider an increase in the total amount of the proposed loan from Fucino, possibly to Lit. 700 million. I have agreed to submit this request to the Bank but do not feel, and the Working Party agrees, that we should make any further concessions to this company towards which the Bank has already shown more lenience than to any other, less difficult, borrower.

3) On Cassa's and ISVEIMER's suggestion the terms of the new IBRD loan have been set in accordance with those of the 1st Bank loan. They provide for a 17 years loan including a 3 years grace period. You will note that this is in contrast with the recommendations of the Technical Report, which proposed for the first loan a 15 year term including a 3 years grace period. I understand that the Bank has subsequently agreed to these easier terms. I have stressed the need for final approval by Washington of the above arrangement.

Incidentally, after mailing the 2nd draft of the SINCAT letter of intentions we have noted that, due to a typing error, one line has been omitted from the definition of "current liabilities, the complete text being as follows:
... that "current liabilities" should be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

With the Asiatic Flu receding, things are getting better here, and, in the last few days, we have been able to make better progress in our work. It does not appear that in Washington you are better off, despite the protective shots. We all sympathise with Walt in this emergency at home and wish his family an early recovery.

With best regards.

Yours,

Ladislav Svoboda

Encls.

S. I. L.

Borrower

The prospective borrower is the Società Idroelettrica Liri (S.I.L.) a company presently operating a hydro-electric station in the Liri valley supplying seasonal power. This station would be completely integrated with a new pulp and paper mill near Avezzano in the neighboring Fucino valley which would make full use of this seasonal power. The total cost of the project as recently revised, including the written down value of the power plant, as well as working capital and interest during construction, is estimated at Lit.6.4 billion ($10.2 million) of which it is proposed that Lit.3.2 billion ($5.1 million) should be financed from IBRD funds. The Bank has already financed Lit. 2.6 billion ($4.16 million) under Loan 117 IT. The additional Lit. 600 million now requested is needed to finance the increase in the cost of the project. SIL is controlled by the Torlonia group, which also owns other enterprises, including flour mills, sugar factories, agricultural and urban land.

Description of the Project

The mill would have an annual production capacity of 30,000 tons of paper (12,000 newsprint, 10,000 magazine, 8,000 medium and fine) against 25,000 tons as originally planned. The project will include a groundwood mill producing 12,000 tons of mechanical woodpulp and a strawpulp mill producing 6,000 tons of bleached sulphite pulp annually. Another 10,000 tons of chemical pulp and groundwood would be imported. The plant would include equipment for the production of chlorine and caustic soda required in the mill.

The increase in the cost of the project is due to the enforcement of local earthquake regulations requiring extra heavy foundations and structures, closer tolerances in erection, and the installation of a higher speed paper machine than originally planned, increasing the annual production of paper by 20%.

As previously stated, most of the power requirements would be covered by the existing hydro-electric station. During the period of seasonally low water supplies, thermal power would be available from a sugar factory in the same region, also belonging to the Torlonia group.

Raw Material Supply

The pulpwood and straw required by the plant would come from the Fucino valley. About 600,000 poplar trees, planted in the valley as windbreaks, will supply a perpetual annual yield of 33,000 tons of pulpwood. The Fucino valley is also a source of large quantities of whet straw which are not utilized industrially and would be more than adequate for the needs of the plant.

Present Status

The revised schedule of construction and installations estimates the project to be completed by the end of 1958. Orders for equipment and building construction amounting to Lit.1,980 million have already been placed. Sinking of piles and concrete foundations for the buildings have been started.

Management

Management personnel would be provided from the Torlonia Group. Technical personnel and know-how during construction and early operation of the plant would be provided by the consultants, Sindicato Cellulose Pomilio, with worldwide experience in the design and operation of paper mills.

Financing

Total cost of the project is estimated as Lit. 6.8 billion, consisting of Lit. 5.8 billion for fixed assets and Lit. 1.0 billion for net current assets. Included in the above total is an amount of Lit.367 million, representing the written down value of the power plant as at the beginning of the first year of operations. The net financing requirements therefore amount to approximately Lit 6.4 billion, as compared to Lit.4.3 billion previously estimated, leaving a balance of Lit.2.1 billion of additional financing required. A summary of the proposed means of covering this balance and of estimated total sources of financing the project is given below: (million lire)

	Supplementary Financing	Total Financing	%
Liquid funds available	71	383	
Additional Share Capital	369	552	
Shareholders' advances	705	1,220	
Depreciation and surplus		703	
Total own funds	1,145	2,858	44
Fucino bank loans (medium term)	350	350	
IBRD loan 117 IT	-	2,600	
2nd loan	600	600	
Total borrowings	950	3,550	56
Total financing	2,095	6,408	100

The Company expects during the construction period to accumulate Lit. 370 million on net income from the power plant, which together with depreciation accruals would be retained for financing the project. Apart from the first and proposed second Bank loan the company would borrow from the Fucino bank Lit. 350 million on medium term repayable from estimated earnings during the first two to five years of normal operations. These borrowings would be fully guaranteed by the shareholders, who would also assume payment of the interest charges.

The estimated pro forma balance sheets on completion of the project and after two years of normal operation are shown below: (million lire)

	June 30 1960	June 30 1962		June 30 1960	June 30 1962
Power Plant	760	760	Share Capital	1,200	1,200
Paper mill	5,400	5,400	Shareholders' advances	1,220	1,220
Less: Depreciation	567	1,483			
Net Fixed Assets	5,593	4,677	Surplus	623	1,446
Current Assets	1,000	1,000	Fucino bank loans medium term	350	
"Additional Assets	-	1,045	IBRD loan 117 IT	2,600	2,856
			2nd loan	600	
	6,593	6,722		6,593	6,722

Financial forecasts of the company are given in Annex . A letter setting forth the financial conditions agreed to by the company is attached as Annex .

Markets

The paper would be sold within Italy. The present Italian imports of newsprint and magazine paper are about equal to the proposed production of these types in the new mill. Since Italian consumption of paper is growing, it is desirable to encourage domestic paper production and thereby avoid increased imports. Imports are currently subject to a moderate tariff of 18% and SIL may be expected to find a ready domestic market for its proposed output under the currently prevailing protection or an even lower one.

Earnings and Debt Service Coverage

The company expects to raise production of the project from 50% capacity in the first year of operation to 100% in the third year. Sales, based on present prices, are estimated to increase from Lit. 1.8 billion in 1959/60 to Lit.3.2 billion in 1961/62 producing a net profit of Lit. 9.7 million and Lit.430 million respectively; the latter representing a return of about 18% on share capital and shareholders' advances.

Estimated earnings before depreciation or interest would provide a coverage of 3.0 times the amount required for servicing the two Bank loans. The company could withstand a simultaneous reduction of about 10% in estimated revenues and a 10% increase in estimated production costs and still maintain service on the IBRD loans. Adequate depreciation has been provided in the company's forecasts, based on annual rates of 3% for buildings, 10% for the paper mill equipment and 5% for the power plant.

Economic Justification

The mill's production will replace paper imports by 22,000 tons of newsprint and magazine papers and should effect a new saving in future pulp imports of 6,000 tons. The net foreign exchange savings are estimated at about Lit.2.6 billion ($4.2 million) annually.

The mill would use regional supplies of wood and straw which, in its absence, would have a very low economic value. In addition to providing new sources of agricultural income and labor, the mill would create about 375 direct employment opportunities for industrial labor.

Conclusions and Recommendations

The revised SIL project is sound and could form the basis for an additional Bank loan equivalent to Lit. 600 million, for a term of 17 years, including a grace period of 3 years.

ANNEX 1st draft
XI-13-57

S.I.L.

Financial Forecasts
(million lire)

year ending June 30	1957	1958	1959	1960	1961	1962
	Construction Operation power plant			Operation paper mill		
I. Earnings Statement						
Production (% of capacity)				50	90	100
Operating costs	55	55	55	1,480	2,271	2,490
Interest IBRD loans 2/	(28)1/	(33)1/	(84)1/	(225)1/	53	106
Depreciation	40	40	40	214	436	480
Taxes	23	33	33	33	129	140
Total costs	118	128	128	1,727	2,889	3,216
Net Sales	192	227	227	1,824	3,282	3,646
Net income after taxes	74	99	99	97	393	430
Net income as % of share capital and shareholders' advances	11.4	14.6	8.5	5.4	16.3	17.8
II. Sources and Application of Funds						
Net income vefore interest	74	99	99	97	446	536
Depreciation accruals	40	40	40	214	436	480
Share capital		250	302			
Shareholders' advances	30	236	332	622		
IBRD loans	300	1,000	1,400	500		
Fucino bank loans (medium term)			180	170		
Total Sources	444	1,625	2,353	1,603	882	1,016
Fixed Assets:						
Power station	4	4				
Paper mill	412	1,588	2,152	878		
Interest and financial charges	28	33	84	225		
Total Fixed Assets	444	1,625	2,236	1,103		
Net Current Assets			117	500		
IBRD debt service 2/					168	335
Fucino bank loans (medium term)					180	170
"Additional Assets"					534	511
Total Applications	444	1,625	2,353	1,603	882	1,016

1/ Interest during construction capitalized
2/ Assuming IBRD loans Lit. 2.6 billion and Lit. 0.6 billion at 6% for 17 years including 3 years grace period

S.I.L.

year ending June 30	1956 actual	1957 actual	1958	1959	1960	1961	1962
		Construction Operation power plant			Operation paper mill		
III. Balance sheets							
Fixed assets:							
Power plant	752	756	760	760	760	760	760
Paper Mill		440	2,061	4,297	5,400	5,400	5,400
Less Depreciation	233	273	313	353	567	1,003	1,483
Net Fixed Assets	519	923	2,508	4,704	5,593	5,157	4,677
Net Current Assets	383	383	383	500	1,000	1,000	1,000
"Additional assets"						534	1,045
Total Assets	902	1,306	2,891	5,204	6,593	6,691	6,722
Share Capital	648	648	898	1,200	1,200	1,200	1,200
Shareholders' advances		30	266	598	1,220	1,220	1,220
Surplus	254	328	427	526	623	1,016	1,446
IBRD loans		300	1,300	2,700	3,200	3,085	2,856
Fucinobank loans medium term				180	350	170	
Total Liabilities & Equity	902	1,306	2,891	5,204	6,593	6,691	6,722

FORM NO. 26
(1.50)

Italy - 5th mpi

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 14, 1957 1800

TO: COPE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FROM: ROME

ROUTING	
ACTION COPY TO	MR COPE
INFORMATION COPY TO	
Decoded By	

TEXT:

3

PRESENT STATUS GROTONE NOT RECOMMENDED. POWER RATE UNDER ARBITRATION. ARBITRATORS DECISION CLEARLY NOT AVAILABLE EARLY ENOUGH FOR THIS LOAN. BOTH ARMSTRONG RIPMAN ACQUAINTED DETAILS PROBLEM. LETTER FOLLOWS

WHEELOCK

ORIGINAL

INTERNATIONAL BANK FOR
RECONST. AND DEVELP.

NOV 14 2 39 PM 1957

Italy - S ...

No. 16 November 13, 1957

Mr. L. M. Svoboda
c/o Grand Hotel
Rome, Italy

Dear Ladya,

We have been somewhat delayed with our comments on Marzotto as the project met some opposition. Siem had his doubts about the wisdom of our financing this type of project and wanted it discussed further with Wenzell and the working party. This has now been done and the way cleared to consider the project on its merits.

The case for this project does not appear to be strong enough, either from your letter or from the discussion of the management and market in the technical report. It appears that there is a small market for ready-made clothing in Italy which, judging from the experience in other European countries, is likely to grow if the prejudice against ready-made clothing can be overcome by manufacturers turning out garments of good quality and fit at a reasonable price. Marzotto's experience to date has not been entirely satisfactory, but the owners appear to have learned enough to be making money out of their Valdagno plant at last (or have they been making money all the time, in spite of the plant's technical deficiencies?) and it seems reasonably likely that they can earn a profit from the Salerno plant.

Your statement that the Valdagno mill "apparently is making money" bothers me. Didn't the company give you the breakdown you requested or aren't you convinced? I feel that we have to be able to say the mill is making money before we can recommend the project.

You also say "provided sound financing is assured" the project can be recommended. Hasn't the company agreed to the share-capital and shareholders' advances shown in the report?

Siem was also worried about the high breakeven point (about 70%) in a business which is seasonal, cyclic and highly competitive. It would be better to give the percentage of capacity which would just cover the IBRD debt service.

A 3:1 current ratio seems high to us and will not correct Siem's point and might even harm the company's operations. If the project can be accepted we would feel that a 2:1 current ratio would be good enough.

To strengthen the case for the project, it would seem desirable to redraft the sections on management and markets by giving a fuller account of the company's difficulties at Valdagno, including, if they are available, financial results in order to show why it seems reasonable to expect that the Salerno plant will be successful.

Attached are suggested redrafts which include some of the information given in your letter and which you may have to modify, if the information included is not accurate.

Financial Forecasts

In view of the riskiness of the project, it would seem desirable to be particularly conservative in the financial forecasts. The operating costs have been forecast roughly proportionally to the rate of operations. Since unit costs are likely to be higher when the operating rate is below capacity than at normal capacity, it might be more cautious to assume that total operating costs for the first three years of operation will be higher than the figures supplied, unless the cost figure supplied for 1962, the first year of capacity operation, is a very conservative one.

Page 1, Para. 1

Line 4 - Lit. 3.7 billion = \$5.96 million
Line 5 - Lit. 1.3 billion = \$2.08 million

Page 2 - Financing

Should not the figure on the cost of fixed assets be given in this paragraph?

Line 5 - Lit. 2.1 billion represents 57% of the investment.

If the project is to be complete at the end of 1958 why is one third of the loan to be disbursed in 1959? Also in 1959 the increase in fixed assets is shown as Lit. 200 million while the loan disbursement is shown as Lit. 400 million. ISVEIMER can disburse only for fixed assets so a larger proportion of the loan should be drawn in 1958.

If only partial operation (70%) is achieved in 1959, it does not seem reasonable to charge full depreciation for that year especially as equipment installation, or so it appears, will still be taking place in 1959.

The more serious question is that, according to the figures shown, the plant will be fully depreciated before our loan is paid off. Also while a 3-year grace period is recommended in the text, the forecasts show a 3½-year grace period. For a 3-year grace period, one-half of the total annual payment would be due in 1960. However it might be well to make it only 2½ years so that the full payment would come in 1960. It would be well also to shorten the amortization period by at least one, or perhaps better two years, so that the loan will be paid off before the plant is fully depreciated.

There are a number of inconsistencies in the Letter of Agreement.

1) Para. 4 - net current assets to be increased to Lit. 2.1 billion during second operating year. However, balance sheet shows this to be third year.

2) Para. 6(D)I - net current assets not to be less than Lit. 2.1 billion after project completion.

The following suggested paragraphs will make the letter conform to the balance sheet but you will have to let us know if they conform to your intentions:

1) Para. 3 - 4th line - after ".... units per year" insert "when operating on a one shift basis"

2) Para. 3 - to follow pro forma balance sheet - "we have explained to you that some sections of the plant will be in partial operation before the project is completed".

3) Para. 4 - second sentence - "We have explained that by the end of the third year of operation of the project, the net current assets requirements will have increased to an estimated Lit. 2,100,000,000. The increase in net current assets from Lit. 1,200,000,000 on project completion to Lit. 2,100,000,000 during the third operating year will be provided from any one or a combination of any of the following sources: additional share capital, shareholders' advances, retained earnings or depreciation accruals".

4) Para. 6A- "except as the Bank, the Cassa and ISVEIMER shall otherwise agree, on completion of the project, the share capital of the Company shall be at least Lit. 950,000,000 paid in as required, and shareholders' advances will total at least the difference between Lit. 1,850,000,000 and paid in share capital.

The share capital of the company shall be increased as follows during the first three operating years:

(a) to Lit. 1,100,000,000 paid in as required during the second operating year;

(b) to Lit. 1,500,000,000 paid in as required during the third operating year."

5) Para. D - "The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy will result in or envisage:

I. the ratio of current assets to current liabilities being less, at any time, than 2:1(?).

II. the excess of current assets over current liabilities being less:

a. than Lit. 1,200,000,000 on completion of the project;
b. than Lit. 1,500,000,000 at the end of the second operating year;

c. at any time after the end of the third operating year, than Lit. 2,100,000,000."

The way is still not clear how the letters are to be handled. I would like you to give the letters to the companies and ask them to sign and return them to the Cassa within a specified time, say two or three weeks. However, Area is reluctant to ask that they be signed before the final allocation is made to the sectors of industry, power and irrigation.

For the moment, all I can suggest is that you give us the revised reports and letters as quickly as you can and will do our best to get you home soon.

We'll get over CMI tomorrow I hope. On SIL what is meant by "an adjustment of the interest rate and grace period of the first loan .... would be appropriate?" The grace period may be changed but I don't see how the interest rate will be affected.

Best regards,

WJA

W. J. Armstrong

WJArmstrong:pgn

c.c.—Messrs. Bateson, Collier and Street

Management

Manifattura Lane G. Marzotto & Figli has operated a ready-made clothing plant at Valdagno for three years as part of their textile manufacturing activities there. Although the plant, like the company's other textile operations, has not been entirely successful in the past ..... years, there has been a steady improvement in the plant's results. Production has increased from ..... units in .... to ..... units in ...., and the company's operating losses of .... and .... respectively in .... and .... were converted into a net profit of .... in .... The improvement in its operating results appears to be due to the correction of deficiencies in production techniques and sales methods revealed in the first years of operation. The company has now engaged a new manager for the Valdagno plant who has had experience with other firms in the industry, and the prospect of continued successful operation seems good.

The company's experience at Valdagno should be very helpful to it in setting up and operating the Salerno plant, for which it is now hiring additional personnel. The Valdagno management can provide expert advice for the solution of any technical or sales problems that arise at the Salerno plant.

Markets

The ready-made clothing industry is just beginning to be established in Italy. Statistics on sales are not complete but production of ready-made garments amounted to about two million units in 1956, including trousers and children's clothing. Available statistics indicate that this represented about 20% of the total number of garments in Italy, where most garments are still produced to order by individual tailors or very small concerns. About 14% of the ready-made garments produced were exported.

In other European countries, such as France, Belgium, Germany, Norway and the U.K., about 80% of all garments produced are ready made. In spite of the fact that there is still a prejudice against ready-made garments in Italy, Marzotto believes that the market can be expanded there as elsewhere in Europe provided that the garments are of good quality and sold at reasonable prices, and that a sound sales organization is built up. Although Marzotto's financial forecasts for the Salerno plant are based on the assumption that it will produce medium-quality clothing, the company intends to maintain considerable flexibility in operations, so that it can meet market demand with respect to quality and price.

Marzotto expects to sell its garments through agents operating on a commission basis. It has arrangements with some such agents already. If necessary, the company will also market its output through its own stores. Success will depend to a considerable extent on the effectiveness of the sales organization, but the satisfactory results that the company is now obtaining at Valdagno suggest that it can work out a good distribution system for a larger output.

Through its existing export sales organization, Marzotto expects to develop the export market further, and to dispose of about 20% of the Salerno plant's output abroad. The company recognizes the importance of aggressive sales activity in this field, too, and is studying the market and distribution methods intensively.

Italy - 5th repp.

FORM No. 27
(11-53)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

MRi

DATE: NOVEMBER 13, 1957

TO: WHEELOCK
GRANOTEL
ROME, ITALY

CLASS OF SERVICE DESIRED			
NIGHT LETTER	x	CODE	
FULL RATE		TELETYPE	

TEXT:

No. 7

RECEIVED CABLE DATED NOVEMBER 8 TO BLACK FROM FAINA PRESIDENT MONTECATINI QUOTE I HAVE BEEN INFORMED THAT AT THE LAST MOMENT SOME DIFFICULTIES HAVE ARISEN WITH REGARD FINANCING OUR ENVISAGE CROTONE ALUMINUM PLANT LETTER FOLLOWS REGARDS UNQUOTE. PLEASE CABLE PRESENT STATUS DISCUSSIONS ON THIS PROJECT.

COPE

For Use by Archives Division
Checked for Dispatch

AUTHORIZED BY:

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

JHCollier:fgs

FILE COPY

Form No. 27
111-551

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

WM

CLASS OF SERVICE DESIRED	
FULL RATE [ ]	TELETYPE [ ]
NIGHT LETTER [x]	CODE [ ]

DATE: NOVEMBER 13, 1957

TO: WHEELOCK
GRANOTEL
ROME, ITALY

TEXT:

No. 7

RECEIVED CABLE DATED NOVEMBER 8 TO BLACK FROM FAINA PRESIDENT MONTECATINI QUOTE I HAVE BEEN INFORMED THAT AT THE LAST MOMENT SOME DIFFICULTIES HAVE ARISEN WITH REGARD FINANCING OUR ENVISAGE CROTONE ALUMINUM PLANT LETTER FOLLOWS REGARDS UNQUOTE. PLEASE CABLE PRESENT STATUS DISCUSSIONS ON THIS PROJECT.

COBB

For Use by Archives Division

Checked for Dispatch

DISPATCHED
INTERNATIONAL BANK FOR RECONST. AND DEVELOP.
NOV 13 5 23 PM 1957

AUTHORIZED BY:

NAME S. R. Cobb

Director of Operations

DEPT. Europe, Africa and Australasia

RECEIVED
INTERNATIONAL BANK FOR RECONST. AND DEVELOP.
NOV 13 4 39 PM 1957

JHCollier:fgs

FILE COPY

2Italy - 5th mp.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25. D. C.

Grand Hotel
Rome, November 12, 1957

No. 15

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh,

Nov. 7/57

I have received today Walt's letter No. 15 and your cable No. 15 of November 7 concerning comments on the SINCAT and TRINACRIA projects.

Enclosed are the following documents:

1) Second drafts of Letters of Intention for the SINCAT and TRINACRIA projects;

2) Revised tables of Financial Forecasts and revised pages 3 and 4 of the SINCAT report;

3) Project Descriptions for the following industrial projects: ABCD, SIL, TRINACRIA, Montecatini Potash, SINCAT, Marzotto, CMI, CONE, Montecatini Aluminum, Tajani. All these drafts have been reviewed by the lawyers and cleared with the Working Party.

Some explanations regarding the above follow:

SINCAT - The second draft Letter of Intention incorporates all editorial changes suggested, except for the pro-forma balance sheet. It is rather difficult to provide the proposed break down of the balance sheet into the first and second project for some of its items, such as surplus, and "additional assets". I am therefore suggesting a somewhat simplified form, giving the break down for the fixed assets and working capital only and stating all other items in totals, thereby leaving the Company a certain amount of flexibility in the distribution of IBRD loan funds and of own capital and advances between the two projects. I also enclose the requested full break down of the balance sheet, using arbitrary figures for some of the items mentioned above. Should you prefer this latter alternative, I would still have to agree with the Company on the final figures for these items.

Concerning the financial forecast, we have agreed to upward revise SINCAT's depreciation figures, to bring them in line with the more conservative rates used by Montecatini and TRINACRIA. I have revised the financial forecasts and respective text in the report accordingly.

As regards your question concerning Taxes "capitalized" shown in the Earnings Forecast, this is a typing error which has slipped my attention, it should be Taxes "carried over" as indicated by footnote. Thank you for catching up with it.

TRINACRIA - We have changed the Draft Letter of Intention for all your editorial comments and have eliminated the provision for an accelerated depreciation of the

exploration and research expenditures on the project stated as Lit. 600 million. This provision we have agreed on with the Company in view of Mr. Barr's and Eduardo's doubts as to whether it was appropriate to charge these expenditures to the project, thereby imposing on it an additional financial burden not carried by the competition (Montecatini). We expressed to the Company our concern over this situation, whereupon they volunteered to write off these costs over a five year period, provided they obtain an increase in the loan from the Lit. 3.5 billion originally proposed, to Lit. 3.75 billion. We felt that this was a sound proposal which would strengthen the company's finances, and agreed to submit it to the Bank. We did not elaborate, whether or not, this provision should be incorporated in the letter of intentions.

As regards further procedures we have discussed this matter with Sid who is reporting today to his department the status of the mission's work (copy enclosed with my letter No. 14 sent this morning): all drafts of the legal documents concerning the loan will be finished before the end of this week and there is enough flexibility between and among the three sectors to work out a tentative allocation of funds within the proposed total of $75 million, subject to final approval by Washington. While thus the total for the industrial sector will not be know before all projects have been approved by TOD, this need not delay my meetings with the companies on the letters of intentions, provided final clearance by the Bank can be obtained as soon as the revised reports have been received in Washington.

With best regards.

Yours,

Lada.

Ladislav Svoboda

Encls.

P.S. Concerning your question concerning production costs in Europe of potassium sulfate etc. (Cable No. 15) we are still collecting certain supplementary data which should be ready before Eduardo's departure on November 14.

exploration and research expenditures on the project stated as Lit. 600 million. This provision we have agreed on with the Company in view of Mr. Barr's and Eduardo's doubts as to whether it was appropriate to charge these expenditures to the project, thereby imposing on it an additional financial burden not carried by the competition (Montecatini). We expressed to the Company our concern over this situation, whereupon they volunteered to write off these costs over a five year period, provided they obtain an increase in the loan from the Lit. 3.5 billion originally proposed, to Lit. 3.75 billion. We felt that this was a sound proposal which would strengthen the company's finances, and agreed to submit it to the Bank. We did not elaborate, whether or not, this provision should be incorporated in the letter of intentions.

As regards further procedures we have discussed this matter with Sid who is reporting today to his department the status of the mission's work (copy enclosed with my letter No. 14 sent this morning): all drafts of the legal documents concerning the loan will be finished before the end of this week and there is enough flexibility between and among the three sectors to work out a tentative allocation of funds within the proposed total of $75 million, subject to final approval by Washington. While thus the total for the industrial sector will not be known before all projects have been approved by TOD, this need not delay my meetings with the companies on the letters of intentions, provided final clearance by the Bank can be obtained as soon as the revised reports have been received in Washington.

With best regards.

Yours,

Ladislav Svoboda

Encls.

P.S. Concerning your question comparing production costs in Europe of potassium sulfate etc. (Cable No. 15) we are still collecting certain supplementary data which should be ready before Eduardo's departure on November 14.

ANNEX 3

SINCAT
Draft Letter of Agreement

2nd draft
XI-12-57

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

Gentlemen:

(1) This letter will confirm certain understandings which have been reached between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank) the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS), and SINCAT.

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be provided out of the proceeds of the loan, additional financing towards a proposed expansion of our project (hereinafter called the First Project) which under Loan No. 117-IT has received financing in the amount of Lit. 3,600,000,000. The First Project, to construct and operate at Augusta (Priolo), Sicily, a fertilizer plant with a production capacity of 100,000 tons per year of double and triple compound fertilizers, is expected to be completed by the end of 1958. The expansion program (hereinafter called the Second Project) would provide: (a) for the construction and operation at Augusta (Priolo) (1) additional facilities for the prouction of 200,000 tons per year of compound fertilizers (300,000 tons in total) including a sulfuric acid plant with an annual capacity 170,000 tons, a nitric acid plant with an annual capacity of 70,000 tons, an anhydrous ammonia plant with an annual capacity of 36,000 tons, and facilities for the production of ammonium sulfate; (2) facilities for the annual production of 5,000 tons of caustic soda and 4,500 tons of chlorine and the manufacture of chlorine derivatives; (b) for the opening and operation of a potash ore mine at Sta. Catarina, Sicily, and erection and opeation of a plant at Augusta (Priolo) for the processing of about 130,000 tons annually of potash ore and the manufacture of potassium sulfate and Schoenite.

We have informed you that the pro forma balance sheet of the Company on completion of the two projects would be as follows:

Assets		Liabilities	
Fixed assets:		Capital	Lit. 5,000,000,000
1st project	Lit. 7,500,000,000	Shareholders' advances	8,200,000,000
2nd project	16,000,000,000	Surplus	150,000,000
Less: Depreciation	2,145,000,000	IBRD Loan 117 IT	3,600,000,000
	21,355,000,000	Less Amortization	718,000,000
Net Current Assets:		Total outstanding	2,882,000,000
1st Project	700,000,000		
2nd project	1,100,000,000	IBRD 2nd loan	8,000,000,000
Additional Assets	1,077,000,000		
Total Assets	Lit.24,232,000,000	Total Liabilities	Lit.24,232,000,000

(4) The cost of the first project should be considered as Lit. 7,500,000,000 for fixed assets and Lit.700,000,000 for net current assets. The cost of the second project should be considered as Lit.16,000,000,000 for fixed assets and Lit.1,100,000,000 for net current assets.

(5) We have been informed that if the proposed loan should be made, it w would be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the existing loan to the Company under Loan No. 117-IT or of the proposed loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least 5,000,000,000 Lire paid in as required and shareholders' advances, on completion of the project, shall total at least the difference between Lit. 13,200,000,000 and paid in share capital.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS to provide the necessary funds as and when they are required.

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

D. The undersigned will not, withouth the approval of the Cassa and IRFIS, pay dividends or make any other payments to shareholders, or adopt any policy, which would result in, or envisage:

I. The ratio of current assets to current liabilities to be less, at any time, than 2:1

II. The excess of current assets over current liabilities to be less, at any time, after completion of the project, than 1,800,000,000 lire.

(7) For the purpose of the preceding paragraph we have agreed that "current assets" should be considered as cash and assets readily convertible to cash and all other assets, which would within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash, and that "current liabilities" should be considered as payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective and to supersede the assurances and undertakings given in our letter to you dated May 12, 1955 on the condition that IRFIS agrees to make an additional loan to the Company for the abovementioned purpose in the approximate amount of Lit. 8,000,000,000, thereby increasing the total amount of financing of the projects by IRFIS to Lit. 11,600,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

SINCAT
Società Catanese S.p.A.

ANNEX

2nd draft
XI-12-57

SINCAT
Financial Forecasts
(Million Lire)

Fiscal year ending Dec. 31	Construction 1955/56 actual	1957	1958	1959	1960	Operations 1961	1962	1963
I. Earnings Statement								
Production (% of capacity)			26.5	33.5	60	80	90	100
Operating costs			3,682	4,378	7,675	9,457	10,740	11,970
Interest IBRD loans capitalized		(182)1/	(290)	(410)				
			207	196	729	711	652	588
Depreciation			200	300	1,645	1,910	1,910	1,910
Taxes		(58)1/	15	15	65	100	100	100
Total Costs			4,104	4,889	10,114	12,178	13,402	14,568
Net Sales			4,104	4,889	10,264	13,338	14,702	16,100
Net Income after taxes			-	-	150	1,160	1,300	1,532
Net Income as % of share capital and shareholders' advances					1.1	8.8	9.9	11.6
II. Sources and Application of Funds								
Net Income before interest			207	196	879	1,871	1,952	2,120
Depreciation accruals			200	300	1,645	1,910	1,910	1,910
Share Capital	201	1,799	3,000					
Shareholders' advances	1,304	1,496	586	3,333	1,481			
IBRD 1st loan	715	2,585	300					
2nd loan			3,500	3,300	1,200			
Total sources	2,220	5,880	7,793	7,129	5,205	3,781	3,862	4,030
Fixed Assets 2nd project		950	6,060	6,190	2,000			
1st project	2,220	4,690	350					
Interest and Financial charges		240	340	460				
Total Fixed Assets	2,220	5,880	6,750	6,650	2,000			
Net Current Assets			700		1,100			
IBRD Debt service 1st loan 2/			343	479	478	478	479	478
2nd loan 3/					550	1,126	1,126	1,125
"Additional Assets"					1,077	2,177	2,257	2,427
Total Applications	2,220	5,880	7,793	7,129	5,205	3,781	3,862	4,030

1/ including carry over from 1956
2/ loan of Lit.3.6 billion at 5-3/4% for 13 years including 3 years grace period
3/ Assuming loan Lit.8.0 billion at 7% for 13 years, including 3 years grace period

Fiscal year ending Dec.31	Construction 1956 (actual)	1957	1958	1959	1960	Operations 1961	1962	1963
III. Balance Sheets								
Fixed Assets	2,220	8,100	14,850	21,500	23,500	23,500	23,500	23,500
Less Depreciation			200	500	2,145	4,055	5,965	7,875
Net Fixed Assets	2,220	8,100	14,650	21,000	21,355	19,445	17,535	15,625
Net Current Assets			700	700	1,800	1,800	1,800	1,800
"Additional Assets"					1,077	3,254	5,511	7,938
Total Assets	2,220	8,100	15,350	21,700	24,232	24,499	24,846	25,363
Share Capital	201	2,000	5,000	5,000	5,000	5,000	5,000	5,000
Shareholders' advances	1,304	2,800	3,386	6,719	8,200	8,200	8,200	8,200
Surplus					150	1,310	2,610	4,142
IBRD 1st loan	715	3,300,	3,464	3,181	2,882	2,565	2,229	1,874
2nd loan			3,500	6,800	8,000	7,424	6,807	6,147
Total Liabilities and Equity	2,220	8,100	15,350	21,700	24,232	24,499	24,846	25,363

SINCAT

Financial Position
on Completion of Project

	1st Project	2nd Project	Total
Fixed Assets	7,500	16,000	23,500
Less Depreciation	1,025	1,120	2,145
Net Fixed Assets	6,475	14,880	21,355
Net Current Assets	700	1,100	1,800
"Additional Assets	407	670	1,077
Total Assets	7,582	16,650	24,232
Capital	2,000	3,000	5,000
Shareholders' advances	2,600	5,600	8,200
Surplus	100	50	150
IBRD loans	3,600	8,000	11,600
Less Amortization	718		718
Total outstanding	2,882	8,000	10,882
Total Liabilities	7,582	16,650	24,232

would be required in the south alone. In addition to this, some increase in complex fertilizer consumption in the rest of the country is bound to take place in line with the modernization of agriculture which is in progress. Thus the market prospects for an additional output of 300,000 tons of complex fertilizer appear quite favorable.

Financing

The cost of the project including interest during construction is estimated as Lit. 16.0 billion and working capital requirements as Lit. 1.1 billion. The total investment, including the first part of the project, now under construction, (fertilizer plant) is estimated as Lit. 25.3 billion including Lit. 1.8 billion for working capital. It would be financed as follows: (billion lire)

	1st part	2nd part	Total Project
Share Capital	2.0	3.0	5.0
Shareholders' advances	2.6	5.6	8.2
IBRD loans	3.6	8.0	11.6
Retained earnings	-	0.5	0.5
	8.2	17.1	25.3

The estimated pro forma balance sheets on completion of the first and second parts of the project and after three years operations are shown below:

(million lire)

	Dec. 31 1958	Dec. 31 1960	Dec. 31 1963
Fixed assets 1st project	7,500	7,500	7,500
2nd project	7,350	16,000	16,000
	14,850	23,500	23,500
Less depreciation	200	2,145	7,875
Net Fixed Assets	14,650	21,355	15,625
Net Current Assets	700	1,800	1,800
"Additional Assets"		1,077	7,938
	15,350	24,232	25,363
ShareCapital	5,000	5,000	5,000
Shareholders' advances	3,386	8,200	8,200
Surplus		150	4,142
IBRD 1st loan	3,464	2,882	1,874
2nd loan	3,500	8,000	6,147
	15,350	24,232	25,363

Financial forecasts of the company are given in Annex 2. A letter embodying the financial conditions agreed by the Comapny is attached as Annex 3.

Earnings and Debt Service Coverage

Based on conservative estimates of operational costs and assuming a gradual reduction in present sales prices of about 20%, Sincat expects to break even in the first two years of partial operations, and subsequently to showan annual net income increasing from Lit. 150 million in 1960 to Lit. 1,532 million in 1963, when all facilities are planned to be in normal operations. This latter figure would represent a bout 9-1/2% of net sales and 11-1/2% on share capital and shareholders' advances.

The debt service coverage would be about 2.5 times. The company should be able to sustain a 8% decline in revenues and a simultaneous 8% increase in operating costs and still maintain service on the IBRD loans.

Economic Justification

Sicily offers great natural advantages for the production of chemicals, especially fertilizers, including seaside locations and local raw materials such as sulphur, potash salts, rock salt, oil and gas, etc. and its vicinity to the large phosphate rock deposits of North Africa. The delivered price of fertilizers to consumers should be at least 10% lower than that of present purchases from northern Italian plants.

Conclusions and Recommendations

The expanded Sincat project is sound and could form the basis for a second Bank loan equivalent to Lit. 8.0 billion ($12.8 million) excluding interest during construction, for the term of 13 years including 3 years grace period.

ANNEX 3

TRINACRIA
Draft letter of representation

2nd draft
XI-12-57

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

Gentlemen:

(1) This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) and Sali Potassici TRINACRIA S.p.A., Palermo (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to open and operate a mine for the extraction of potash ore, and to construct and operate near the town of Calascibetta, Sicily, a plant for the processing of 560,000 tons of potash ore per year and the manufacture of "Kalimagnesia" and potassium sulfate. We have informed you that the pro forma balance sheet of the Company, on completion of the project would be as follows:

Fixed Assets	Lit. 7,600,000,000	Share Capital	Lit. 3,000,000,000
Net Current Assets	300,000,000	Shareholders' advances	1,150,000,000
		IBRD loan	3,750,000,000
	Lit. 7,900,000,000		Lit. 7,900,000,000

(4) We have explained to you that during the first two years of operations net current assets requirements will increase to Lit. 600,000,000. The increase of Lit. 300,000,000 will be provided from earnings and depreciation accruals during these years or through additional advances by the shareholders.

(5) We have been informed that if the proposed loan should be made, it will be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require: (a) the completion of two additional boreholes confirming, to the satisfaction of the Bank, the Cassa and IRFIS, the existence of adequate reserves of potash ore in our Corvillo properties; and (b) certain undertaking from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements be made, under which:

A. Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least Lit.3,000,000,000 paid in as required, and shareholders' advances, on completion of the plant, will total the difference between Lit.4,150,000,000 and paid in share capital;

B.

If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS to provide the necessary funds as and when they are required.

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without approval of the Cassa and IRFIS, pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy will result in or envisage at any time after the completion of construction:

I. The excess of current assets over current liabilities being less than Lit. 600,000,000; or

II. The ratio of current assets to current liabilities being less than 2 : 1

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 3,750,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

Sali Potassici TRINACRIA S.p.A.

November 12, 1957

INDUSTRIAL PROJECTS

A.B.C.D. - Polyethylene and Special Cements Project

This Project consists of a plant at Ragusa to be constructed, owned and operated by A.B.C.D. (Asfalti, Bitumi, Cementi e Derivati, S.p.A.) to produce annually about 30,000 tons of special cements and 10,000 tons of polyethylene with facilities for processing 700 tons of crude oil per day and to generate about 70 million kwh of electric power per year.

S.I.L. - Newsprint and Magazine Paper Project

This Project consists of a paper mill near Avezzano to be constructed, owned and operated by S.I.L. (Società Idroelettrica Liri) to produce about 30,000 tons of newsprint, magazine and fine and dedium types of paper per year. The plant will have a groundwood mill, producing 12,000 tons of woodpulp per year, and straw pulp mill producing 6,000 tons of bleached pulp per year. The equipment of the plant will include an electrolysis plant for the production of chlorine and caustic soda, and a small thermal plant producing process steam and part of the required power. The rest of the power requirements of the Project will be supplied by an existing hydro-electric plant, owned by S.I.L.

TRINACRIA - Potash Fertilizer Project

This Project consists of a mine to be opened and worked, and a plant to be constructed and operated, at Calascibetta by Sali Potassici Trinacria S.p.A. to mine and process annually about 560,000 tons of potash ore into potash fertilizers with a K_2O content of 47,000 tons.

MONTECATINI - Potash Fertilizer Project

This Project consists of a mine at Serradifalco to be opened and worked, a processing plant at Campofranco to be constructed and operated, and a ropeway between these two points to be installed and operated by Montecatini, Società Generale per l'Industria Mineraria e Chimica S.p.A. to mine, transport and process annually about 840,000 tons of potash ore into potash fertilizers with a K_2O content of 65,000 tons.

SINCAT - Fertilizer and Chlorine-Caustic Project

This Project consists of a complex fertilizer and a chlorine-caustic soda plant at Priolo near Augusta, to be constructed, owned and operated by SINCAT, Società Industriale Catanese, S.p.A. to produce 300,000 tons of complex fertilizers, 5,000 tons of caustic soda and 4,500 tons of chlorine per year. The Project also includes the construction or enlargement of plant for the annual production of 170,000 tons of sulphuric acid, 70,000 tons of nitric acid, 12,000 tons of phosphoric acid and 36,000 tons of anhydrous ammonia to be used in the manufacture of the complex fertilizers. The company will mine and process annually 130,000 tons of potash ore to obtain schoenite and potassium sulphate with a K_2O content of 14,000 tons. Facilities for the production of ammonium sulphate and chlorine derivatives will also be installed.

MARZOTTO - Ready-made Clothing Project

This Project consists of a plant at Salerno to be constructed, owned and operated by Marzotto Sud S.p.A., to produce annually about 290,000 units of ready to wear clothing.

C.M.I. - Electrolytic Tin Plate Project

This Project consists of the installation and operation of an electrolytic tin plate line at an existing plant at Naples owned and operated by Cantieri Metallurgici Italiani to produce annually about 24,000 tons of electrolytically tinned plates.

CONE - Electric Household Appliances Project

This Project consists of the modernization and expansion of a plant at Naples owned by Compagnia Napolitana Elettrici, to produce about 50,000 refrigerators and 30,000 water heaters per year.

MONTECATINI - Aluminum Project

This Project consists of an alumina reduction plant at Crotone to be constructed, owned and operated by Montecatini Società Generale per l'Industria Mineraria e Chimica S.p.A. to produce about 10,000 tons of aluminum per year.

TAJANI - Electric and Telephone Cables

This Project consists of a plant at Anagni, near Rome, to be constructed owned and operated by Ing. G. Tajani Cavi S.p.A. to produce 1,200 kilometers of electric and 480 kilometers of telephone cables per year.

E. de Alba:aj

Italy - 5th up

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

No. 3

Grand Hotel
Rome, November 11, 1957

Mr. Michael L. Lejeune
Assistant Director of Operations
Europe, Africa and Australasia
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Mike,

Thank you for your letter No. 2 of November 7.

Elsworth's arrival on Tuesday last week was, I think, particularly timely. Since he has been here we have drafted loan, guarantee and project agreements which we are in the process of clearing with the Cassa. We hope to have the Cassa's agreement on these texts before Ellsworth leaves here on Thursday November 14.

I am sorry if anyone in the Bank thinks that anything we are doing here would in any way "inhibit complete freedom on the Bank's part to approve or disapprove any of the projects being considered."

What we have told the Cassa is that these are the projects which the mission would recommend to the Bank for consideration. While we would hope and even expect to obtain the Bank's approval for the projects that we would recommend, we were not, in giving the Cassa this information, binding the Bank in any way to the acceptance of our recommendations. To save time and the necessity of another trip to Italy, we would even agree with the Cassa on the text of the documents; all, of course, ad referendum to the Bank. As this is the third time through this sort of operation we do not anticipate that many changes in the texts will subsequently be necessary.

What we are talking about with the Cassa at the moment is a loan of $75 million made up as follows:

7 industrial projects	$30.2
2 power projects	29.8
1 irrigation project	15.0
	$75.0

The seven industrial projects are: Sincat, Montecatini potash, Trinacria, Marzotto, CMI, Cone, Tajani.

The two power projects are the SME thermal power plant and the SGES project.

The irrigation project is Fortore.

Information available in the Bank on these projects should be very nearly complete by now.

In conversations of the kind we have been having we are aware of the fact that the Bank has not approved the projects we are talking about and we have other projects in reserve which we think are less attractive, but still bankable and on which the Bank has also been supplied with information.

In our first line of reserve we have one power project (Calabria) for $3.2 million and one irrigation project (Volturno) for $10 million, both of which were approved by the Bank for inclusion in last year's loan, but which were not needed to reach the figure we had then in mind.

In case the first line of reserve proves inadequate, we have a second line of reserve. These are projects ABCD and SIL totalling a little over $5 million. These can probably be financed from unallocated funds from the previous loans, but if the Cassa desires to have a loan totalling $75 million, and needs projects additional to those mentioned above, we could cancel these amounts in Loans 117 and 150 and bring these projects into the loan currently under discussion.

To sum up, we feel that we have nearly $100 million worth of projects from which we can recommend $75 million to the Bank.

There is still another project in reserve, the Montecatini Crotone project, in which the status of the power contract is still ambiguous. We hope to have final information on it tomorrow. I do not think that it is likely to be a project we can recommend.

In our first order of preference there is an industrial project (Tajani) which may have to be dropped. This too we should know in the next day or two. If we drop it we will probably recommend the third power project to replace it and reduce the amount to the Fortore irrigation project to keep the total $75 million.

I am surprised that anyone has had any concern that we would prematurely commit the Bank's funds. We have all known for a long time how difficult the industrial sectors of these operations are. Svoboda and de Alba in particular have been working heroically and we all feel that if we can have some clear indication from the Bank, before the end of this week, whether any of the industrial projects proposed will <u>not</u> be acceptable to the Bank it would help us here very much. I should emphasize however that while such an indication would be helpful it is by no means necessary for the conclusion of our labors, especially as Svoboda and Scott will remain after my departure to finalize and furnish to the companies the letters of intent as soon as they are approved by Washington.

We all believe here that much time can be saved and that the Bank would give up no essential rights if we proceed to agree at this time on the texts of all agreements, including letters of intent, which would be necessary for the conclusion of the loan. The whole thing would then be <u>ad referendum</u> to the Bank. Any necessary changes could be made by correspondence and we would hope to invite the Italians to Washington for "definitive negotiations" and the signing of a loan in January 1958.

I must say that I had believed that this procedure was understood and agreed to before I left Washington. It certainly has the unanimous agreement of all of us here at the present time.

With best regards.

Sincerely yours,

S.P.Wheelock

Mr. Lejeune - 2 -

In conversations of the kind we have been having we are aware of the fact that the Bank has not approved the projects we are talking about and we have other projects in reserve which we think are less attractive, but still bankable and on which the Bank has also been supplied with information.

In our first line of reserve we have one power project (Calabria) for $3.2 million and one irrigation project (Volturno) for $10 million, both of which were approved by the Bank for inclusion in last year's loan, but which were not needed to reach the figure we had then in mind.

In case the first line of reserve proves inadequate, we have a second line of reserve. These are projects ABCD and SIL totalling a little over $5 million. These can probably be financed from unallocated funds from the previous loans, but if the Cassa desires to have a loan totalling $75 million, and needs projects additional to those mentioned above, we could cancel these amounts in Loans 117 and 150 and bring these projects into the loan currently under discussion.

To sum up, we feel that we have nearly $100 million worth of projects from which we can recommend $75 million to the Bank.

There is still another project in reserve, the Montecatini Crotone project, in which the status of the power contract is still ambiguous. We hope to have final information on it tomorrow. I do not think that it is likely to be a project we can recommend.

In our first order of preference there is an industrial project (Tatani) which may have to be dropped. This too we should know in the next day or two. If we drop it we will probably recommend the third power project to replace it and reduce the amount to the Fortore irrigation project to keep the total $75 million.

I am surprised that anyone has had any concern that we would prematurely commit the Bank's funds. We have all known for a long time how difficult the industrial sectors of these operations are. Svoboda and de Alba in particular have been working heroically and we all feel that if we can have some clear indication from the Bank, before the end of this week, whether any of the industrial projects proposed will not be acceptable to the Bank it would help us here very much. I should emphasize however that while such an indication would be helpful it is by no means necessary for the conclusion of our labors, especially as Svoboda and Scott will remain after my departure to finalize and furnish to the companies the letters of intent as soon as they are approved by Washington.

We all believe here that much time can be saved and that the Bank would give up no essential rights if we proceed to agree at this time on the texts of all agreements, including letters of intent, which would be necessary for the conclusion of the loan. The whole thing would then be ad referendum to the Bank. Any necessary changes could be made by correspondence and we would hope to invite the Italians to Washington for "definitive negotiations" and the signing of a loan in January 1958.

I must say that I had believed that this procedure was understood and agreed to before I left Washington. It certainly has the unanimous agreement of all of us here at the present time.

With best regards.

Sincerely yours,

S.P.Wheelock

INTERNATIONAL BANK
RECEIVED

files Italy-5th mp

COPY

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Washington 25, D.C.

Grand Hotel
Rome, November 11, 1957

No. 14

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Re: CONE

Dear Hugh,

I enclose second draft of report on the CONE project revised in the light of Walt's letter dated November 1.

We have adjusted the text of the report and the letter of intentions for the factual and editorial comments contained in the letter. As regards point 9, concerning SME's share in the sale of CONE products, it amounts to a relatively small proportion represented by electrical appliances sold to SME employees at special discount, and the Bank of Naples enjoys the same privilege.

In the financial part we have made two major adjustments, i.e.:

(a) a reduction in the grace period of the proposed IBRD loan to two years; and

(b) an increase in total amortization accruals from Lit. 50 million to Lit. 80 million p.a. in 1961 and after when all facilities will be in normal operation.

In regard to (a) we have followed your instructions putting the company on a minimum schedule, as apparent from the cash flow estimate. Concerning (b) we have had another look at the depreciation rates and have induced the company to increase them above the maximum permitted by law.

I have revised the financial forecasts accordingly, eliminating some of the inaccuracies, as noted in the letter, for which I apoligize. (As regards points 5 and 12 of the letter you seem to have compared figures for 1957 with those for 1958 etc. thereby arriving at different ratios.) I am still awaiting the CGE financial statement for 1956, to include their summary in the tables attached to the report.

I hope that in the revised report we have adequately covered all your comments, which have helped to improve the report both in substance and presentation.

With kind regards,

Yours

Ladislav Svoboda

2nd draft
XI-11-57

C O N E

Borrower

The prospective borrower is Compagnia Napolitana Elettrici (CONE) of Naples, incorporated in 1951. The company produces electric refrigerators and water heaters. CONE is proceeding with the modernization and expansion of the company's production facilities at Naples to a total capacity of 50,000 refrigerators and 30,000 water heaters per year. The cost of these installations, including additional working capital and interest during construction, is estimated at Lit. 1.6 billion ($2.56 million) of which Lit. 700 million ($1.12 million) is requested from IBRD funds.

CONE's stock is held 50% by CGE (Compagnia Generale di Elettricita), 25% by SME (Società Meridionale di Elettricita), and 25% by Banco di Napoli. CGE is owned by FIAT and International General Electric roughly on a fifty fifty basis.

Description of the Project

CONE operates an electric household applicances plant at Naples, whose production capacity has been increased from 2,000 units in 1952 to 22,600 units in 1956. The capacity of the plant is now being increased to 80,000 units, including 50,000 refrigerators (140 lts. and 180 lts. capacity) and 30,000 water heaters (80 lts. capacity), based on a one shift operation.

The water heaters are manufactured entirely at the plant.

In the case of the refrigerators, only the frames, shell and chamber are manufactured at the plant. The refrigerating unit, plastic parts and insulating materials are purchased from other manufacturers. Plant produced and purchased parts are then assembled and finished.

The total cost of new building and assembly lines as well as modernization of the existing facilities is estimated at Lit. 980 million.

Present Status

Buildings are 95% completed. All equipment has been ordered and about 50%

has arrived and is now being installed. Total completion of the plant is estimated by March 1958. Up to September 1, 1957 about Lit. 155 million had been spent on the project.

Management

In view of the successful operation of CONE during the last five years and their experience in the manufacture of electric appliances, it seems unlikely that any serious problems should arise as a result of the proposed expansion. Should any such problems arise, the company appears to have qualified personnel to deal with them.

Financing

It is proposed that the cost of the project, estimated as Lit.1,580 million, would be covered as follows:

	Million lire	%
Increase in share capital	150	
Shareholders' advances	625	
Retained earnings	35	
Total own funds	810	52
IBRD Loan	700	
ISVEIMER Loan	70	
Total borrowings	770	48
Grand Total	1,580	100

The additional share capital as well as the shareholders' advances would all be furnished by CGE, increasing that company's majority position in CONE correspondingly. CONE's estimated position on completion of the project and at the end of the fourth year of normal operations is shown below:

	Dec. 31 1958	Dec. 31 1962
	(Million lire)	
Fixed Assets	1,221	1,221
less: depreciation	47	284
Net Fixed Assets	1,174	937
Net Current Assets	1,164	1,304
"Additional Assets"	26	192
Total Assets	2,364	2,433

	Dec. 31 1958	Dec. 31 1962
Share Capital	300	450
Shareholders' advances	1,186	1,170
Surplus	68	210
IBRD loan	700	539
Other long-term debt	110	64
Total Liabilities & Equity	2,364	2,433

The financial forecasts of the CONE company are given in Annex 1
A letter setting forth the financial conditions agreed to by the Company is attached in Annex 2.

CONE Operations

Net sales of the Cone company increased from Lit. 148 million in 1953 to Lit. 1,186 million in 1956, producing a net income of Lit. 1 million and Lit. 10 million respectively. This latter amount represents a net return on sales of about 1% and on share capital of 3.3%. The low profitability apparent from the above figures is due to the fact that the CONE company operates essentially as a manufacturing plant for its main shareholder, the CGE, with which it has a technical management and sales contract. Under this contract CGE receives a sales commission (16%) and a management fee, all of which representing about 20% of CONE's total costs. In addition, in three major business centers where CGE performs retailers services, it retains a 25%-30% mark-up on factory prices. The two minority shareholders of CONE enjoy a preferential position in regard to dividends (6%) and also derive certain other benefits from commercial relations with the company. The Bank of Naples acts as Cone's banker and SME benefits from the increased sales of power required for the operation of the electric appliances manufactured by CONE.

Markets

Between 1953 and 1956 sales of refrigerators in Italy increased by about 50% a year and sales of water heaters by about 20% a year (see Annex 3). Although the rate of increase has been declining, the sales increase between 1955 and 1956 amounted to 43% for refrigerators and 18% for water heaters. Even if it is conservatively assumed that sales of refrigerators would increase by only 15% a year and sales of water heaters by 10% a year, sales of these appliances by 1961 would amount to 400,000 refrigerators and 327,000 water heaters. Estimated sales in 1960 by CONE of 45,000 refrigerators and 24,000 water heaters would represent 11% of total estimated sales of refrigerators and 7.5% of total estimated sales of water heaters in Italy. In 1956, CONE's sales amounted to 6% and 5% respectively of total sales of these appliances. By using the well established CGE sales organisation for distribution of its products, CONE should be able to achieve the above sales targets.

Retail prices of CONE's appliances compare favorably with the same type and size of other local manufacturers. No serious competition is expected when the European Common Market's provisions come into effect, because of the company's close relations with producers of similar appliances in other European countries.

Earnings and Debt Service Coverage

The Company expects the new facilities to reach normal operation in the third year after completion of the project, and forecasts a net profit of Lit. 76 million on sales of about Lit.3.98 billion. This represents a profit margin of about 2% and a return on share capital and shareholders' advancesof 4.7%.

On the basis of a 2% profit margin, the company's earnings before depreciation and interest would cover approximately 1.8 times the service of the proposed IBRD Loan and about 1.5 times the debt service of the company's entire long-term debt. In view of the close interrelationship between CONE and CGE, appropriate guarantee arrangements with CGE would be required to secure the proposed loan. A summary of CGE's official balance sheets and financial statements for the years 1953/55 is shown in Annex attached. These statements indicate a sound financial position.

Economic Justification

The plant will produce, at an economic cost, refrigerators and heaters to meet the growing demand of the local market for household appliances. It will create new working opportunities in the Naples area providing direct employment for about 135 additional workers.

Conclusions and Recommendations

The CONE project is sound, and could be the basis for a loan, the equivalent of Lit. 700 million ($1,12 million), excluding interest during construction, for a term of 12 years, including 2 years grace period.

Annex I

C O N E

2nd draft
XI-11-57

Financial Forecasts
(corrected for Washington Comments)
(million lire)

year ended Dec. 31	Construction 1957	1958	Operation 1959	1960	1961	1962
I. Earnings Statement						
Production(% of capacity) (Refrigerators		30%	52%	71%	90%	92%
(Heaters		50%	60%	70%	80%	90%
Operating costs	1,162	1,585	2,403	3,131	3,801	3,912
Interest IBRD 1/	-	(25) 1/	49	48	45	40
other	3	6	5	5	4	4
Depreciation	9	12	35	45	80	80
Taxes	2	1	2	3	3	5
Total Costs	1,176	1,604	2,494	3,232	3,933	4,041
Net Sales	1,186	1,645	2,504	3,250	3,978	4,110
Net Income after Taxes	10	41	10	18	45	69
Net income (% of share capital)	3.3	5	-	4		
II. Sources and Applications of Funds						
Net income before interest	13	47	64	71	94	113
Depreciation accruals	9	12	35	45	80	80
Share capital	150			150 2/		
Shareholders' advances	309	183	133	(-150) 2/		
IBRD loan		700				
Other long term debt	70					
Total Sources	551	942	232	116	174	193
Plant and Equipment	530	425				
Interest during construction		25				
Total Fixed Assets	530	450				
Net Current Assets	-	460	140			
IBRD debt service 3/		-	49	98	98	98
Other long term debt	11	16	16	16	16	16
"Additional Assets"	10	16	27	2	60	79
Total Applications	551	942	232	116	174	193

1/ Interest during construction capitalized
2/ Capitalization of Lit. 150 million shareholders' advances
3/ Assumed loan Lit. 0.7 billion at 7% for 12 years including 2 years grace period

Annex 1

2nd draft
XI-11-57

C O N E

Financial Forecasts
(corrected for Washington comments)
(million lire)

	1956 actual	Construction 1957	1958	Operation 1959	1960	1961	1962
III. Balance Sheets (as at Dec. 31)							
Fixed Assets	241	771	1,221	1,221	1,221	1,221	1,221
Less Depreciation	26	35	47	82	127	207	287
Net Fixed Assets	215	736	1,174	1,139	1,094	1,014	934
Net Current Assets	704	704	1,164	1,304	1,304	1,304	1,304
"Additional Sssets"		10	26	53	55	115	194
	919	1,450	2,364	2,496	2,453	2,433	2,432
Share Capital	150	300	300	300	450	450	450
Shareholders' advances	694	1,003	1,186	1,319	1,169	1,169	1,169
Surplus	17	27	68	78	96	141	210
IBRD Loan		-	700	700	650	597	539
Other long term debt	58	120 4/	110	99	88	76	64
Total Liabilities & Equity	919	1,450	2,364	2,496	2,453	2,433	2,432

4/Including Lit.70 million loan from ISVEIMER at 5.5% for 10 year period ending June 30,196
and Lit.49 million loan from Banco di Napoli at 5% repayable by June 30, 1962

ANNEX 2

C O N E

2nd draft
XI-11-57

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

Gentlemen:

(1) This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale ("the Cassa"), Istituto per lo Sviluppo Economico della Italia Meridionale ("ISVEIMER") and CONE ("the Company")

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the areas of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project for modernization and expansion of the company's production facilities to a total capacity of 50,000 refrigerators per year and 30,000 hot water heaters per year. We have informed you that the pro-forma balance sheet of our company, on completion of the project, would be as follows:

Assets		Liabilities	
Fixed Assets	Lit. 1,221,000,000	Capital	Lit. 300,000,000
Less Depreciation	47,000,000	Surplus	68,000,000
		Shareholders' advances	1,186,000,000
Net Fixed Assets	1,174,000,000		
Net Current Assets	1,164,000,000	IBRD Loan	700,000,000
"Additional Assets"	26,000,000	Other long-term loan	110,000,000
	Lit. 2,364,000,000		Lit. 2,364,000,000

(4) It is understood that the amounts shown as surplus and additional assets may be reduced by the amounts of dividends paid during the interim period subject to the restrictions of this letter.

(5) The cost of the project should be considered as Lit. 980,000,000 for additional fixed assets and Lit. 600,000,000 for net current assets. We have explained that during the first year following completion of the project the net current assets requirement will be increased to Lit. 1,304,000,000. The increase of Lit. 140,000,000 will be provided from earnings and depreciation accruals during the year and through additional shareholders' advances.

(6) We have been informed that if the proposed loan should be made, it will be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to the treatment of shareholders' advances and working capital.

(7) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding are that valid arrangements be made, under which:

A. Except as the Bank, the Cassa and ISVEIMER shall otherwise agree,

I. The share capital of the Company shall be at least Lit.300,000,000 paid in as required

II. Shareholders' advances, twelve months after completion of the project will total at least the difference between Lit. 1,619,000,000 and the paid in share capital.

B. If the completion of the project or its succesful operation is hindered or delayed or is threatened with hindrance of delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER to provide the necessary funds as and when they are required.

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders, or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time, than 2:1;

II. The excess of current assets over current liabilities being less, at any time, after the end of the first twelve months following completion of the project, than Lit. 1,300,000,000.

(8) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which wuld be payable or could be called for payment within one year.

(9) The undersigned Company hereby gives the assurance and undertakings set forth in paragraph (7) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 700,000,000.

(10) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned Company and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

C O N E
Compagnia Napolitana Elettrici

CONE

ANNEX 3 2nd draft
XI-11-57

SALES OF REFRIGERATORS AND WATER HEATERS IN ITALY FROM 1953 to 1956
(in thousands)

Year	Refrigerators			Water heaters		
	Total Number	Increase Number	% of Increase	Total Number	Increase Number	% of Increase
1953	60			120		
1954	100	40	67	145	25	21
1955	140	40	40	170	25	17
1956	200	60	43	200	30	18

ESTIMATED SALES OF REFRIGERATORS AND WATER HEATERS IN ITALY FROM 1957 to 1961

1957	230	30	15	220	20	10
1958	265	35	15	245	25	11
1959	305	40	15	270	25	10
1960	350	45	15	297	27	10
1961	400	50	15	327	30	10

Italy - 5th rep.
files

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

No. 14

Grand Hotel
Rome, November 11, 1957

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Re; CONE

Dear Hugh:

I enclose second draft of report on the CONE project revised in the light of Walt's letter dated November 1.

We have adjusted the text of the report and the letter of intentions for the factual and editorial comments contained in the letter. As regards point 9, concerning SME's share in the sale of CONE products, it amounts to a relatively small proportion represented by electrical appliances sold to SME employees at special discount, and the Bank of Naples enjoys the same privilege.

In the financial part we have made two major adjustments, i.e.:

(a) a reduction in the grace period of the proposed IBRD loan to two years; and

(b) an increase in total amortization accruals from Lit. 50 million to Lit. 80 million p.a. in 1961 and after when all facilities will be in normal operation.

In regard to (a) we have followed your instructions putting the company on a minimum schedule, as apparent from the cash flow estimate. Concerning (b) we have had another look at the depreciation rates and have induced the company to increase them above the maximum permitted by law.

I have revised the financial forecasts accordingly, eliminating some of the inaccuracies, as noted in the letter, for which I apologize. (As regards points 5 and 12 of the letter you seem to have compared figures for 1957 with those for 1958 etc. thereby arriving at different ratios.) I am still awaiting the CGE financial statement for 1956, to include their summary in the tables attached to the report.

I hope that in the revised report we have adequately covered all your comments, which have helped to improve the report both in substance and presentation.

With kind regards,

Yours,

Ladin.

Ladislav Svoboda

Encls.

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

NOV 15 11 07 AM 1957

2nd draft
XI-11-57

C O N E

Borrower

The prospective borrower is Compagnia Napolitana Elettrici (CONE) of Naples, incorporated in 1951. The company produces electric refrigerators and water heaters. CONE is proceeding with the modernization and expansion of the company's production facilities at Naples to a total capacity of 50,000 refrigerators and 30,000 water heaters per year. The cost of these installations, including additional working capital and interest during construction, is estimated at Lit. 1.6 billion ($2.56 million) of which Lit. 700 million ($1.12 million) is requested from IBRD funds.

CONE's stock is held 50% by CGE (Compagnia Generale di Elettricita), 25% by SME (Società Meridionale di Elettricita), and 25% by Banco di Napoli. CGE is owned by FIAT and International General Electric roughly on a fifty fifty basis.

Description of the Project

CONE operates an electric household applicances plant at Naples, whose production capacity has been increased from 2,000 units in 1952 to 22,600 units in 1956. The capacity of the plant is now being increased to 80,000 units, including 50,000 refrigerators (140 lts. and 180 lts. capacity) and 30,000 water heaters (80 lts. capacity), based on a one shift operation.

The water heaters are manufactured entirely at the plant.

In the case of the refrigerators, only the frames, shell and chamber are manufactured at the plant. The refrigerating unit, plastic parts and insulating materials are purchased from other manufacturers. Plant produced and purchased parts are then assembled and finished.

The total cost of new building and assembly lines as well as modernization of the existing facilities is estimated at Lit. 980 million.

Present Status

Buildings are 95% completed. All equipment has been ordered and about 50%

has arrived and is now being installed. Total completion of the plant is estimated by March 1958. Up to September 1, 1957 about Lit. 155 million had been spent on the project.

Management

In view of the successful operation of CONE during the last five years and their experience in the manufacture of electric appliances, it seems unlikely that any serious problems should arise as a result of the proposed expansion. Should any such problems arise, the company appears to have qualified personnel to deal with them.

Financing

It is proposed that the cost of the project, estimated as Lit.1,580 million, would be covered as follows:

	Million lire	%
Increase in share capital	150	
Shareholders' advances	625	
Retained earnings	35	
Total own funds	810	52
IBRD Loan	700	
ISVEIMER Loan	70	
Total borrowings	770	48
Grand Total	1,580	100

The additional share capital as well as the shareholders' advances would all be furnished by CGE, increasing that company's majority position in CONE correspondingly. CONE's estimated position on completion of the project and at the end of the fourth year of normal operations is shown below:

	Dec. 31 1958	Dec. 31 1962
	(Million lire)	
Fixed Assets	1,221	1,221
less: depreciation	47	284
Net Fixed Assets	1,174	937
Net Current Assets	1,164	1,304
"Additional Assets"	26	192
Total Assets	2,364	2,433

	Dec. 31 1958	Dec. 31 1962
Share Capital	300	450
Shareholders' advances	1,186	1,170
Surplus	68	210
IBRD loan	700	539
Other long-term debt	110	64
Total Liabilities & Equity	2,364	2,433

The financial forecasts of the CONE company are given in Annex / A letter setting forth the financial conditions agreed to by the Company is attached in Annex 2.

CONE Operations

Net sales of the Cone company increased from Lit. 148 million in 1953 to Lit. 1,186 million in 1956, producing a net income of Lit. 1 million and Lit. 10 million respectively. This latter amount represents a net return on sales of about 1% and on share capital of 3.3%. The low profitability apparent from the above figures is due to the fact that the CONE company operates essentially as a manufacturing plant for its main shareholder, the CGE, with which it has a technical management and sales contract. Under this contract CGE receives a sales commission (16%) and a management fee, all of which representing about 20% of CONE's total costs. In addition, in three major business centers where CGE performs retailers services, it retains a 25%-30% mark-up on factory prices. The two minority shareholders of CONE enjoy a preferential position in regard to dividends (6%) and also derive certain other benefits from commercial relations with the company. The Bank of Naples acts as Cone's banker and SME benefits from the increased sales of power required for the operation of the electric appliances manufactured by CONE.

Markets

Between 1953 and 1956 sales of refrigerators in Italy increased by about 50% a year and sales of water heaters by about 20% a year (see Annex 3). Although the rate of increase has been declining, the sales increase between 1955 and 1956 amounted to 43% for refrigerators and 18% for water heaters. Even if it is conservatively assumed that sales of refrigerators would increase by only 15% a year and sales of water heaters by 10% a year, sales of these appliances by 1961 would amount to 400,000 refrigerators and 327,000 water heaters. Estimated sales in 1960 by CONE of 45,000 refrigerators and 24,000 water heaters would represent 11% of total estimated sales of refrigerators and 7.5% of total estimated sales of water heaters in Italy. In 1956, CONE's sales amounted to 6% and 5% respectively of total sales of these appliances. By using the well established CGE sales organization for distribution of its products, CONE should be able to achieve the above sales targets.

Retail prices of CONE's appliances compare favorably with the same type and size of other local manufacturers. No serious competition is expected when the European Common Market's provisions come into effect, because of the company's close relations with producers of similar appliances in other European countries.

Earnings and Debt Service Coverage

The Company expects the new facilities to reach normal operation in the third year after completion of the project, and forecasts a net profit of Lit. 76 million on sales of about Lit.3.98 billion. This represents a profit margin of about 2% and a return on share capital and shareholders' advancesof 4.7%.

On the basis of a 2% profit margin, the company's earnings before depreciation and interest would cover approximately 1.8 times the service of the proposed IBRD Loan and about 1.5 times the debt service of the company's entire long-term debt. In view of the close interrelationship between CONE and CGE, appropriate guarantee arrangements with CGE would be required to secure the proposed loan. A summary of CGE's official balance sheets and financial statements for the years 1953/55 is shown in Annex attached. These statements indicate a sound financial position.

Economic Justification

The plant will produce, at an economic cost, refrigerators and heaters to meet the growing demand of the local market for household appliances. It will create new working opportunities in the Naples area providing direct employment for about 135 additional workers.

Conclusions and Recommendations

The CONE project is sound, and could be the basis for a loan, the equivalent of Lit. 700 million ($1,12 million), excluding interest during construction, for a term of 12 years, including 2 years grace period.

Annex 1

C O N E

2nd draft
XI-11-57

Financial Forecasts
(corrected for Washington Comments)
(million lire)

year ended Dec. 31	Construction 1957	1958	Operation 1959	1960	1961	1962
I. Earnings Statement						
Production(% of capacity) (Refrigerators		30%	52%	71%	90%	92%
(Heaters		50%	60%	70%	80%	90%
Operating costs	1,162	1,585	2,403	3,131	3,801	3,912
Interest IBRD 1/	-	(25) 1/	49	48	45	40
other	3	6	5	5	4	4
Depreciation	9	12	35	45	80	80
Taxes	2	1	2	3	3	5
Total Costs	1,176	1,604	2,494	3,232	3,933	4,041
Net Sales	1,186	1,645	2,504	3,250	3,978	4,110
Net Income after Taxes	10	41	10	18	45	69
Net income (% of share capital)	3.3	5	-	4		
II. Sources and Applications of Funds						
Net income before interest	13	47	64	71	94	113
Depreciation accruals	9	12	35	45	80	80
Share capital	150			150 2/		
Shareholders' advances	309	183	133	(-150) 2/		
IBRD loan		700				
Other long term debt	70					
Total Sources	551	942	232	116	174	193
Plant and Equipment	530	425				
Interest during construction		25				
Total Fixed Assets	530	450				
Net Current Assets	-	460	140			
IBRD debt service 3/		-	49	98	98	98
Other long term debt	11	16	16	16	16	16
"Additional Assets"	10	16	27	2	60	79
Total Applications	551	942	232	116	174	193

1/ Interest during construction capitalized
2/ Capitalization of Lit. 150 million shareholders' advances
3/ Assumed loan Lit. 0.7 billion at 7% for 12 years including 2 years grace period

Annex 1

2nd draft
XI-11-57

C O N E

Financial Forecasts
(corrected for Washington comments)
(million lire)

	1956 actual	Construction 1957	1958	Operation 1959	1960	1961	1962
III. Balance Sheets (as at Dec. 31)							
Fixed Assets	241	771	1,221	1,221	1,221	1,221	1,221
Less Depreciation	26	35	47	82	127	207	287
Net Fixed Assets	215	736	1,174	1,139	1,094	1,014	934
Net Current Assets	704	704	1,164	1,304	1,304	1,304	1,304
"Additional Assets"		10	26	53	55	115	194
	919	1,450	2,364	2,496	2,453	2,433	2,432
Share Capital	150	300	300	300	450	450	450
Shareholders' advances	694	1,003	1,186	1,319	1,169	1,169	1,169
Surplus	17	27	68	78	96	141	210
IBRD Loan		-	700	700	650	597	539
Other long term debt	58	120 4/	110	99	88	76	64
Total Liabilities & Equity	919	1,450	2,364	2,496	2,453	2,433	2,432

4/Including Lit.70 million loan from ISVEIMER at 5.5% for 10 year period ending June 30,1967 and Lit.49 million loan from Banco di Napoli at 5% repayable by June 30, 1962

ANNEX 2

CONE

2nd draft
XI-11-57

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

Gentlemen:

(1) This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale ("the Cassa"), Istituto per lo Sviluppo Economico della Italia Meridionale ("ISVEIMER") and CONE ("the Company")

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the areas of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project for modernization and expansion of the company's production facilities to a total capacity of 50,000 refrigerators per year and 30,000 hot water heaters per year. We have informed you that the pro-forma balance sheet of our company, on completion of the project, would be as follows:

Assets		Liabilities	
Fixed Assets	Lit. 1,221,000,000	Capital	Lit. 300,000,000
Less Depreciation	47,000,000	Surplus	68,000,000
		Shareholders' advances	1,186,000,000
Net Fixed Assets	1,174,000,000		
Net Current Assets	1,164,000,000	IBRD Loan	700,000,000
"Additional Assets"	26,000,000	Other long-term loans	110,000,000
	Lit. 2,364,000,000		Lit.2,364,000,000

(4) It is understood that the amounts shown as surplus and additional assets may be reduced by the amounts of dividends paid during the interim period subject to the restrictions of this letter.

(5) The cost of the project should be considered as Lit. 980,000,000 for additional fixed assets and Lit. 600,000,000 for net current assets. We have explained that during the first year following completion of the project the net current assets requirement will be increased to Lit. 1,304,000,000. The increase of Lit. 140,000,000 will be provided from earnings and depreciation accruals during the year and through additional shareholders' advances.

(6) We have been informed that if the proposed loan should be made, it will be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to the treatment of shareholders' advances and working capital.

(7) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding are that valid arrangements be made, under which:

A. Except as the Bank, the Cassa and ISVEIMER shall otherwise agree,

I. The share capital of the Company shall be at least Lit.300,000,000 paid in as required

II. Shareholders' advances, twelve months after completion of the project will total at least the difference between Lit. 1,619,000,000 and the paid in share capital.

B. If the completion of the project or its succesful operation is hindered or delayed or is threatened with hindrance of delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER to provide the necessary funds as and when they are required.

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders, or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time, than 2:1;

II. The excess of current assets over current liabilities being less, at any time, after the end of the first twelve months following completion of the project, than Lit. 1,300,000,000.

(8) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(9) The undersigned Company hereby gives the assurance and undertakings set forth in paragraph (7) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 700,000,000.

(10) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned Company and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

C O N E
Compagnia Napolitana Elettrici

CONE

ANNEX 3 2nd draft XI-11-57

SALES OF REFRIGERATORS AND WATER HEATERS IN ITALY FROM 1953 to 1956
(in thousands)

Year	Refrigerators			Water heaters		
	Total Number	Increase Number	% of Increase	Total Number	Increase Number	% of Increase
1953	60			120		
1954	100	40	67	145	25	21
1955	140	40	40	170	25	17
1956	200	60	43	200	30	18

ESTIMATED SALES OF REFRIGERATORS AND WATER HEATERS IN ITALY FROM 1957 to 1961

Year	Total Number	Increase Number	% of Increase	Total Number	Increase Number	% of Increase
1957	230	30	15	220	20	10
1958	265	35	15	245	25	11
1959	305	40	15	270	25	10
1960	350	45	15	297	27	10
1961	400	50	15	327	30	10

I. R. F. I. S.

ISTITUTO REGIONALE PER IL FINANZIAMENTO ALLE INDUSTRIE IN SICILIA

ENTE DI DIRITTO PUBBLICO

Palermo, November 9th 1957

Via Gen. Magliocco, 1 - Tel. P.B.X 15674 - Ind. Telegr. IRFIS

N. 6641 /GM/AA/el.

Risposta alla nota del .... N. ......

OGGETTO

L.B.R.D. industrial loans

* * *

ESPRESSO

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT MISSION
c/o Grand Hotel

R O M A

We send you, here enclosed, copies in English of three letters that we have sent to day to the Cassa per il Mezzogiorno.

The above copies will be officially forwarded by the Cassa to this respectable Mission.

Yours faithfully

Istituto Regionale per il Finanziamento alle Industrie in Sicilia

[signatures]

I. R. F. I. S.

ISTITUTO REGIONALE PER IL FINANZIAMENTO ALLE INDUSTRIE IN SICILIA

ENTE DI DIRITTO PUBBLICO

Palermo, November 9th 1957

Via Gen. Magliocco, 1 - Tel. P.B.X 15674 - Ind. Telegr. IRFIS

N. 6638

GM/AA/ls

Risposta alla nota del ________ N. ______

OGGETTO

IBRD industrial loans

^^^^

Cassa per il Mezzogiorno
Servizio CIFT
Piazza dei Congressi, 20 - EUR

R o m a

We beg to refer to the verbal request submitted by Mr. Edward De Alba of the I.B.R.D. who has recently examined the industrial projects suggested for the next loan of the Bank. You may rest assured that the patents used by the Company Montecatini in connection with the enrichment of kainitic ore and with the production of potassic sulphate do not interfere in any way with the process proceedings adopted by concurrent Companies.

We beg you to kindly inform at your earliest convenience the I.B.R.D. Mission of the above, and in view of such we enclose a copy in English of this letter.

Yours faithfully

Istituto Regionale per il Finanziamento
alle Industrie in Sicilia

Dominici Sesto

I. R. F. I. S.
ISTITUTO REGIONALE PER IL FINANZIAMENTO ALLE INDUSTRIE IN SICILIA
ENTE DI DIRITTO PUBBLICO

N. 6639

Palermo, November 9th 1957
Via Gen. Magliocco, 1 - Tel. P.B.X 15674 - Ind. Telegr. IRFIS

Finanz. III - GM/AA/ls

Risposta alla nota del .... N. ......

OGGETTO

IBRD industrial loans

^^^

Cassa per il Mezzogiorno
Servizio CIFT
Piazza dei Congressi, 20 - EUR
R o m a

We beg to refer to the verbal request submitted by Mr.Edward De Alba of the I.B.R.D. who has recently examined the industrial projects suggested for the next loan of the Bank. You may rest assured that the process proceedings chosen by the Company Sali Potassici Trinacria do not interfere in any way with the patents however registered in Italy.

It is stressed furthemore that the machinery chosen by the Company will be supplied by an outstanding foreign industry which is responsible and enjoys the sole manufacturing rights of the processing adopted in relation to other similar processing.

The above stated excludes the possibility of interference among the industrial projects of other companies for the production of potassic fertilizers.

We beg you to kindly inform at your erliest convenience the I.B.R.D. Mission of the above, and in view of such we enclose a copy in English of this letter.

Yours faithfully

Istituto Regionale per il Finanziamento
alle Industrie in Sicilia

Dominici Sesto

I. R. F. I. S.

ISTITUTO REGIONALE PER IL FINANZIAMENTO ALLE INDUSTRIE IN SICILIA

ENTE DI DIRITTO PUBBLICO

N. 6640

Palermo, Novembre 9th 1957

Via Gen. Magliocco, 1 - Tel. P.B.X 15674 - Ind. Telegr. IRFIS

Finanz. III - GM/AA/ls

Risposta alla nota del .... N. ....

Cassa per il Mezzogiorno
Servizio CIFT
Piazza dei Congressi,20 - EUR
R o m a

OGGETTO

IBRD Industrial loans

^^^

We beg to refer to the verbal request submitted by Mr.Edward De Alba of the I.B.R.D. who has recently examined the industrial projects suggested for the next loan of the Bank. You may rest assured that the process proceedings chosen by the Company"S.IN.CAT." do not interfere in any way with the patents however registered in Italy.

It is stressed furthemore that the machinery chosen by the Company will be supplied by an outstanding foreign industry which is responsible and enjoys the sole manufacturing rights of the processing adopted in relation to other similar processing.

The above stated excludes the possibility of interference among the industrial projects of other companies for the production of potassic fertilizers.

We beg you to kindly inform at your earliest convenience the I.B.R.D. Mission of the above, and in view of such we enclose a copy in English of this letter.

Yours faithfully

Istituto Regionale per il Finanziamento
alle Industrie in Sicilia

Dominici Sesto

Italy 5 m np.
File

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

No. 13

Grand Hotel
Rome, November 9, 1957

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh:

Enclosed is draft report on the CMI project together with draft letter of representations, both of which have been cleared with the Area representatives.

This project for the installation of an electrolytic tinning line is technically sound and does not appear to pose any major market problems.

There are, however, some financial aspects which require further explanation:

1) The company proposes to provide the entire amount of its share in financing the project from internal retentions. The cash flow estimate indicates that this should be possible, although appears to leave only a small margin for unforeseen requirements and for dividend distribution during the construction period. This forecast, however, may be considered conservative since estimated earnings have been based on the 1957 figures with no sales expansion provided for during the two construction years. Moreover, as in the past, net income is shown after setting aside considerable funds to hidden reserves. In view of the above I have accepted the proposed financing method on the condition that the company would undertake to make up any possible shortfall in financing through pay in of additional share capital or shareholders advances.

2) The company, in the past, has shown a rather poor liquidity position, with a current ratio varying between 1.1:1 to 1.3:1, and no substantial improvement in this situation has been foreseen for the future. The company contends that this is an apparent rather than actual situation because of the drastic undervaluation of inventories. Taking account of hidden reserves, stated as about Lit. 4.0 billion, the ratio would exceed 2:1. In view of this situation I have tentatively suggested a current ratio of 1.5:1 provided the existence of unimpaired hidden reserves in approx the stated amount can be confirmed. Since the company does not want to furnish any written statement on this subject, I have suggested that ISVEIMER should investigate into the situation on the spot and furnish a written report on the company's reserves, status of bad debts, adequacy of depreciation rates on the existing plant, etc. Both parties have agreed to the proposal. Subject to the report of the ISVEIMER auditor, which has been promised for the end of next week, I suggest that we agree on a 1.5:1 current ratio for this project, and, if the company insists, permit a somewhat lower ratio (say 1.3:1) during the transitional period of construction.

3) The company's capitalization appears rather poor, showing in 1956 a debt/equity ratio of 55/45 (if pension fund and other provisions are excluded from the equity computation). This is due mainly to the considerable indebtedness towards IMI incurred by the company in financing its postwar reconstruction

program, largely due within the next ten years. The situation may be expected to gradually improve, as the debt is being repaid, provided the company incurs no additional indebtedness in financing further expansion. I have been told that no expansion plans other than the proposed project are contemplated at present. However, to assure a sound situation in the future we may put up a debt limitation by proposing a minimum debt/equity ratio of say 50/50. I have tentatively included such a provision in the draft letter of financial commitments, but do not feel strongly about the point, considering the fact that CMI enjoys a strong backing by its parent company, the Falck Group of Milan, generally known as one of Italy's best steel manufacturers. I would therefore propose not to insist on this provision provided the proposed mortgage on the plant, which would rank behind the mortgages previously granted, would be supplemented by a fiduciary guarantee by Falck as security of the ISVEIMER loan. I will send the revised summary of balance sheets and financial statements for Falck, as soon as latest figures are made available.

4) The Lit. 600 million Bank loan is proposed for 10 years, plus 3 years grace period. I have accepted the somewhat longer grace period considering the fact that because of the tight construction schedule it is possible that completion of the project may be delayed six months, until June 1960, with a corresponding delay in the trial period until June 1961.

As regards our further work schedule, we hope to have a final meeting with SIL on Monday November 11, which should enable us to complete the last report still outstanding. A meeting with Mr. Giustiniani, Vice-Chairman of Montecatini, concerning the aluminum project, is set for Tuesday next. Meanwhile we are working on the revisions of the several draft reports on which comments by the Division have been received.

The members of the Bank mission are aware of the time still required to obtain final approval by TOD of the projects recommended for Bank financing and we have agreed that this would not delay preparation of the loan documents and discussion on the approximate amount of the loan and broad distribution of loan funds by sectors, subject to final figures, for further reference to Washington. Ellsworth Clark has agreed to review the preliminary drafts of the letters of representation on the understanding that these are still subject to changes pending comment and final approval by TOD. This would enable Ellsworth to leave for Washington on Thursday November 14 and Sid for Vienna on November 17, while Scott would stay on a few more days, if necessary, to help to finalize the letters of representation. Eduardo has postponed his departure until November 14.

With best regards from all of us.

Yours,

Ladislav

Ladislav Svoboda

Encls.

program, largely due within the next ten years. The situation may be expected to gradually improve, as the debt is being repaid, provided the company incurs no additional indebtedness in financing further expansion. I have been told that no expansion plans other than the proposed project are contemplated at present. However, to assure a sound situation in the future we may put up a debt limitation by proposing a minimum debt\equity ratio of say 50/50. I have tentatively included such a provision in the draft letter of financial commitments, but do not feel strongly about the point, considering the fact that CMI enjoys a strong backing by its parent company, the Falck Group of Milan, generally known as one of Italy's best steel manufacturers. I would therefore propose not to insist on this provision provided the proposed mortgage on the plant, which would rank behind the mortgages previously granted, would be supplemented by a fiduciary guarantee by Falck as security of the ISVEIMER loan. I will send the revised summary of balance sheets and financial statements for Falck, as soon as latest figures are made available.

4) The Lit. 600 million Bank loan is proposed for 10 years, plus 3 years grace period. I have accepted the somewhat longer grace period considering the fact that because of the tight construction schedule it is possible that completion of the project may be delayed six months, until June 1960, with a corresponding delay in the trial period until June 1961.

As regards our further work schedule, we hope to have a final meeting with SIL on Monday November 11, which should enable us to complete the last report still outstanding. A meeting with Mr. Giustiniani, Vice-Chairman of Montecatini, concerning the aluminum project, is set for Tuesday next. Meanwhile we are working on the revisions of the several draft reports on which comments by the Division have been received.

The members of the Bank mission are aware of the time still required to obtain final approval by TOD of the projects recommended for Bank financing and we have agreed that this would not delay preparation of the loan documents and discussion on the approximate amount of the loan and broad distribution of loan funds by sectors, subject to final figures, for further reference to Washington. Ellsworth Clark has agreed to review the preliminary drafts of the letters of representation on the understanding that these are still subject to changes pending comment and final approval by TOD. This would enable Ellsworth to leave for Washington on Thursday November 14 and Sid for Vienna on November 17, while Scott would stay on a few more days, if necessary, to help to finalize the letters of representation. Eduardo has postponed his departure until November 14.

With best regards from all of us.

Yours,

Ladislav Svoboda

Encls.

1st draft
XI-9-57

C. M. I.

Borrower

The proppective borrower is Cantieri Metallurgici Italiani (CMI) incorporated in Naples in 1916. The company operates plants at Castellammare and Naples for the production of galvanized sheets, hot-dipped tin plates, nuts and bolts and builds and repairs railway rolling stock. CMI would install a line for the production of electrolytically tinned plate in their plant at Naples. The cost of the project, including additional working capital and interest during construction, is estimated at Lit. ~~1.7~~ 1.84 billion ($2.9 million) of which Lit. 600 million ($0.96 million) are requested from IBRD funds to finance the imported equipment for the project. CMI is owned by Acciaierie e Ferriere Lombardi Falck S.p.A. of Milan, large manufacturers in Italy of iron and steel products.

Description of the Project

The project contemplates the installation of a modern electrolytic tinning line where cold reduced steel strip in coils will be electroplated with tin on both surfaces. This line would have an estimated production capacity of 24,000 tons per year of tin plate of international standard types. An increase in capacity of an additional 12,000 tons per year can be accomplished with minor modifications and enlargements of the line. The cost of this installation is estimated at Lit. 920 million of which some Lit. 600 million would be required for the acquisition of imported machinery and equipment.

The electric power required will be about 5.4 million kwh per year with an estimated peak load of 1000 kw and will be supplied by Società Meridionale di Elettricita.

Present Status

The planning and engineering of the project have been completed; tenders for machinery and equipment received and analyzed; orders can be placedon short notice. No work has been started. Installation is expected to be completed by early 1959.

not dipped

Management

CMI has over thirty years of experience in tin plate manufacturing. The company has a managerial and technical staff which has the necessary experience to operate the electrolytic tin plate section. It can also obtain technical assistance, if needed, from the Falck Group.

Financing

1.2X

It is proposed that of the Lit. 1.8 billion estimated total cost of the project Lit. 1.2 billion would be financed from depreciation accruals and retained earnings; the remaining Lit. 0.6 billion would be covered by the proposed IBRD loan. The financial position of the Company at the end of fiscal year 1957, and its estimated position upon completion of the project at the end of three years of operation of the new electrolytic tinning line are as follows: (million lire)

	Oct. 31 1957 (preliminary)	Oct. 31 1959 (estimated)	Oct. 31 1962
Fixed assets	4,980	6,020	6,020
Less Depreciation	2,270	2,870	4,070
Net Fixed assets	2,710	3,150	1,950
Net Current Assets	1,036	1,210	1,810
"Additional Assets"		160	1,448
Total Assets	3,746	4,520	5,208
Share Capital	1,000	1,000	1,000
Surplus and Reserves	1,185	1,625	2,842
IBRD loan	-	600	476
Other long term debt	1,561	1,295	890
Total Equity and Liabilities	3,746	4,520	5,208

Explain

The Company's sales have increased from Lit. 7.6 billion in fiscal year 1954 to Lit. 12.0 billion in 1957. Net income has risen from Lit. 54 million to Lit. 80 million, representing net return on share capital of 14% and 8% respectively. Considering the substantial amounts set aside each year to hidden reserves, the company's actual income in recent years may be estimated at four to five times the officially declared figures.

Markets

Tin plate consumption in Italy for home use and export requirements has increased by 150% from the prewar years. In 1956, 116,000 tons were used of which 57,000 were imported. CMI location in Naples, which is the center of a very important canning industry, would have the advantage of selling tin plate for canned foods under the so-called "duty bound" regulations, that is, tin plate produced with temporarily imported raw materials without payment of import duties which can be sold at especially low prices.

only for export goods

CMI would be able to produce tin plate at a price competitive with present prices of other producers within the European Common Market. The Company expects to export about 30% of the electrolytic tin plate produced to countries in the Mediterranean market using their existing export sales organization.

Another electrolytic tinning plant is being installed in Northern Italy. It is estimated that the output of both plants can be placed in the local and export markets since their hot dip plating production will be decreased according to market requirements. Electrolytic tinning is displacing hot-dipped tinning all over the world due to its economic and technical advantages.

Earnings and Debt Service Coverage

The company estimates that in 1962, when the project will have reached full capacity, total production of all facilities will have increased by about 20% over present levels. Based on present costs and sales prices, sales would amount to Lit. 14.1 billion per year, and net income to Lit. 385 million, representing a return of 10% on the company's equity investment and as much as 38% on its share capital. Forecasts of the company's sales and earnings as a whole are given in Annex / .

real or declared

Estimated company earnings before interest and depreciation when all facilities are operating at a normal rate, should cover the debt service of the proposed IBRD loan about ~~7.75~~ 9.0 3.6 times and the total debt service requirements about 2.9 times. The company shouldbe able to withstand a simultaneous drop of 21% in revenues and an increase of 21% in operating costs and still meet the servicing requirements of the proposed IBRD loan and its present debt.

Economic Justification

The CMI project will produce electrolytic tinplate of international standards and thereby will reduce the need for increased imports of this product to meet the growing demand of the canning industry and other users. The plant will be located in Naples, the center of Italy's important canning industry. It will contribute an estimated savings in foreign exchange of Lit.1.8 billion p.a. ($2.9 million).

Conclusion and Recommendations

The CMI project is sound and could form the basis for a loan of Lit. 600 million ($960,000) excluding interest during construction. The term of the loan could be 13 years, including 3 years grace period.

It will substitute 12,000 tons of hot-dipped tin plate and save imports of 12000 tons of imported electrolytic tin plate with a CIF price of 150,000 L/ton.

ANNEX

C.M.I.

1st draft
XI-9-57

Financial Forecasts
(Million lire)

year ending Oct. 31	Construction Project Operation Existing Plant 1958	1959	Operation all facilities 1960	1961	1962
I. Earnings statement					
Production (% of capacity of electrolytic tinning line)			75	75	100
Operating costs	11,850	11,850	13,282	13,282	13,110
Operating reserves 1/	100	100	100	100	100
Interest - IBRD Loan 2/	(15) 3/	(35) 3/	42	42	38
- Other long term debt	100	100	90	90	80
Depreciation	300	300	400	400	400
Taxes	30	30	40	40	43
Total Costs	12,380	12,380	13,954	13,954	13,771
Net Sales	12,500	12,500	14,220	14,220	14,156
Net Income after taxes	120	120	266	266	385
Net Income as % of share capital and Reserves	5	5	9	8	10
II. Sources and Application of Funds					
Net Income before interest	220	220	398	398	503
Depreciation accruals	300	300	400	400	400
Accruals on operational reserves	100	100	100	100	100
IBRD Loan	200	400			
Total sources	820	1,020	898	898	1,003
Fixed Assets	500	490			
Interest and Financial charges	15	35			
Total Fixed Assets	515	525			
Net current assets	(-26)	200	450		150
IBRD debt Service 2/			42	102	102
Service on other long term debt	231	235	225	225	215
"Additional assets"	100	60	181	571	536
Total applications	820	1,020	898	898	1,003

1,840,000,000

1/ including Pension fund and other pre-profit reserves
2/ assuming loan Lit. 0.6 billion at 7% for 13 years including 3 years grace period
3/ interest during construction capitalized

CMI

ANNEX

1st draft
XI-9-57

year ending Oct. 31	1957 preliminary	1958	1959	1960	1961	1962
	Construction Project			Operation all facilities		
	Operation Existing Plant					
III. Balance Sheets						
Fixed assets - project		515	1,040	1,040	1040	1,040
Existing plant	4,980	4,980	4,980	4,980	4,980	4,980
Less depreciation	2,270	2,570	2,870	3,270	3,670	4,070
Net Fixed Assets	2,710	2,925	3,150	2,750	2,350	1,950
Net Current Assets	1,036	1,010	1,210	1,660	1,660	1,810
"Additional assets"		100	160	341	912	1,448
Total Assets	3,746	4,035	4,520	4,751	4,922	5,208
Share Capital	1,000	1,000	1,000	1,000	1,000	1,000
Surplus & Reserves	1,185	1,405	1,625	1,991	2,357	2,842
IBRD Loan		200	600	600	540	476
Other Long Term Debt	1,561 4/	1,430	1,295	1,160	1,025	890
Total Equity and Liabilities	3,746	4,035	4,520	4,751	4,922	5,208

4/ Including loans Lit.1.2 billion from IMI, repayable within 15 year period ending 1968
Lit.0.2 billion from Bank of Naples rapyable by 1964, and
bonds Lit.0.3 billion repayable within 20 year periods ending 1971 and 1974

ANNEX

CANTIERI METALLURGICI ITALIANI

Draft letter of representations

1st draft
XI-9-57

IBRD
Washington, D.C.

Gentlemen:

(1) This will confirm certain understandings which have been reached during discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as Bank) the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER), and Cantieri Metallurgici Italiani S.p.A. (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to install and operate at our plant in Naples an electrolytic tinning line of a capacity of 24,000 tons per year tinplate of international standard types. We have informed you that the pro forma balance sheet of our company, on completion of the project, would be as follows:

Assets		Liabilities	
Fixed Assets	Lit. 6,020,000,000	Share Capital	Lit. 1,000,000,000
Depreciation	2,870,000,000	Surplus and reserves	1,625,000,000
Net Fixed Assets	3,150,000,000	IBRD loan	600,000,000
Net Current Assets	1,210,000,000	Other long-term debt	1,295,000,000
"Additional Assets"	160,000,000		
	Lit. 4,520,000,000		Lit. 4,520,000,000

It is understood that the amounts shown as surplus and additional assets may be reduced by the amount of dividends paid during the interim period subject to the restriction of this letter.

(4) The cost of the project should be considered as Lit. 1,840,000,000 composed of Lit.1,040,000,000 for fixed assets and Lit. 800,000,000 for net current assets.

1st draft
XI-9-57

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding are that valid arrangements will be made, under which:

A. The undersigned will not, without approval of the Cassa and ISVEIMER incur any additional long term debt, if such debt will result in the ratio of equity to long term debt being less than 1:1.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER to provide the necessary funds from share capital or shareholders' advances, as and when required;

C. Shareholders' advances provided under subparagraphs B ~~or B~~ -

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profit and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without the prior approval of the Cassa and ISVEIMER, pay dividends or make other payments to the shareholders or adopt any policy if such payments or policy will result in or envisage:

I. The ratio of current assets to current liabilities being less, at any time, than 1.5:1 on completion of the project.

II. The excess of current assets over current liabilities being less, after the first twelve months of operation, than Lit. 1,700,000,000. 6

See following sheet

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year; "equity" shall be considered as paid up share capital, shareholders' advances, the Ordinary and Extraordinary Reserves and the Inventories and Fixed Assets Reserve (Fondo Svalutazione Merce e Impianti); "long term debt" shall be considered as all liabilities other than shareholders' advances due and payable after a period of one or more years.

(8) The undersigned hereby gives you the assurance and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above-mentioned purpose in the approximate amount of Lit. 600,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

Cantieri Metallurgici Italiani

ISTITUTO PER LO SVILUPPO ECONOMICO
DELL'ITALIA MERIDIONALE
I.S.V.E.I.M.E.R.
NAPOLI

IL DIRETTORE

November 8, 1957

Mr. Murray Ross
c/o Grand Hotel
ROME

Dear Mr.Ross,

According to your request, I am pleased to enclose herewith a copy of the Report of the Board of Directors and the Balance Sheet for the year 1956, as well as a table giving the classification of the applications according to the residence of borrowers.

Placing miself at your disposal for any other information you may require, I remain,

Yours faithfully,

Frignani

Encls/ Drucimer #6 document.

Italy - 5m. mp.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Grand Hotel
Rome, November 8, 1957

No. 12

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh:

I enclose second draft of report on the Montecatini Potash Project, incorporating the comments of Walt's letter dated November 4. I have included in the report the two paragraphs on Montecatini's financial position and development program previously contained in the report on the Montecatini Aluminum Project, as it does not appear probable that this latter project will qualify for Bank financing. I have made the improvements suggested under the two headings except for redraft of paragraph on financing the Program (No. 4 in Walt's letter) since we have no reliable information on its estimated total cost.

We hope to send the revised ABCD and CONE reports within the next few days, pending agreement with the companies on the proposed reduction of the amortization and grace periods respectively.

Completion of the report on the SIL project has been delayed because both negotiators are sick with the flu. We hope to meet them this Saturday or early next week to work out a reasonable financial program. Meanwhile I enclose draft of the first part of the report covering the technical and market aspects of the project.

With best regards.

Yours,

Ladin

Ladislav Svoboda

Encls.

1st draft
XI-8-57

S. I. L.

Borrower

The prospective borrower is the Società Idroelettrica Liri (S.I.L.), a company presently operating a hydro-electric station in the Liri valley supplying seasonal power. This station would be completely integrated with a new pulp and paper mill near Avezzano in the neighboring Fucino valley which would make full use of this seasonal power. The total cost of the project as recently revised, including the written down value of the power plant, as well as working capital and interest during construction, is estimated at Lit. 6.4 billion ($10.2 million) of which it is proposed that Lit. 3.2 billion ($5.1 million) should be financed from IBRD funds. The Bank has already financed Lit 2.6 biliion ($4.16 million) under Loan 117 IT. The additional Lit. 600 million now requested is needed to finance the increase in the cost of the project.

SIL is controlled by the Torlonia group, which also owns other enterprises, including flour mills, sugar factories, agricultural and urban land.

Description of the Project

The mill would have an annual production capacity of 30,000 tons of paper (12,000 newsprint, 10,000 magazine, 8,000 medium and fine) against 25,000 tons as originally planned. The project will include a groundwood mill producing 12,000 tons of mechanical woodpulp and a strawpulp mill producing 6,000 tons of bleached sulphite pulp annually. Another 10,000 tons of chemical pulp and groundwood would be imported. The plant would include equipment for the production of chlorine and caustic soda required in the mill.

The increase in the cost of the project is due to the recent enforcement of local earthquake regulations requiring extra heavy foundations and structures, closer tolerances in erection, and the installation of a higher speed paper machine than originally planned, increasing the annual production of paper by 20%.

As previously stated, most of the power requirements would be covered by the existing hydro-electric station. During the period of seasonally low water supplies, thermal power would be available from a sugar factory in the same region, also belonging to the Torlonia group.

Raw Material Supply

The pulpwood and straw required by the plant would come from the Fucino valley. About 600,000 poplar trees, planted in the valley as windbreaks, will supply a perpetual annual yield of 33,000 tons of pulpwood. The Fucino valley is also a source of large quantities of wheat straw which are not utilized industrially and would be more than adequate for the needs of the plant.

Present Status

The revised schedule of construction and installations estimates the project to be completed by the end of 1958. Orders for equipment and building construction amounting to Lit. 1,980 million have already been placed. Sinking of piles and concrete foundations for the buildings have been started.

Management

Management personnel would be provided from the Torlonia Group. Technical personnel and know-how during construction and early operation of the plant would be provided by the consultants, Sindicato Cellulose Pomilio, with worldwide experience in the design and operation of paper mills.

Markets

The paper would be sold within Italy. The present Italian imports of newsprint and magazine paper are about equal to the proposed production of these types in the new mill. Since Italian consumption of paper is growing and imports are controlled with a view to encouraging domestic paper production, SIL may be expected to find a ready market for their products.

Financing (to be supplemented)

The Torlonia Group would supply Lit. 1.3 billion as share capital. This includes the power plant at a depreciated value of Lit. 376 million as at the end of the first operating year. In addition, they would contribute Lit. 2.0 billion in loans under covenants which would make them equivalent to equity including Lit. 0.6 billion retained earnings from operation of the power plant. The amount of the proposed additional loan from IBRD funds would be Lit. 600 million increasing the Bank's share in the financing of the project (including the Lit. 2.6 billion from Loan 117 IT) to Lit. 3.2 billion. The estimated pro forma balance sheets on completion of the plant and after three years of operation are show below:

Table

Financial forecasts for SIL are given in Annex . A letter containing the financial conditions agreed to by the Company is attached as Annex .

Earnings and Debt Service Coverage (to be supplemented)

SIL estimates that in the first year of production the plant will operate at 50% capacity at a small profit and that it will reach full capacity in the third year. For that year sales are estimated as Lit. 3.6 billion and net income after taxes as Lit. 430 million representing 16% on share capital and shareholders' advances.

The debt service coverage of the two IBRD loans in the third year of operation would be about three times. Even on the assumption of a 10% fall in prices, this coverage would still be about two times which would leave some margin in the event of exceptional price falls or costs inflation not paralleled in the major paper exporting countries.

Economic Justification

The mill's production will replace paper imports by 22,000 tons of newsprint and magazine papers and should effect a new saving in future pulp imports of 6,000 tons. The net foreign exchange savings are estimated at about Lit. 2.6 billion ($4.2 million) annually.

The mill would use regional supplies of wood and straw which, in its absence, would have a very low economic value. In addition to providing new sources of agricultural income and labor, the mill would create about 375 direct employment opportunities for industrial labor.

Conclusions and Recommendations (to be supplemented)

The revised SIL project is sound and could form the basis for an additional Bank loan equivalent to Lit. 600 million, for a term of 13 years, including a grace period of 3 years. An adjustment of the interest rate and grace period of the first loan of Lit. 2.6 billion to match the terms of the new loan, as proposed by ISVEIMER, would be appropriate.

2nd draft
XI - 7 - 57

MONTECATINI

Potash Project - Sicily

Borrower

The prospective borrower would be the Società Generale per l'Industria Mineraria e Chimica S.p.A. (Montecatini), a privately owned company incorporated in 1888. The company would open a mine for the extraction of potash mineral (kainite) at Serradifalco and erect a new plant to process the kainite into potassium sulphate at Campofranco in Caltanissetta province, Sicily. The estimated cost of the project, including working capital and interest during construction is estimated at Lit. 10.3 billion ($16.4 million) of which Lit. 4 billion ($6.4 million) would be financed from IBRD funds. Montecatini is the largest manufacturer of fertilizers as well as the largest chemical manufacturer in Italy.

Description of the Project

The project includes the development of the Bosco mine at Serradifalco for the extraction of about 840,000 tons per year (280 days) of unsorted potash mineral. The mine contains two grades of potash mineral with a K_2O content of 12.5% and 17% respectively. The proved reserves of the deposit are about 25 million tons of good quality kainite. The unsorted ore would be transported from the mine to Campofranco by a 17.4 km three-cable ropeway, with a minimum capacity of 150 tons per hour. At Campofranco a processing plant would be erected consisting of a flotation unit with a capacity to concentrate 840,000 tons per year of unsorted mineral with a K_2O content of from 12% to 17%. After concentration, the kainite would be transformed in another unit into schoenite from which potassium sulphate is derived. The potassiu sulphate would then be separated and dried. The plant would be able to produce 570,000 tons per year of concentrated kainite (17% K_2O), from which about 133,000 tons per year of potassium sulphate (50% K_2O) would be obtained. This assumes that the plant will operate on a two-shift basis.

Water needed for the process would be obtained from the Platani river at Campofranco.

The process for kainite treatment have been developed and patented in Italy by Montecatini.

Present Status.

Patent question? with Edison

The mine area has been explored and the location, size and characteristics of the mineral body have been determined. The mineral obtained from mine exploration (about 2,000 tons of kainite) has been processed in pilot plants at Porto Marghera, near Venice, to establish the correct production process and equipment.

The shafts for extraction and ventilation for the exploitation of the mine are almost completed. The electric substation has been installed.

All engineering designs for the mining operation and the plant installations have been prepared and mining equipment has been ordered.

The company estimates that construction can be completed by the end of 1959 if financing is arranged within 6 months.

Management

Montecatini has large mining holdings in Sicily as well as several fertilizers plants, one of which is already in operation at Campofranco. There is, therefore, no problem of securing competent managerial and technical talent for the new mining and industrial activities in that area.

Financing

The project will be constructed and operated as an integral part of the Montecatini organization and not as a separate legal or financial entity. Its financing, both for fixed assets and working capital will be provided from the general funds of the company through the interplant accounts. Total cost of the project is estimated as Lit. 10.3 billion (including Lit. 0.3 billion interest during construction and Lit. 1.5 billion working capital) of which Lit. 0.4 billion represent work completed todate. Not included in these figures is an additional Lit. 0.4 billion spent for research and construction of experimental plant which have been charged to Montecatini ordinary developmental activities. It is proposed that of the capital cost of the project, Lit. 6.3 billion would be covered from a long-term advance by Montecatini and that the remaining Lit. 4.0 billion would be financed with IBRD funds. Additional working capital, if required, would be provided by Montecatini through internal credits.

Estimated balance sheets for the potash plant operation, taken for illustrative purposes only, as a separate entity, on completion of the project and after five years of operation are shownbelow: (in million lire)

	Dec.31 1959	Dec. 31 1964		Dec. 31 1959	Dec.31 1964
Fixed Assets	8,830	8,830	Head Office advances	5,130	6,330
Less depreciation	-	3,530			
Net Fixed assets	8,830	5,300	Surplus	-	2,283
Net current Assets	300	1,500	IBRD loan	4,000	2,341
"Additional Assets"		4,154			
	9,130	10,954		9,130	10,954

Financial forecasts for the plant, again taken for illustrative purposes, as a separate entity, are shown in Annex 1. A letter setting forth the financial conditions agreed by the Company are shown in Annex 2.

Financial position of the Company

The net profit of the Montecatini company has risen from Lit. 8.1 billion in 1953 to Lit. 10.9 billion in 1956, which represented a return increasing from 9.6% to 13% on share capital. At the end of 1956 the company's assets amounted to Lit. 256 billion and its equity to Lit. 152 billion. Its current ratio was 2.4:1. Montecatini's long term debt at the end of 1956 stood at Lit. 53.4 billion, showing a moderate increase over the past four years, mainly due to the financing requirements of the Company's large scale modernization and expansion program. Consequently the Company's debt/equity ratio has shown a gradual deterioration from 14/86 in 1953 to 27/73 in 1956. The high level of the Company's annual depreciation accruals and retained earnings (Lit.13.1 billion in 1956) and its conservative financial policies would appear to provide a safe margin of funds for meeting the service requirements of its expanding debt. Financial statements of the company for the past four years are attached as Annex 3.

Montecatini Expansion Program

In the past five years Montecatini spent more than Lit. 83 billion ($133 million) for modernisation and expansion of its production facilities in major fields of the chemical, metallurgical and mining industries and for supplementary industrial power. In addition the company invested sizable amounts in subsidiary and associated enterprises domestic and foreign. Expenditures in plant and equipment in 1955 and 1956 were at a rate of Lit. 12 billion p.a., equal to the rate of annual depreciation accruals. The creation of the European Common Market has caused the Montecatini company to review its modernization and expansion plans to meet the challenge of the future Common Market. The company's four year program provides for considerable new investments mainly in the mining sector and for further expansion in the chemical field. In 1956 the company borrowed locally Lit. 16 billion and, in early 1957, raised its share capital by Lit. 16 billion. These moneys together with the proposed Lit. 4 billion IBRD loan for the potash project will provide the necessary outside financing required for completing the program.

Markets

The potential market for potash fertilizer in Italy seems likely to be large enough to absorb the output of the proposed project as well as of two additional potash projects being undertaken in the same area. Any surplus not saleable on the domestic market can probably be sold on the European market since the production cost of the Italian potassium sulphate is expected to be lower than that of other European production (See Annex: Market for Potash Fertilizers dated October 31, 1957)

Montecatini is in a good position to take advantage of these two markets. As the largest Italian manufacturer of fertilizers, it maintains an efficient and widespread sales organization through which the potash fertilizer would be distributed. Exports would be marketed through its international organization. In preparation for marketing the new project, Montecatini is engaged in extensive research work and large-scale promotional activities.

Earnings and Debt Service Coverage

The company expects the new plant to be operating at a normal capacity level in the third year of operation. At an assumed sales price appreciably below the present price for imported potassium sulphate, net sales would amount to Lit. 4.1 billion per year and produce a net income of Lit. 644 million which would represent a return of about 10% on the total amount of Montecatini's capital advances.

Estimated earnings of the project, before interest and depreciation would provide a coverage of about 2.8 times the amount required to service the proposed Bank loan. The project would be able to withstand a drop of about 15% in estimated revenue along with an increase of 15% in estimated operating costs and still maintain its scheduled debt service.

Company earnings might be further increased by operating the plant on a three-shift basis, rather than on a two-shift basis, as has been assumed in all the forecasts.

Economic Justification

The discovery of large potash mineral deposits in Sicily has opened the possibility of a potash industry in Italy. It will stimulate the application of this product, which has been very low, even compared to countries with similar soil conditions. To the extent that any surplus over domestic demand is available, it will yield foreign exchange, since potassium sulphate will be produced at a lower cost in Italy than elsewhere in Europe. The Montecatini potash operations, located in an old sulphur mining area presently going through a serious depression, will create direct employment for about 700 workers and employees.

Conclusions and Recommendations

The Montecatini potash project is sound and could form the basis for a loan equivalent to Lit. 4.0 billion ($6.4 million) excluding interest during construction, for a term of 12 years, including two years grace period.

ANNEX /

MONTECATINI

2nd draft
XI-7-57

Potash Project - Sicily

Financial Forecasts
(Million lire)

year ending Dec. 31	Construction 1957+	1958	1959	Operation 1960	1961	1962	1963	1964
I. Earnings Statement								
(1000 tons K_2SO_4								
Production(50% K_2O 1/				90	110	133	133	133
(% capacity				68	80	100	100	100
Operating Costs				1,530	1,870	2,210	2,210	2,210
Interest 3/				275	255	233	209	184
Depreciation				706	706	706	706	706
Tax and general charges				250	330	330	330	330
Total Costs				2,761	3,161	3,479	3,455	3,430
Net Sales				2,790	3,410	4,123	4,123	4,123
Net Income after Taxes				29	249	644	668	693
Net Income (% of Montecatini's long term investment)				0.5	3.9	10.2	10.6	11.0
II. Sources and Application of Funds								
Net Income before Interest				304	504	877	877	877
Depreciation Accruals				706	706	706	706	706
Head Office Advances	400 2/	2,746	1,984	1,200				
IBRD loan		2,250	1,750					
Total Sources	400	4,996	3,734	2,210	1,210	1,583	1,583	1,583
Plant and Equipment	400 2/	4,921	3,239					
Interest during construction		75	195					
Total Fixed Assets	400	4,996	3,434					
Net Current Assets			300	1,200				
Service IBRD Loan 3/				563	563	563	563	563
"Additional Assets"				447	647	1,020	1,020	1,020
Total Applications	400	4,996	3,734	2,210	1,210	1,583	1,583	1,583

1/ Assumes that the plant will operate two shifts
2/ Including Lit. 357 million spent by October 14, 1957

3/ Assuming loan Lit. 4.0 billion at 7% for 12 years including 2 years grace period

Montecatini (Sicily)

ANNEX 1
page 2
2nd draft
XI-7-57

Year ending Dec. 31	Construction 1957	1958	1959	Operation 1960	1961	1962	1963	1964
III. Balance Sheets (as at December 31)								
Fixed Assets	400	5,396	8,830	8,830	8,830	8,830	8,830	8,830
Less Depreciation				706	1,412	2,118	2,824	3,530
Net Fixed Assets	400	5,396	8,830	8,124	7,418	6,712	6,006	5,300
Net Current Assets			300	1,500	1,500	1,500	1,500	1,500
"Additional Assets"				447	1,094	2,114	3,134	4,154
Total Assets	400	5,396	9,130	10,071	10,012	10,326	10,640	10,954
Head Office Advances	400	3,146	5,130	6,330	6,330	6,330	6,330	6,330
Surplus				29	278	922	1,590	2,283
IBRD loan		2,250	4,000	3,712	3,404	3,074	2,720	2,341
Total Liabilities and Equity	400	5,396	9,130	10,071	10,012	10,326	10,640	10,954

ANNEX 2

MONTECATINI
Potash Project - Sicily

2nd draft
XI-7-57

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

Gentlemen:

(1) This will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse Nell'Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) and Società Generale per l'Industria Mineraria e Chimica, S.p.A. (Montecatini) (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to develop our potash mine at Serradifalco and to construct and operate at Campofranco a processing plant together with connecting cable rope-way. We have informed you that the project would be operated within the framework of the Montecatini organization and would not be a separate financial entity. For illustrative purposes we have informed you that the pro-forma balance sheet of the plant, on completion of the project, would be as shown below:

Fixed Assets	Lit. 8,830,000,000	Head office Advances	Lit. 5,130,000,000
Net Current Assets	300,000,000	IBRD loan	4,000,000,000
	Lit. 9,130,000,000		Lit. 9,130,000,000

(4) We have explained to you that during the first 12 months of operations the net current assets requirements will be increased to Lit. 1,500,000,000.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by IRFIS, to which the Cassa would lend a portion of the

2nd draft
XI-?-57

Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company with respect to head office advances and working capital.

(6) The assurances which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that the Company will provide the necessary funds as and when required, to supplement the Loan to be made by IRFIS, in order to complete the proposed plant and to provide it with the necessary working capital.

(7) The undersigned hereby gives you the assurances set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof IRFIS agrees to make a loan to the Company for the above-mentioned purpose in the approximate amount of Lit. 4,000,000,000.

(8) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

MONTECATINI, S.p.A.

ANNEX 3

2nd draft
XI-7-57

M O N T E C A T I N I

Balance Sheets
(Billion Lire)

As at December 31	1953	1954	1955	1956
ASSETS				
Current assets				
Cash	0.2	0.2	0.1	0.1
Receivables	36.6	34.5	37.7	53.9
Inventories	35.2	37.3	41.3	41.1
Intra-Company advances	10.3	13.0	13.9	13.4
Other	5.9	5.4	6.5	7.8
Total Current Assets	88.2	90.4	99.5	116.3
Fixed assets (net)	81.9	95.2	94.6	94.7
Investments	37.9	38.5	38.7	41.1
Other assets	2.7	2.9	3.2	3.9
Total Assets	210.7	227.0	236.0	256.0
LIABILITIES and EQUITY				
Current Liabilities				
Banks	0.9	3.6	4.8	0.8
Debt maturing within one year	1.1	1.8	1.7	2.2
Creditors	15.2	18.0	15.7	17.4
Other	17.1	20.7	23.9	27.6
Total Current Liabilities	34.3	44.1	46.1	48.0
Long-term debt	24.3	22.5	28.2	42.7
Other long-term liabilities	9.4	11.2	12.0	13.7
Equity				
Share capital	84.0	84.0	84.0	84.0
Revaluation reserve	30.1	30.5	30.5	30.5
Reserves	20.5	26.1	25.0	26.3
Surplus	8.1	8.6	10.2	10.8
Total Equity	142.7	149.2	149.7	151.6
Total Liabilities and Equity	210.7	227.0	236.0	256.0
Ratios				
Current assets/current liabilities	2.57	2.05	2.16	2.42
Equity/Total liabilities & equity	0.69	0.66	0.63	0.72
Debt/Equity	14/86	18/82	21/79	27/73

ANNEX 3
page 2

2nd draft
XI-7-57

M O N T E C A T I N I

Income Statements
(Billion Lire)

	1953	1954	1955	1956
Sales	118.1	126.2	141.7	152.1
Other income	2.6	2.5	3.4	5.2
Total Income	120.7	128.7	145.1	157.3
Expenditures	112.6	120.1	134.9	146.4
Net Profit	8.1	8.6	10.2	10.9
Net Profit as % of Equity	5.7	5.8	6.8	7.2
Net Profit as % of share capital	9.6	10.2	12.1	13.0
Net Profit as % of sales	6.9	6.8	7.2	7.2

Italy - 5th np.

"MONTECATINI"
SOCIETA' GENERALE PER L'INDUSTRIA MINERARIA E CHIMICA

IL PRESIDENTE
AMMINISTRATORE DELEGATO

MILANO, November 8, 1957
VIA TURATI 18

Mr. Eugene R. Black
President
Bank International
Reconstruction Corporation
Washington

Dear Mr. Black,

Following the cable I have taken the liberty to address to you just now and reading as follows:

"I have been informed that at the last moment some difficulties have arisen with regard financing our envisaged Crotone aluminum plant Letter follows".

I wish to put it clear that our project had been discussed at long length, these last days, with the BIRS officials now in Italy and that they had found the setting up of our program, as well as the documentation we submitted at their request, fully satisfactory.

Furthermore, the economical balance of the envisaged initiative has been based upon an agreement which we have stipulated, some time ago, with an Electric Company of the I.R.I Group (and, therefore, a State-owned Company), which agreement ensures to us (against some services lent by us in the past) the supply at cost of electric power still for a long time ahead. However, the Electric Company is now claiming a plus cost, which we are now contesting.

Under these circumstances, the BIRS officials, though having taken cognizance of the clear contract provisions upon which our thesis is based, and having seemed quite convinced of our good right, have not deemed it possible to leave out of consideration the attitude taken by the Electric Company and have instead judged advisable to suspend any decision in respect to our request, until the dispute will be settled.

Although having but to take note of the point of view of the BIRS officials, which point of view I well understand, I cannot,

Ack. Dec. 2/57

however, help expressing to you my regret at seeing that the actuation of such an important initiative presenting a considerable interest for Southern Italy, has to be postponed. The new factory is, in fact, to be built at Crotone, where there is already a large Montecatini factory for the production of nitrogen which should, unavoidably, reduce its activity, owing to the excess of production which will occur following the entering into service of the new large plants set up at Ravenna by the Government, through E.N.I. The new plant for the production of aluminum, replacing the nitrogen plant, should, according to our intention, prevent, or at least reduce the consequences deriving from the reduction of production of the plant existing in that highly under-developed area.

I feel quite confident to be able to prove, when the dispute with the Electric Company is settled, that our point of view was quite unobjectionable and that the economical balance of our project was fully grounded and such to ensure the rentability of the initiative.

Anyway, well recalling the confidence you have showed to me with regard to Montecatini, I will give me the pleasure to write to you again, just to assure you that the financing application filed by our Company was well established.

With my best personal regards,

Yours sincerely,

(Dr. Carlo Faina)

FORM NO. 26
(1.50)

Italy - 5m
Files R.208

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

DATE OF WIRE: NOVEMBER 8, 1957 2225

TO: BLACK INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT

FROM: MILAN

ROUTING	
ACTION COPY TO	MR WHEELOCK
INFORMATION COPY TO	MR BLACK
Decoded By	

TEXT:

I HAVE BEEN INFORMED THAT AT THE LAST MOMENT SOME DIFFICULTIES HAVE ARISEN WITH REGARD FINANCING OUR ENVISAGE CROTONE ALUMINUM PLANT LETTER FOLLOWS REGARDS

CARLO FAINA CHAIRMAN PRESIDENT OF MONTECATINI COMPANY MILAN

ORIGINAL

INTERNATIONAL BANK FOR
RECONST. AND DEVEL[illegible]

NOV 11 12 49 PM 1957

Italy - 5m. mp.

November 7, 1957

No. 2

Dear Sid:

As Ellsworth will have told you, there was some concern before he left as to whether the examination of the various projects was sufficiently far advanced as to warrant getting down to the legal aspects, particularly the drafting of documents. In the end Ellsworth was satisfied everything was on schedule and after Raymond had talked to you on the telephone, he too felt that there was nothing to be concerned about. When he learned that Ellsworth had gone, Siem was a bit perturbed that possibly decisions would be taken in Rome on projects before they had been sufficiently analyzed and approved in Washington.

Raymond and I have talked with Siem about this and have told him that it is our thorough understanding that nothing is to be done in Rome which would inhibit complete freedom on the Bank's part to approve or disapprove any of the projects being considered.

Raymond has no fears on this point but I thought you ought to know that Siem, and indeed all of us, know very little about the projects which you and your colleagues have in mind and that we look forward to having a full exposition from you on your return. We assume that the Italians fully understand that while the ground will have been thoroughly explored by the mission in Italy, the definitive negotiations will not be undertaken until later.

As you may know, the latest information on Austria is that the deadline for projects to be submitted has had to be extended until the 25th of November. This means that Collier and Fontein will certainly be

Mr. Sidney P. Wheelock
Grand Hotel
Rome, Italy

✓ X Austria Industry

delayed and it is even possible that they will not go until after Christmas. When we know more about the actual situation, we will cable you about your proposed visit to Vienna. Meanwhile, perhaps you could give us an up-to-date situation report on the Italian operation, both as to substance and timing.

Best wishes.

Yours sincerely,

(SIGNED) MICHAEL L. LEJEUNE

Michael L. Lejeune

MLLejeune:ms

Italy - 5th mp.

No. 15

November 7, 1957

Mr. L. M. Svoboda
c/o Grand Hotel
Rome, Italy

Dear Ladya,

This will be a hurried letter as I'm trying to get home soon since my whole family is down with the flu.

Enclosed are suggested changes in the Letters of Agreement for Trinacria and Sincat. The reports, aside from drafting changes, are all right. In Sincat one thing puzzles us - what are "Capitalized Taxes"?

We see no reason to make Trinacria write off their development exempts in five years. Was this an intent expressed by the Company or a condition you wish to impose? This is a point which should be left for the Company to decide.

As soon as possible, let us have your comments on the changes suggested and send up new draft letters incorporating the changes.

It looks as though we will not be able to give clearance on each project as it comes in. Instead Area wants to see the whole group, all together, and be sure of the amounts for Power and Irrigation before we ask the Companies for the signed letters. We may ask you, before you leave, to go over the letters with the companies and have you get a letter from them agreeing to the draft and saying they will sign it when they are requested to do so.

You may want to discuss this point with Sid. It would be helpful to have him back here to keep his department informed of procedures during the other years.

Best regards,

Sincerely,

Attachments

W. J. Armstrong

c.c.--Messrs. Bateson, Collier and Street

WJArmstrong:pgn

TRINACRIA - LETTER OF AGREEMENT

(1) Para. (1) - last line - delete
" - S.T.P. -" unless this is a part of the official corporate name.

(2) Para. (3) - first sentence -
We have proposed that there should be financed out of the proceeds of the loan our project to open and operate a mine for the extraction of potash ore, and to construct and operate near the town of Calascibetta, Sicily, a plant for the processing of 560,000 tons of potash ore per year and the manufacture of "Kalimagnesia" and potassium sulfate.

(3) Para. (4) - first sentence, second line -
"net current assets requirements will increase to ...."

(4) Para. (5) - We have been informed that if the proposed loan should be made, it will be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require: (a) the completion of two additional boreholes confirming, to the satisfaction of the Bank, the Cassa and IRFIS, the existence of adequate reserves of potash ore in our Corvillo properties; and (b) certain undertaking from the Company with respect to share capital, working capital and shareholders' advances.

(5) Para. (6) - delete

(6) Para. (7) - now new (6), first line delete "financial"

(7) New (6) A - insert comma after agree in second line

(8) New (6) E - delete

(9) Para. (8) - becomes (7)

(10) Para. (9) - becomes (8) - second line "paragraph (6) above"

(11) Para. (10)- becomes (9)

Italy 5th rep.

FORM No. 27
(9-56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 7, 1957

TO: L. M. SVOBODA
GRAND HOTEL
ROME

COUNTRY (ITALY) MRT

TEXT:

Cable No. FIFTEEN

AIRMAILING COMMENTS ON TRINACRIA AND SINCAT RECEIVED MARZOTTO TODAY STOP FOR POTASH MARKET STUDY BE PREPARED TO DISCUSS MORE FULLY HOW PROJECTS FIT INTO COMMON MARKET COMMA POTASH COSTS IN OTHER PRODUCING COUNTRIES COMMA POTASSIUM CHLORIDE VERSUS SULFATE NEEDS IN ITALY COMMA COSTS OF SULFATE PRODUCTION IN OTHER EUROPEAN COUNTRIES AND PROSPECTS FOR SULFATE SALES OUTSIDE ITALY

Signed: RIPMAN
(Type in last name of sender)

AUTHORIZED BY:

NAME: H. B. Ripman

DEPT: T.O.D.

SIGNATURE: HBRipman
(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)

INTERNATIONAL BANK FOR
RECONST. AND DEVELP.

NOV 7 5 41 PM 1957

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

Form No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. Aldewereld

DATE: November 6, 1957

FROM: W. J. Armstrong

SUBJECT: Italy - Status of Work - Appraisal of Industrial Projects

It appears that the following eight projects will be acceptable for financing under the new loan:

	Proposed IBRD Loan Billion Lire
*Tajani - Power and phone cables	0.9
Marzotto - Clothing manufacturing	1.3
**Cone - electric appliances	0.7
CMI - Electrolytic tin plating line	0.6
**Montecatini - Potash	4.0
*Sincat - Fertilizers and potash	8.0
*Trinacria - Potash	3.75
**Montecatini - Aluminum	4.00
Total	23.25
	($37.2 million)

*Report received.
**Report received and comments sent to mission.

It appears, however, that the Montecatini aluminum project may have to be eliminated from the list because of a controversy between Montecatini and SME over the power rates. The question is to be settled by arbitration; the company arbitrators have been appointed but the court appointment has not yet been made.

If this project is dropped the total for the new loan will be reduced to Lit. 19.25 billion ($30.8 million).

Three projects, submitted to the mission, have been or will be eliminated:

1) Cementir - 51% of the shares would be held by government controlled companies unwilling to reduce this percentage.

2) Maretea - a woollen mill financed under Loan 50-IT wanted a small additional loan to finish the project. However, the company withdrew the request because they were unwilling to accept the financial provisions currently applied to the Italian projects.

3) SIR -- a small petroleum refinery and plastics plant - expected to be rejected by the mission for technical and economic reasons.

Two projects, ABCD and SIL, included in loans 150-IT and 117-IT respectively, have asked for additional financing. ABCD wishes Lit. 2.8 billion to double the size of the plant in the original project and SIL wants an additional Lit. 600 million because the costs have risen considerably over original estimates. Both of these requests are reasonable and probably will be approved.

Funds for these two projects are available from Loans 117-IT and 150-IT as the following projects have been or will be cancelled:

117-IT	Siculazoto	Lit.	1.5 billion
150-IT	Vetreria de Latina		0.4 "
	Chimica di Tirreno		1.6 "
	Technical Services		0.156 "
	Total	Lit.	3.656 "

Formal action has not been taken on Chimica di Tirreno but the mission has informed us that this may be expected soon.

The last reports are expected to be received by November 12. deAlba probably will return to Washington on the 15th and Svoboda about a week later.

c.c.--Messrs. Chadenet, Bateson, Collier and Street

2Italy - 5mp.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Grand Hotel
Rome, November 6, 1957

No. 2

Mr. S.R. Cope
Director of Operations
- Europe, Africa and Australasia -
International Bank for Reconstruction
and Development
Washington, D.C.

(1) Mr. Skillings
(2) Mr. Riley
(5) Mr. Ramm
copies sent 11.13.57

Dear Raymond:

I enclose a copy of an aide-mémoire which I left with Dr. Baffi on Monday November 4; on the same day he showed it to Dr. Menichella who approved it but gave instructions to Dr. Caffe of the Bank of Italy staff to clear it with the Ministry of Foreign Trade.

This morning Dr. Caffe asked me to call on him. He enquired whether in the Bank's opinion the words " under the same conditions under which the lire were originally released to the Bank" meant that lire released on a transferable basis would continue to be relent by the Bank on a transferable basis. I said that was the meaning the words had in my mind. He expressed the view that this interpretation would be acceptable to the Italian authorities and promised to give me a confirmation in writing as soon as possible.

With best wishes.

Yours sincerely,

S.P. Wheelock

Encl.

RECEIVED

INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

NOV 11 1 49 PM 1957

AIDE MEMOIRE

Mr. Wheelock spoke to Dr. Baffi on Monday, October 28 and again on Monday, November 4 on the subject of the Bank's right to lend repayments of Italian Lire loans.

Dr. Baffi explained that the Italian position was that the Bank would have the right to re-lend repayments of Italian Lire under the same conditions under which the Lire were originally released to the Bank. He expected that there would be no undue rigidity on the Italian side on the interpretation of the conditions.

Mr. Wheelock said that the Bank was grateful for this interpretation and did not wish at the present time to raise the question of removal of restrictions on lending repayments.

November 4, 1957

Italy-5 mp.

FORM No. 27
(9.56)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE: LT

DATE: NOVEMBER 6, 1957

TO: L. M. SVOBODA
GRAND HOTEL
ROME

MRT

COUNTRY (ITALY)

TEXT:

Cable No. 14

ON TAJANI IN VIEW OF HIGH EARNINGS FORECAST RECOMMEND YOU CONSIDER REDUCING AMORTIZATION PERIOD BY TWO OR THREE YEARS STOP ALSO SEE NO REAL NEED FOR FURTHER SHAREHOLDER ADVANCES IN THIRD YEAR STOP FOR FINAL REPORT BE PREPARED TO INCLUDE STATEMENT CONCERNING INFLUENCE OF COMMON MARKET ON PROJECT

Signed: Ripman
(Type in last name of sender)

AUTHORIZED BY:

NAME: H. B. Ripman

DEPT: T.O.D.

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

For Use by Archives Division

Checked for Dispatch

PG.

ORIGINAL (File Copy)

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

INTERNATIONAL BANK FOR RECONST. AND DEVEL.

NOV 6 5 55 PM 1957

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 minumum 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, Beirut, Rio de Janeiro, Bogota, Guatemala City, Bangkok, Karachi, 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 of cables outside of these hours.

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

RECEIVED
INTERNATIONAL BANK FOR RECONST. AND DEVEL.
NOV 6 4 05 PM 1957

Italy - 5th mp
Files

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Grand Hotel,
Rome, November 4, 1957

No. 11

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh:

Enclosed please find draft report on the Marzotto Project together with proposed Letter of Representations, all of which has been cleared with the Area Department.

During the weekend October 26/27 we visited the Marzotto textile mill at Valdagno near Vicenza to look over their operation, in particular that of the ready-made clothing department.

We generally confirmed our previous observations:

(1) that Marzotto's textile operations and some of his other ventures, including the hotel business, have not been too successful in the past;

(2) that since last year there has been a definite improvement in their textile operation, sharedby the ready-made clothing department;

(3) that the ready-made clothing plant, established some three years ago, apparently is making money, although seems to be lacking proper technical organization (production lay-out), which, we are told, is now being corrected.

We have noted that in regard to the new project the company will be in an excellent position of utilizing the experience gained from operation of the existing plant and that considerable efforts are being made to start off the new business in a sound way.

The company maintains contacts with US producers, representative in the business. One of the Count's sons has made several visits to the US to acquaint himself with latest production and sales methods, and appears to take a keen interest in the project. The company has just hired an experienced manager for the Valdagno plant previously engaged by the competition.

The company intends to maintain considerable flexibility in quality and pricing, to introduce the products of the new plant in the market, which still is very much affected by the existing prejudice against ready-made clothing.

Considerable experience is being accumulated in Valdagno in various sales methods including sales at fixed prices through agents or own retail stores. An efficient sales organization and distribution system and agressive promotional action no doubt will in the end decide on the final success of this venture.

To sum up, we feel that this project in some respects presents a somewhat greater than normal risk. However, considering its general economic merits, provided sound financing is assured, it can be recommended for Bank financing.

With best wishes from all of us.

Yours,

Ladin.

Encls.

Ladislav Svoboda

MARZOTTO

Borrower

The prospective borrower is Marzotto Sud S.p.A., incorporated in 1956. The company would build a plant in Salerno for the manufacture of ready-made clothing. The cost of the project including working capital and interest during construction is estimated at Lit. 3.7 billion ($6.2 million) of which Lit. 1.3 ($1.92 million) is requested from IBRD funds.

The stock of Marzotto Sud is totally owned by Manifattura Lane Gaetano Marzotto & Figli, S.p.A., one of the largest textile companies in Italy, owned by the Marzotto family. The Marzotto family also owns other companies in the sugar, soap and glass industries, tourist hotels in Italy, etc.

Description of the Project

The plant at Salerno would be able to manufacture 290,000 units (One "unit" is represented either by jacket and trousers, one overcoat, or three trousers) of ready-made clothing per year (290 days, one 8 hour shift).

The plant would have modern buildings covering a working area of about 12,000 m^2 and housing about 660 cutting, sewing and pressing machines and 3,000 m^2 for offices and services.

Ancillary installations include thermo-electric plant (two boilers), water softening and heating and ventilating equipment.

Electric power requirements would be provided by their own plant (using back pressure turbines). Water will be supplied from the city water service.

This industry is of the labor-intensive type and when operating at full capacity will employ about 1,200 people.

Present Status

Project engineering has been completed; plant site has been acquired; building foundations have been started. The equipment, with the exception of the thermo-power plant, can be obtained on very short notice, quotations have been received and analyzed. The plant is estimated to be completed by the end of 1958.

Management

Manifattura Lane G. Marzotto & Figli has operated for several years a ready-made clothing plant at Valdagno as a part of their textile manufacture installations there. The experience acquired at Valdagno would be very helpful for the organization and operation of the Salerno plant. Marzotto is now hiring additional personnel to fill out the staff needed for the new plant. It is expected that any technical or managerial problems at Marzotto Sud would be promptly solved by the parent company.

Market

Ready-made clothing is an industry beginning to be developed in Italy and statistics of its market are incomplete. Production of ready-made clothes in Italy in 1956 amounted to about two million units including trousers and children's clothing; about 4% of this production was exported.

Ready-made clothes represent only about 20% of the total number of clothing units manufactured in Italy where the industry is mostly made up of very small concerns or individuals who manufacture their products on a tailor-made basis. In other European countries like France, Belgium, Germany, Norway and the U.K., the proportion of ready-made to tailor-made clothing is above 80%. Therefore, Marzotto estimates that a large market for ready-made clothing exists and can be developped in Italy with a sound sales promotion campaign backed up by low prices and good quality products. Marzotto expects also, using their existing export sales organization, to further develop the export market to absorb about 20% of the Salerno plant's production. The marketing of the product will be done through already established or soon to be established distributors operating on a commission basis and, if necessary, through Marzotto's own stores.

Financing

Of the total cost of the project, estimated as Lit. 3.7 billion, Lit.1.5 billion would be financed from share capital and Lit. 0.9 billion from shareholders' advances. The remaining Lit. 1.3 billion, representing 35% of the total, would be covered from the proposed Bank loan. The net current assets would be gradually increased to a toal of Lit. 2.1 billion representing 56% of the total investment. The relatively large working capital requirements are due mainly to the extensive use of sales credits which form and essential part of the contemplated sales promotion for this project and its distribution system. The estimated balance sheets when the project is completed and after three years of operations are shown below:

1958

	Dec. 31 1959	Dec. 31 1962		Dec. 31 1959	Dec. 31 1962
Fixed Assets	1,625	1,625	Share capital	950	1,500
Less depreciation	163	652	Shareholders' advances	900	900
Net Fixed Assets	1,462	973			
Net current assets	1,200	2,100	Surplus	36	610
"Additional Assets."	524	1,042	IBRD loan	1,300	1,105
	3,186	4,115		3,186	4,115

Financial forecasts of the Company are given in Annex 1. and a letter of financial conditions agreed with the Company is given in Annex 2.

The operations of the Marzotto textile mills at Valdagno for several years in the past have shown poor results, due in part to the adverse developments in the textile market, in particular for woollen textiles. Since late 1956, there has been a marked improvement in the company's operation which during 1957 has attained an accelerated rate. Sales in the first nine months of this year totalled Lit. 22.4 billion and they are estimated to reach Lit. 31.0 billion at the end of the year, as compared to Lit. 23.6 billion in 1956. A net profit of Lit. 1.5 billion is foreseen for this year as compared to Lit. 0.6 billion actual profit in 1956.

Earnings and Debt Service Coverage

Operating at normal capacity and selling medium quality clothing at prices somewhat below those presently prevailing, the project in the fourth year of operations would have net sales of an estimated Lit. 5.3 billion and produce a net profit of approzimately Lit. 0.3 billion, a return of about 11% on share capital and shareholders' advances. The company has estimated that, if required by the market, it could produce lower quality clothing and show a still higher return correpponding to about 13% of total equity.

Estimated company earnings before interest and depreciation, when the plant is operating at normal capacity, should cover the service of the proposed IBRD loan about 2.8 times. The project should be able to break even at less than 70% capacity and generate sufficient cash from operations to provide for a 1.5 times coverage of the Bank loan.

Economic Justification

The project represents an important step towards rationalization and integration of the Italian textile and clothing industry. It will supply low price ready-made clothing of standard quality to a potentially large market particularly in the south of Italy and will thereby help to raise the living standards of its population. It will provide an important outlet for the products of the parent company's textile mills in the north and thereby strengthen their operational position against the adverse effects of drastic fluctuations in the textile market. Last but not least the project will benefit a poverty stricken area in the south of Italy in providing direct employment for up to 1,200 people.

Conclusions and Recommendations

The Marzotto project is sound and could form the basis for a loan of Lit. 1.3 billion ($2.1 million) excluding interest during construction. The terms of the loan could be for 13 years, including a three years grace period.

MARZOTTO

Financial Forecasts
(Million lire)

Year ending Dec. 31	Construction 1957	1958	Operation 1959	1960	1961	1962
I. Earnings Statement						
Production (% of capacity)			70	80	90	100
Operating costs			3,375	3,824	4,272	4,720
Interest on IBRD loan			91	91	91	84
Depreciation			163	163	163	163
Taxes			10	10	10	10
Total Costs			3,639	4,088	4,536	4,977
Net Sales			3,675	4,200	4,725	5,250
Net Profit after taxes			36	112	189	273
Net Profit - % of share capital and advances by shareholders			2	5.6	7.9	11.4
II. Sources and Application of Funds						
Net profit before interest on debt			127	203	280	357
Depreciation			163	163	163	163
Share capital		600	350	150	400	-
Shareholders' advances	400	25	475			
IBRD loan		900	400			
Total sources	400	1,525	1,515	516	843	520
Installations & equipment	400	994	200			
Interest during construction		31				
Total Fixed Assets	400	1,025	200			
Net current Assets		500	700	300	600	
IBRD debt service			91	91	185	185
"Additional Assets"			524	125	58	335
Total Application	400	1,525	1,515	516	843	520

	Construction 1957	Construction 1958	operation 1959	operation 1960	operation 1961	operation 1962
III. Balance Sheets (as at Dec. 31)						
Fixed assets	400	1,425	1,625	1,625	1,625	1,625
Depreciation			163	326	489	652
Net Fixed Assets	400	1,425	1,462	1,299	1,136	973
Net Current Assets		500	1,200	1,500	2,100	2,100
Net "Additional Assets"			524	649	707	1,042
Total Assets	400	1,925	3,186	3,448	3,943	4,115
Share Capital		600	950	1,100	1,500	1,500
Shareholders' advances	400	425	900	900	900	900
Surplus			36	148	337	610
IBRD loan		900	1,300	1,300	1,206	1,105
Total liabilities & equity	400	1,925	3,186	3,448	3,943	4,115

Why lag in draw down if project is complete in 1959.

ANNEX 2

MARZOTTO
Draft letter of representations

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H Street N.W.
Washington, D.C.

Gentlemen:

(1) This will confirm certain understandings reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa), Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and Marzotto Sud S.p.A. (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project to construct and operate in Salerno a plant for the manufacture of ready-made clothing, with a normal capacity of about 290,000 units per year (a unit consisting of jacket and trousers, or overcoat or three trousers). We have informed you that the pro-forma balance sheet of the Company, after completion of the project would be as follows:

one third
gains

Fixed assets	Lit.1,625,000,000	Share capital	Lit. 950,000,000
Less depreciation	163,000,000	Shareholders'	
Net Fixed Assets	1,462,000,000	advances	900,000,000
Net current assets	1,200,000,000	Surplus	36,000,000
"Additional assets"	524,000,000	IBRD loan	1,300,000,000
	Lit.3,186,000,000		Lit.3,186,000,000

(4) The cost of the project should be considered as Lit. 3,725,000,000 composed of Lit. 1,625,000,000 for fixed assets and Lit. 2,100,000,000 for net current assets. We have explained that during the second year of operation of the project, the net current assets requirements will be increased to Lit. 2,100,000,000. The increase Lit. 900,000,000 will be provided from additional share capital and from retained earnings and depreciation accruals.

3rd year

(5) We have been informed that if the proposed loan should be made, it will be made to the company by ISVEIMER, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or ISVEIMER of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements be made, under which:

A. Except as the Bank, the Cassa and ISVEIMER shall otherwise agree, the share capital of the Company shall be at least Lit.1,500,000,000 paid in as required, and shareholders' advances, on completion of the plant, will total at least Lit. 900,000,000;

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by ISVEIMER to provide the necessary funds as and when they are required.

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital.

D. The undersigned will not, without approval of the Cassa and ISVEIMER, pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy will result in or envisage at any time after the completion of construction:

I. The excess of current assets over current liabilities being less than Lit. 2,100,000,000; or

II. The ratio of current assets to current liabilities being less than 3:1

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the company's business be converted into cash or assets readily convertible into cash; and "Current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof ISVEIMER agrees to make a loan to the Company for the above mentioned purpose in the approximate amount of Lit. 1,300,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and ISVEIMER and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

MARZOTTO SUD S.p.A.

Italy - 5th loan
NP.

No. 14 November 4, 1957

Mr. L. M. Svoboda
c/o Grand Hotel
Rome, Italy

Dear Ladya,

This will cover our comments on the Montecatini Potash project.

1. Borrower - Montecatini should follow the legal name and should be in brackets. "........S.p.A. (Montecatini)"

2. Project description - para. 1 - add a new last sentence.

"This assumes that the plant will operate on a two-shift basis."

3. Financing - para. 1 - second sentence.

"Its financing, ...will be provided from the general funds of the Company through the interplant accounts."

4. Markets - suggested redraft attached.

5. Earnings and Debt Service - last para. - Might be changed to:

"Company earnings might be further increased by operating the plant on a three-shift basis, rather than on a two-shift basis, as has been assumed in all the forecasts."

6. Economic Justification - Suggested redraft is attached.

7. Earnings Statement

Production - Stub should read (Thousand tons of potassium sulphate, 50% K20) Footnote to say: Assumes that the plant will operate two shifts.

8. Earnings Statement - Operating Costs

The forecasts for 1960 and 1961 (especially 1960). The assumed operating rates are 68% and 80% respectively, and the operating costs 69% and 85% respectively of normal costs. Shouldn't one assume costs would be higher, proportionally, in the earlier years than in the later years?

9. Earnings Statement - Taxes - The taxes seem high (about 1/3 of net income before taxes), and remain unchanged from 1961 to 1962 even though earnings go up. It appears the company has not taken into account the tax relief possible under the Cassa program.

10. Source and Application of Funds

Should not the table be set up to show the Lit. 400 million already spent? As it is given, it shows this Lit. 400 million being paid in by the Company and spent in 1958-1960, rather than before that date.

11. Balance Sheets - The pro forma balance sheet (p.2) is inconsistent with the balance sheets for 1959 and 1960 because Lit. 100 million of the IBRD loan is to be withdrawn after the completion of the project.

The simplest way to take care of this would be to have all the loan disbursed by the end of 1959. Otherwise the Letter of Agreement would have to show the loan on project completion as Lit. 3.9 billion and an explanation that the last Lit. 100 million would be drawn down after completion.

Aside from minor drafting changes, this report looks to be in good shape. However, let us have a clean draft for final clearance.

With best regards,

W. J. Armstrong

Attachment

c.c.--Messrs. Bateson, Street and Collier

WJArmstrong:pgn

Markets

The potential market for potash fertilizer in Italy seems likely to be large enough to absorb the output of the proposed project as well as of two additional potash projects being undertaken in the same area. Any surplus not saleable on the domestic market can probably be sold on the European market since the production cost of the Italian potassium sulphate is expected to be lower than that of other European production. (See).

Montecatini is in a good position to take advantage of these two markets. As the largest Italian manufacturer of fertilizers, it maintains an efficient and widespread sales organization through which the potash fertilizer would be distributed. Exports would be marketed through its international organization. In preparation for marketing the new project, Montecatini is engaged in extensive research work and large-scale promotional activities.

Economic Justification

The discovery of large potash mineral deposits in Sicily has opened the possibility of a potash industry in Italy. It will stimulate the application of this product, which has been very low, even compared to countries with similar soil conditions. To the extent that any surplus over domestic demand is available, it will yield foreign exchange, since potassium sulphate will be produced at a lower cost in Italy than elsewhere in Europe. The Montecatini potash operations, located in an old sulphur mining area presently going through a serious depression, will create direct employment for about 700 workers and employees.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Grand Hotel
Rome, November 2, 1957

No. 10

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Hugh:

Enclosed is draft report on the TAJANI Electric Cable Project. This paper is still preliminary, inasmuch as its financial part has yet to be firmed up by certain supplementary information yet to be received from the Company.

In order to prevent further delays, we have furnished Tajani our own financial forecasts based on the company's latest estimates, variously adjusted for scheduled expenditures, working capital requirements, interest and depreciation charges, to provide a more accurate and conservative picture of the prospective situation. You will note that, even after these adjustments, the project present a very attractive proposition, yielding an estimated 80% return on the equity investment.

We believe that the report, despite its preliminary nature, will provide a sufficient basis for passing judgement on the merits of the project and its suitability for Bank financing. As soon as the financial forecasts have been agreed on with the company, I will send you the final version of the financial part of the report together with draft letter of representations.

Despite the many delays in our work, I still expect to wind up our business by November 15, although amny things still remain to be done and time is running short.

With very best wishes.

As
Yours ever,

Ladislav

Ladislav Svoboda

Encls.

TAJANI

3.04

Borrower

#1.44

The prospective borrower would be Ing. G. Tajani Cavi S. p. A. a company wholly owned by Ing. Gaetano Tajani and Dr. Luciano Fedeli, with office in Milan. The company would build a new plant for the manufacture of electric power conductors and telephone cable at Anagni, near Rome. The cost of this project, including working capital and interest during construction, is estimated at Lit. 1,900 million ($3.2 million) of which Lit. 900 million ($1.5 million) would be financed from IBRD funds.

Ing. Tajani and his son-in-law Dr. Fedeli, operate a very successful family-owned electric cable plant in Milan, which cannot be expanded there due to lack of space.

Description of the Project

The new plant at Anagni would have the installations required to produce 1,200 km per year of impregnated paper, rubber and plastic insultated electric cables and 480 km per year of telephone cable. The plant will also have ancillary facilities and a testing laboratory.

Present Status

Plant engineering and designs have been completed, acquisition of the plant site is being negotiated. Quotations for equipment and construction contracts have been received and analyzed. Orders for equipment can be placed on short notice. The plant is expected to be completed in 18 months.

1/ The Company will be organized within one month after approval of the loan.

Markets

The Italian market of electric and telephone cables has been controlled by the Pirelli-Ceat group integrating 35 manufactures, many of their plants can be considered outdated.

Tajani does not belong to this group and its production represents only about 1% of the Italian production of electric cables. When the new plant will be operating at full capacity by 1960, Tajani's production will represent about 3% of Italian production.

common market

Imports and exports of electric conductors are very small and do not affect the local market.

Since no statistical data are available on sales of different types of electric cables, the trends on the generation of electric power ~~and the length of high tension electric lines~~ will give an indication of future requirements (~~Annex 1~~). The generation of power has increased in the last six years from 25 billion kwh to 41 billion kwh per year, and the electric energy high tension network (above 12 kv) has increased from 18,700 km to 28,300 km during the same period. According to recent estimates the generation of electric energy will be about 53 billion kwh by 1960 (1/3 above 1956 production) and is expected to double during the next ten years (80 billion kwh by 1966).

1/A company to carry out the project will be organized by the same two men

The market for telephone cable can be appraised from the figures of Appendix 1. The number of telephone subscribers has increased from 750,000 in 1948 to 1,820,000 in 1955. The telephone network's extension has increased from 1,300,000 km to 3,370,000 km in the same period. Large programs now under-way, especially in Southern Italy, for the improvement of telephone services would insure a good market for telephone cable for several years.

Tajani has been unable to enlarge its production facilities to keep pace with pending orders. The new plant at Anagni is expected to solve this situation.

Management

Ing. Tajani and Dr. Fedeli have successfully operated an electric cable plant in Milan for several years. The plant at Anagni would not present any technical problems different from those found and solved at Milan.

Financing

Of the total requirements, estimated as Lit. 1.9 billion, Messrs. Tajani and Fedeli would furnish Lit. 1.0 billion, including Lit. 0.25 billion as share capital, Lit. 0.7 billion in loans under covenants which would make them equivalent to equity and Lit. 0.05 million from retained earnings. The remaining Lit. 0.9 billion would come from the proposed IBRD loan. The estimated pro forma balance sheets as of the date of completion of the project and after three years operation are shown below: (million Lire)

why on completion

	Upon Project completion	After 4 yrs Operation		Upon Project completion	After 4 yrs Operation
Fixed Assets	1,600	1,600	Share capital	250	250
Less depreciation	62	437	Shareholders' advances	650	700
Net Fixed Assets	1,538	1,163			950
Current Assets	200	300	Surplus	321	2,369
"Additional Assets"	383	2,582	IBRD loan	900	726
	2,121	4,045		2,121	4,045

new? so?

Financial forecasts are shown in Annex 3. A letter embodying the financial conditions agreed to by the company is attached in Annex 4.

Earnings Prospects and Debt Service Coverage

The Company expects, within the first 12 to 15 months after completion of the project, to increase gradually output to full capacity. If this output is sold at somewhat lower than present cartel sales prices the company's sales would increase from Lit. 1.8 billion in the first year of operation to Lit. 4.3 billion in the third year and net income from Lit. 0.3 billion to Lit. 0.7 billion. The latter figure represents a return of as much as 80% on share capital and shareholders' advances.

Estimated company earnings before interest and depreciation, when the plant is operating at a normal rate, should cover the service of the proposed

Bank loan about 7.3 times. The company could sustain a simultaneous drop of 10% in sales revenues and an increase of 10% in operating costs and still maintain service on the proposed Bank loan.

Economic Justification

The development of the Italian economy makes necessary a continued expansion of power generating capacity. The consequent extension of the national and regional transmission systems together with the increasing industrial and residential power distribution requirements will generate a growing demand for electric cables.

The proposed project, while taking a relatively small share in total national output, will perform a significant economic function: as an independent small scale producer the plant will be in a position to supply the market with a variety of quality products at lower than existing sales prices, thereby introducing an element of competition in the monopoly controlled market. The plant will give direct employment to about 100 skilled and unskilled workers.

Conclusions and Recommendations

The Tajani project is sound and could be the basis for a loan of Lit. 900 million ($1.44 million) excluding interest during construction. The term of the loan could be 12 years, including a two-years grace period.

Year	Subscribers (in 1000)	Sets in use (in 1000)	Extent of town networks (1000 km)
1948	750	1,010	1,300
1949	830	1,120	1,400
1950	930	1,240	1,600
1951	1,040	1,380	1,800
1952	1,160	1,540	2,000
1953	1,360	1,770	2,400
1954	1,580	2,040	2,900
1955	1,830	2,330	3,400

ANNEX 2

TAJANI

Financial Forecasts
(Million lire)

	Construction 1st year	Construction 2nd yr.	Operation 3rd yr.	Operation 4th yr.	Operation 5th yr.
I. Earnings Statements					
Production (% of capacity)		43	84	100	100
Operating costs		1,343	2,602	3,133	3,133
Interest IBRD loan	(21) 1/	(29) 1/	63	59	53
Depreciation		62	125	125	125
Taxes etc		98	190	232	232
Total Costs		1,503	2,980	3,549	3,543
Net Sales		1,824	3,528	4,296	4,296
Net Income		321	548	747	753
Net Income (as % of capital and shareholders' advances) =850900		36	56	80	101
II. Sources and Application of Funds					
Net Income before Interest		321	611	806	806
Depreciation Accruals		62	125	125	125
Share Capital	250				
Shareholders' Advances	369	281	50		
IBRD loan	515	385			
Total Sources	1,134	1,049	786	931	931
Fixed Assets	1,113	437			
Interest	21	29			
Total Fixed Assets	1,134	466			
Net Current Assets		200	100		
Service IBRD loan	-	-	95	127	127
"Additional Assets"		383	591	804	804
Total Applications	1,134	1,049	786	931	931

1/ Interest capitalized

short term

III. Balance Sheets (as of end of fiscal year)

	Construction 1st yr.	2nd.yr.	Operation 3rd.yr.	4th yr.	5th yr.
Fixed Assets	1,134	1,600	1,600	1,600	1,600
Less depreciation		62	187	312	437
Net Fixed Assets	1,134	1,538	1,413	1,288	1,163
Net Current Assets		200	300	300	300
"Additional Assets"		383	974	1,778	2,582
Total Assets	1,134	2,121	2,687	3,366	4,045
Share Capital	250	250	250	250	250
Shareholders' advances	369	650	700	700	700
Surplus		321	869	1,616	2,369
IBRD loan	515	900	868	800	726
Total Liabilities	1,134	2,121	2,687	3,366	4,045

Italy - 5 in reqs.

No. 13

November 1, 1957

Mr. L. M. Svoboda
c/o Grand Hotel
Rome, Italy

Dear Ladya:

This letter will cover our comments on ABCD. For the most part we have not been concerned with editorial changes, but Cicely, in going over the report, has been able to suggest certain changes and we'll pass those along with our other questions and comments.

First, general comments -

1. A statement on the company's depreciation policy should be included in this and all other reports. Special reference should be made to the depreciation rate for the polyethylene plant.

2. In each forecast, the term of the loan and interest rate should be specified as you did with the Crotone project.

3. "Reserves in Current Assets" and "hidden reserves". As much as possible we should use the official figures since the others are given to us in confidence and the reports do get rather wide circulation. Therefore I feel these terms and figures should be removed and a statement made in the text about the conservative valuation of current assets.

4. The term of the new loan should conform to the term of the previous loan - 11 years including a 3 year grace period. This shorter term was decided last year because of the high obsolescence factor inherent in this type of plant.

More specific points follow -

1. Table, p.2 - This would be more clear if "IBRD project" were broken down into (a) special cements (b) polyethylene (c) power and "working capital" into (a) polyethylene and (b) other.

2. What is the amount of the net working capital needed? If the polyethylene project needs Lit. 1.5 billion why have Lit. 0.953 expenditures already been made for this item when the plant won't be ready for three years? Isn't this, instead, increased requirements for the expanded cement and asphalt products sales and a somewhat longer turnover period? This point should also be cleared in the letter.

3. Table, p.2 - Requirements

Other construction - The figure of 681 agrees with the figures for expenditures on other construction shown in the Financial Forecasts (Annex 1, p.1) (1956 - 358; 1957 - 323; total - 681) but does not agree with the figures for increase in value of other fixed assets shown in the Balance Sheet (Annex 1, p.2) (1956 - 358, 1957 - 316, total - 674).

4. Sources

Other borrowings - long-term - In the Financial Forecasts (Annex 1, p.1) the figure of 294 is shown as other loans - short-term.

5. Table, p.3

Fixed Assets - If expenditures on other fixed assets is taken as 681, the value of other fixed assets and for total fixed assets should be 7 million lire higher than the figure shown in the Balance Sheet (Annex 1, p.2) and in this table.

6. Reserves in Current Assets - Should not be shown at all.

7. Page 3, Para. 2 - Sentences 2 and 3. Change to -

"For 1955/1956, this represented a return of about 14% on the combined value of share capital and shareholders' advances. Net income was considerably reduced, however, by the conservative practices followed in valuing current assets."

8. Annex 1

I. Earnings Statement

Operating Costs

1956 and 1957 - Adjust the figure on the first line so that the net current assets reserve would not have to be shown.

1958 - 1962 - Show only the figure now given as operating costs adjusted, with a footnote to say that the figure shown represents an upward adjustment by 4% of the figures submitted by the company. Also should not these adjustments be exactly 4% and not percentages varying from 3.5 - 4.4%.

9. Interest - Recompute for loan of 11 years with 3 years grace.

10. Net income after taxes - Show only first line, not figure prior to adjustment.

11. Net income as % of share capital and shareholder's advances - Recompute.

12. Interest on IBRD project should be shown even though capitalized and deferred, otherwise there is no apparent reason for the large increase in payments in 1961 and 1962.

13. Shouldn't net sales for 1957 be 3,835 instead of 3,385?

14. Why are taxes in 1962 the same as 1961 since sales have increased sharply?

II. Sources and Application of Funds

15. Should footnote (2) be applied to 1961 and 1962?

16. IBRD 1st loan - Should 1957 be 600 instead of 300, and later years adjusted accordingly?

IBRD proposed second loan - Should 1957 be 0 instead of 300 and later years adjusted accordingly.

17. Other loans short-term - 1956 - 294 should be long-term.

18. Other debt service - Note discrepancies on balance sheet.

19. III. Balance Sheet

Should 1956 be actual?
Should 1957 be preliminary?

20. Other fixed assets - The 1957 figure should be 3,370 to conform to expenditures on other construction 1957.

21. Fixed Assets Adjustment - What is this adjustment and is it necessary? If so, supply footnote - 1955 - 403 explain. Probably this will come out when using the company's figures.

22. Depreciation - 1956 does not agree with entry on Sources and Application table. Out by 1.

23. Shareholders' advances - 1956 - Account for decline of 48 from 1955.

Long-term Debt

24. 1957 - Decrease from 1956 = 565. Debt service in 1957 - 621 minus interest of 135 = 486. Explain difference.

25. 1960 - Decrease from 1959 - 76. Debt service in 1960 - 191 + 18 = 209, minus interest payments - 113. Difference = 96.

26. Total liability and equity

a. 1958 appears to be a typographical error - shouldn't it be 7,598?
b. 1958 liabilities then do not balance with total assets.

27. Debt-equity ratio should be shown.

The following are suggested drafting changes.

Para. 1 - Second sentence - Change to:

The company plans to erect a polyethylene plant with an annual capacity of 10,000 tons per year and a 10,000 kw. thermal-power plant.

- Third sentence - Change to:

The project is a revision of a portion of an earlier project which received Bank financing under Loan 150-IT. This portion of the earlier project involved the construction of a polyethylene plant with an annual capacity of only 5,000 tons; no power plant was included.

Para. 3 - Change to:

The original project involved: (1) the construction of a plant for the production of special cements which are made by reprocessing ordinary cement clinker; it would therefore result in no appreciable increase in the company's total cement output; (2) the installation of two crude oil stripping towers operating on Ragusa crude which would provide the raw materials to be used in the production of polyethylene as well as additional fuel for ABCD's cement and asphalt plants; each tower would have an annual capacity of 100,000 tons; and (3) the erection of facilities for the production of 5,000 tons per year of polyethylene. The cost of the project was estimated at Lit. ...., including working capital and interest during construction.

(No mention need be made of the cost of the original polyethylene plant alone)

Para. 4 - Sentence 3. - Change to:

Even after the increase in its capacity to 10,000 tons per annum, the proposed plant is the smallest size polyethylene plant now being built in Europe.

- Sentence 4 - Can be omitted.

Para. 6 - Sentence 2 - Change:

"in spite of the increase in plant capacity" to
"in spite of the planned increase in polyethylene production capacity"

Present Status - Para. 1

Sentence 1 - Change to:

"The special cement plant and the first oil stripping tower were completed", ...etc.

Para. 2, - Sentence 1:

Insert "second oil stripping tower and the" before "polyethylene".

Para. 3 - Sentence 1:

Insert "second oil stripping tower and the" before "polyethylene".

Financing - Para. 1, Sentences 2 and 3. Change to:

This represents an increase of Lit. 6.5 billion over the original estimate. The increase would be covered, ...etc.

Markets - Change to:

Information on Italian consumption of polyethylene is not available. Until recently, when the first Italian polyethylene plant was completed, all the polyethylene consumed in the country was imported, and even in 1956, consumption exceeded the domestic production of some 8,000 tons. There are no data on imports, however, because polyethylene is included with all other plastic materials in the import statistics. Even if current consumption were known, it would be difficult to predict the future growth of demand for this product which has already increased so spectacularly. Although its outstanding electrical properties, high chemical resistance and mechanical toughness have already found it a wide variety of uses, its full scope is not yet known. The experience of other countries suggests, however, that Italian consumption which is still relatively small, will grow rapidly. In the United States, for example, consumption increased almost five times between 1952 and 1956.

Current Italian production of 8,000 tons would be increased to 28,000 tons by the addition of the ABCD's proposed plant and another plant with a capacity of 10,000 tons now planned by the Edison interests. However, ABCD appears to be in a good competitive position. Because of the favorable location of its proposed plant with respect to raw materials, it is estimated that its production costs will be about 60% of the current U.S. selling price for polyethylene, which is 35¢ per lb., and about 40% of the current selling price in Italy, which is 55¢ per lb.

The output of the stripping plant, apart from the ethylene to be used for the production of polyethylene, can be disposed of without difficulty. Most of the heavy oil would be consumed by ABCD and its associated companies. Other by-products, such as crude gasoline and butane, should find a ready market locally.

Page 4, Para. 1 - Change to:

The company expects its polyethylene plant to be producing at 40% of capacity in 1960, when the project will be completed, and to reach full capacity operation two years later. With polyethylene selling at 27¢ per lb. (compared with the current price in Italy of 55¢ per lb.) the company expects its total net sales to amount to Lit. 6.6 billion in the first year of operation and to Lit. 9.9 billion in the third year. Its net income would be Lit. 1.4 billion and Lit. 1.7 billion respectively, a return in each year of about 32% on share capital and shareholders' advances. It should be noted that in preparing the financial forecasts, the company's estimates of operating costs have been adjusted upward by about 4% to provide a margin of safety. Forecasts of the company's sales are given in Annex .....

Para. 2 -

The simultaneous drop in sales revenue and increase in operation expenditure would only be 15%.

Attached is revised Letter of Agreement for your consideration. We have left most of the figures out since these will change as the report is revised. We would also like your thoughts on the new paragraph 6C.

With all these changes we would like to see a revised report and letter before giving approval to the project. Please date each report so we won't get the various drafts mixed up.

Best regards,

WJA

W. J. Armstrong

Attachment

P. S. A last though - the funds in 150IT won't cover this loan so the letter also will have to include a reference to 117IT.

c.c.--Mr. Bateson
Mr. Street
Mr. Collier

WJArmstrong:pgn

A. B. C. D.

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

Gentlemen:

(1) This letter will confirm certain understandings which have been reached during recent discussions between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank), the Cassa per Opere Straordinarie di Pubblico Interesse nell' Italia Meridionale (the Cassa), Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) and Asfalti Bitumi Cementi e Derivati (the Company).

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence and that certain unutilized funds under the loan between the Bank and the Cassa dated October 11, 1956 (Loan No. 150IT) may also be made available for allocation of such industrial undertakings.

(3) We have proposed that there should be provided, either out of the proceeds of the prospective loan or the unutilized proceeds of Loan No. 150IT, additional financing towards a proposed extension to our project which under Loan No. 150IT has received financing in the amount of Lit. 3,100 million. The project as revised would provide for the construction and operation at Ragusa of a polyethylene plant with a capacity of 10,000 tons per year, a crude oil stripping plant with a capacity of 200,000 tons per year, a special cement plant with a capacity of 30,000 tons per year, and a thermal electric plant with a generating capacity of 10,000 kw. The special cement plant and the first section of the oil stripping plant were completed and put into operation in 1957, the remaining facilities, representing the major part of the project are scheduled to be completed by September 30, 1960. We have informed you that the pro forma balance sheet of the Company, on completion of the project, would be as follows:

Fixed Assets	Lit.	Share Capital	Lit.
Less Depreciation		Surplus	
Net Fixed Assets		Shareholders' advances	
Net Current Assets		IBRD Loans	
"Additional Assets"		Other	
	Lit.		Lit.

It is understood that the amounts shown as surplus and additional assets may be reduced by the amounts of dividends paid during the interim period subject to the restrictions of this letter.

(4) The cost of the project should be considered as Lit. .... composed of Lit. .... for fixed assets and Lit. .... for net current assets. In addition to the project, an amount of Lit. .... will be required to increase the net current assets pertaining to the other activities of the Company.

(5) We have been informed that any loan to the Company would be made by IRFIS to which the Cassa would lend for the purpose, a portion of the Bank's loan now under consideration, or of Loan No. 150IT. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the existing loan to the Company under Loan No. 150IT or of the proposed loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least Lit. 3,000,000,000 paid in as required and shareholders' advances on completion of the project will total at least the difference between Lit. 5,220,000,000 and paid in share capital;

B. If the completion of thé project or its successful operation is hindered or delayed or is threatened with hindrance or delaybecause the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS to provide the necessary funds as and when they are required;

C. The aggregate amount of short-term borrowings at any time outstanding incurred for purposes of financing the cost of the construction of the project, shall not exceed Lit. 800,000,000 and shall, within one year from the commencement of operations by the polyethylene plant, be repaid in full out of shareholders' advances or retained earnings.

D. Shareholders' advances provided under sub paragraphs A, B and C -

  I. Shall not be withdrawn;

  II. Shall in all respects be subordinated to all debts of the Company; and

  III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

E. The undersigned will not without approval of the Cassa and IRFIS pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy would result in or envisage at any time after the completion of the project:

  I. The ratio of current assets over current liabilities being less than 2:1,

  II. The excess of current assets over current liabilities being less than Lit. 1,790,000,000.

(7) For the purpose of this letter "current assets" shall be considered as cash and assets readily convertible to cash and all other assets which would, within one year in the ordinary course of the Company's business be converted into cash or assets readily convertible into cash; and "current liabilities" shall be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above, to be effective and to supersede the assurances and undertakings given in our letter to you dated June 26, 1956 on the condition that, either from the proceeds of Loan No. 150IT or from the proposed Bank loan to the Cassa, IRFIS agrees to make an additional loan to the Company for the above-mentioned purpose in the approximate amount of Lit. 2,800,000,000, thereby increasing the total amount of financing of the project by IRFIS to Lit. 5,900,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

ASFALTI BITUMI CEMENTI eDERIVATI

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

No. 9

Grand Hotel
Rome, November 1, 1957

Mr. Hugh B. Ripman
Chief, Industry Division
Department of Technical Operations
International Bank for Reconstruction
and Development
Washington 25, D.C.

Dear Hugh:

I enclose drafts of report and letter of representations concerning the SINCAT project and the general market appraisal for the potash industry. These papers have been cleared with the Area representatives.

Oct. 30/57

Meanwhile we have received your cable No. 11 including comments on the ABCD project report. According to your suggestion regarding the liquidity provisions in the ABCD draft letter of representations, I propose that paragraph (6) should be supplemented as follows:

E. Except as the Bank the Cassa and IRFIS shall otherwise agree, short term loans used as interim financing for completion of the project, shall not exceed, at any time, the total sum of Lit. 800,000,000 and shall be repaid on completion of the project from retained earnings or shareholders' advances.

In conjunction with the above, subsections (6) D would now read as follows:

D. The undersigned will not without approval of the Cassa and IRFIS pay dividends or make any other payments to shareholders or adopt any policy if such payments or policy would result in or envisage at any time after completion of the project:

I. The excess of current assets over current liabilities being less than Lit. 1,790,000,000,

II. The ratio of current assets over current liabilities being less than 2:1.

I had previously discussed with the Company the possibility of an alternative liquidity provision along the lines of the above proposal, pending further clarification of the Company's prospective working capital position in the peak construction years. The modified provision as above would no doubt be a welcome relaxation for the Company in a prospective period of increased financial commitments. I am awaiting your letter and possible further comment on the present proposal, before presenting the revised draft letter to the Company. Incidentally, in sending the first four reports in a hurry I failed to make a few minor corrections in the ABCD financial forecasts as indicated

in attached copy. I apologize for this overlook.

Preparation of the remaining five reports has been somewhat retarded because of the inadequate financial presentation of the projects. The intervening holidays, this week, have further delayed their completion. We have now set deadlines to the various companies for final agreement on financial matters which will expire Thursday next week.

A meeting with Marzotto is set for November 2, to review the final presentation of their financial plan as agreed on in principle during our visit to the Company last week-end. SIL after the last heated discussion on financing, have now replaced Prof. Colaiori by Prof. Parillo as main negotiator. The latter has suggested what appears a quite reasonable alternative proposal, which, pending approval by the shareholders, will come up for discussion early next week. A reaction by Maratea to our requirements in respect to the proposed 2nd Bank loan is still awaited. CMI have yet to furnish earnings forecast for their entire operation in order to demonstrate the availability of own funds from retained earnings for financing the project. As regards Tajani, we have now received a favorable report by the ISVEIMER auditor regarding the Company's capacity to finance the project and I am preparing a financial forecast based on the company's rather confused figures.

Since all technical matters have been cleared and the technical part of the reports drafted, we expect Eduardo to return to Washington at the end of next week. I hope to follow one week later.

With best wishes.

Sincerely yours,

Ladislav Svoboda

Encls.

in attached copy. I apologize for this overlook.

Preparation of the remaining five reports has been somewhat retarded because of the inadequate financial presentation of the projects. The intervening holidays, this week, have further delayed their completion. We have now set deadlines to the various companies for final agreement on financial matters which will expire Thursday next week.

A meeting with Marzotto is set for November 2, to review the final presentation of their financial plan as agreed on in principle during our visit to the Company last week-end. SIL after the last heated discussion on financing, have now replaced Prof. Colatori by Prof. Parrillo as main negotiator. The latter has suggested what appears a quite reasonable alternative proposal, which, pending approval by the shareholders, will come up for discussion early next week. A reaction by Marsaga to our requirements in respect to the proposed 2nd Bank loan is still awaited. CMI have yet to furnish earnings forecast for their entire operation in order to demonstrate the availability of own funds from retained earnings for financing the project. As regards Tajani, we have now received a favorable report by the ISVEIMER auditor regarding the Company's capacity to finance the project and I am preparing a financial forecast based on the company's rather confused figures.

Since all technical matters have been cleared and the technical part of the reports drafted, we expect Eduardo to return to Washington at the end of next week. I hope to follow one week later.

With best wishes.

Sincerely yours,

Ladislav Svoboda

Encls.

SINCAT

Borrower

The prospective borrower is Società Catanese S.p.A. of Palermo (Constituted in May 1954). The company would mine potassium bearing ores at Sta. Catarina in Caltanissetta province, Sicily. The mineral would be processed at Priolo, north of Syracuse, where a fertiliser plant now under construction (first SINCAT project) would have its capacity increased. Facilities for the production of ammonia, chlorine-caustic soda, and chlorine derivatives would also be erected at Priolo. The total cost of SINCAT's second project, including working capital and interest during construction, is estimated at 17.1 billion Lire ($27.4 million) of which Lit. 8 billion ($12.8 million) would be financed from IBRD funds. The first part of the project consists of an integrated complex fertiliser plant, now under construction, the estimated cost of which is about Lit. 8.2 billion ($13.1 million) of which Lit. 3.6 billion ($5.8 million) have been financed by IBRD from Loan 117 IT. The estimated cost of the whole project is thus about Lit. 25.3 billion ($40.5 million) of which Lit. 11.6 billion ($18.6 million) would be from IBRD funds.

The share capital of SINCAT would be held exclusively by companies belonging to the Edison group, which is the largest power concern in Italy and which has extensive industrial holdings.

Description of the Project

The second SINCAT project involves: 1) an increase in the capacity of the production facilities now under construction (first project); and 2) the installation of facilities for the manufacture of additional products. Under 1) increase in capacity of the following units is planned:

a) complex fertiliser plant from 100,000 to 300,000 tons per year;

b) Sulphuric acid plant from 30,000 to 170,000 tons per year of 100% H_2SO_4.

c) Nitric acid plant from 35,000 to 70,000 tons per year of 100% HNO_3.

The facilities for new products, included under 2) as follows:

a) Mining installations at Sta. Catarina for the extraction of 130,000 tons per year of potash mineral;

b) At Priolo: a plant to process the potash mineral to produce about 8,000 tons a year of potassium sulphate (48-50% K_2O) and 50,000 tons per year of Schoenite (18-20% K_2O);

c) A plant to produce 36,000 tons per year of anhydrous ammonia;

d) An electrolytic plant to produce 5,000 tons per year of caustic soda and 4,500 tons of chlorine;

e) Facilities to produce ammonium sulphate and chlorine derivatives.

The proved reserves of potash mineral (kainite) at Sta. Catarina mine are estimated at about 8 million tons of ore with a 14-15% K_2O content.

The production of all the manufacturing units, with the exception of the chlorine-caustic plant, will be absorbed, to a large extent, by the complex fertilizer plant. The salable production of the company is listed in Annex 1. As raw materials it would use local sulphur fines, rock salt (impurity of the kainite ore), Ragusa crude for the production of ammonia, local potash mineral and phosphate rock from the Mediterranean area. The Priolo plant is located on the shore and has good harbor facilities as well as rail and road transport facilities. Of the 135 million kwh a year needed for the plant operation, about 20 million would be generated at the plant. Water will be obtained from wells on the property.

Present Status

Thorough exploration and drillings at the mining area have determined the position and size of the ore body. The return shaft, to be used for the development of the mine, has been completed and hoisting equipment installed. Offices and service buildings at the mine are 80% completed. Extensive tests have been made at a pilot plant at Porto Marghera to determine the processes and equipment for kainite flotation and transformation into potash sulphate. All the engineering design of the second project has been completed and equipment quotations received and analyzed. The installations corresponding to the first part of the project (Loan 117 IT) are on schedule, about 75% completed and will be in operation at the end of 1958.

Management

The management of SINCAT is able and energetic. The Edison group to which it belongs can undoubtedly provide all the technical and managerial assistance required.

Markets

The market outlook for Sincat's expanded output appears to be favorable. The proposed increase in complex fertilizers from 100,000 to 300,000 tons annually is in good part offset by the dropping out of the Siculazoto and Chimica del Tirreno projects with a previously planned production of 120,000 tons annually. Consequently, Sincat's net expansion over previously estimated Italian production goals in the field of complex fertilizers is only 80,000 tons. In the case of the proposed output of 56,000 tons of ammonium sulphate, it is actually 10,000 tons less than the previously planned production by Augusta Petrolchimica which has now been withdrawn. As for the remaining 60,000 tons of sulphuric acid, they are expected to be absorbed by the company's plant in Porto Marghera. The marketing of 5,000 tons of caustic soda and of an equal quantity of perchloroethylene is not expected to encounter any serious difficulties.

The consumption of fertilizers in Italy has grown very rapidly in recent years. While the rate of growth in southern Italy has exceeded the national average, the use of fertilizers in the south is still far below what it is in the rest of the country. With the progressive shifts from extensive to intensive farming, the introduction of large scale irrigation and the changes in cropping patterns with more emphasis on horticulture, the outlook for continuing increases in the consumption of fertilizers is most favorable. Total Italian consumption of fertilizers amounted to roughly 3.7 million tons in 1955/56 of which somewhat less than 1 million tons was used in the south. Assuming a somewhat modest increase of about 25% during the next 4 years (as compared with almost 60% during the past 6 years), an additional 250,000 tons would be required in the south alone. In addition to this, some increase in complex fertiliser consumption in the rest of the country is bound to take place in line with the modernisation of agriculture which is in progress. Thus the market prospects for an additional output of 300,000 tons of complex fertiliser appear quite favorable.

Financing

The cost of the project including interest during construction is estimated as Lit. 16.0 billion and working capital requirements as Lit. 1.1 billion. The total investment, including the first part of the project, now under construction, (fertiliser plant) is estimated as Lit. 25.3 billion including Lit. 1.8 billion for working capital. It would be financed as follows: (billion lire)

	1st part	2nd part	Total Project
Share Capital	2.0	3.0	5.0
Shareholders' advances	2.6	5.6	8.2
IBRD loans	3.6	8.0	11.6
Retained earnings	-	0.5	0.5
	8.2	17.1	25.3

The estimated pro forma balance sheets on completion of the first and second parts of the project and after three years operations are shown below:

(million lire)

	Dec. 31 1958	Dec. 31 1960	Dec. 31 1963
Fixed assets 1st project	7,500	7,500	7,500
2nd project	7,350	16,000	16,000
	14,850	23,500	23,500
Less depreciation	200	2,145	7,080
Net Fixed Assets	14,650	21,355	16,420
Net Current Assets	700	1,800	1,800
"Additional Assets"		1,077	7,222
	15,350	24,232	25,442
Share Capital	5,000	5,000	5,000
Shareholders' advances	3,386	8,200	8,200
Surplus		150	4,221
IBRD 1st loan	3,464	2,882	1,874
2nd loan	3,500	8,000	6,147
	15,350	24,232	25,442

Financial forecasts of the company are given in Annex 2. A letter embodying the financial conditions agreed by the Company is attached as Annex 3.

Earnings and Debt Service Coverage

Based on conservative estimates of operational costs and assuming a gradual reduction in present sales prices of about 20%, Sincat expects to break even in the first two years of partial operations, and subsequently to show an annual net income increasing from Lit. 150 million in 1960 to Lit. 1,532 million in 1963, when all facilities are planned to be in normal operations. This latter figure would represent about 9-1/2% of net sales and 11-1/2% on share capital and shareholders' advances.

The debt service coverage would be about 2.2 times. The company should be able to sustain a 17% decline in revenues and a simultaneous 17% increase in operating costs and still maintain service on the IBRD loans.

Economic Justification

Sicily offers great natural advantages for the production of chemicals, especially fertilizers, including seaside locations and local raw materials such as sulphur, potash salts, rock salt, oil and gas, etc. and its vicinity to the large phosphate rock deposits of North Africa. The delivered price of fertilizers to consumers should be at least 10% lower than that of present purchases from northern Italian plants.

Conclusions and Recommendations

The expanded Sincat project is sound and could form the basis for a second Bank loan equivalent to Lit. 8.0 billion ($12.8 million) excluding interest during construction, for the term of 13 years including 3 years grace period.

S I N C A T

Yearly sales

300,000 tons of complex fertilizers of which:

  100,000 tons of 8-12-8

  200,000 tons of 10-15-10

56,000 tons of ammonium sulphate

60,000 tons of sulphuric acid (as monohydrate)

5,000 tons of perchloroethylene

5,000 tons of caustic soda

SINCAT

Financial Forecasts
(Million Lire)

	Construction					Operations		
Fiscal year ending Dec. 31	1955/ 1956 (actual)	1957	1958	1959	1960	1961	1962	1963
I. Earnings Statement								
Production (% of capacity)			26.5	33.5	60	80	90	100
Operating Costs			3,682	4,378	7,675	9,667	10,981	12,235
Interest IBRD loans; capitalised		(182) 1/	(290)	(410)				
			207	196	729	711	652	588
Depreciation			200	300	1,645	1,645	1,645	1,645
Taxes (capitalized)		(58) 1/	(50)	(50)				
Taxes			15	15	65	100	100	100
Total Costs			4,104	4,889	10,114	12,123	13,378	14,568
Net Sales			4,104	4,889	10,264	13,338	14,702	16,100
Net Income after taxes					150	1,215	1,324	1,532
Net Income as % of share capital and shareholders' advances					1.1	9.2	10.0	11.6
II. Sources and Application of Funds								
Net income before interest			207	196	879	1,926	1,976	2,120
Depreciation accruals			200	300	1,645	1,645	1,645	1,645
Share Capital	201	1,799	3,000					
Shareholders' advances	1,304	1,496	586	3,333	1,481			
IBRD 1st loan	715	2,585	300					
2nd loan			3,500	3,300	1,200			
Total sources	2,220	5,880	7,793	7,129	5,205	3,571	3,621	3,765
Fixed Assets 1st project	2,220	4,690	350					
2nd project		950	6,060	6,190	2,000			
Interest and Financial charges		240	340	460				
Total Fixed Assets	2,220	5,880	6,750	6,650	2,000			
Net Current Assets			700		1,100			
IBRD debt service 1st loan			342	479	478	478	479	478
2nd loan					550	1,126	1,126	1,125
"Additional Assets"					1,077	1,967	2,016	2,162
Total Applications	2,220	5,880	7,793	7,129	5,205	3,571	3,621	3,765

1/ including ~~arrears~~ carry over from 1956

III. Balance Sheets (as at December 31)

	Construction 1956	1957	1958	1959	1960	Operations 1961	1962	1963
Fixed Assets	2,220	8,100	14,850	21,500	23,500	23,500	23,500	23,500
Less Depreciation			200	500	2,145	3,790	5,435	7,080
Net Fixed Assets	2,220	8,100	14,650	21,000	21,355	19,710	18,065	16,420
Net Current Assets			700	700	1,800	1,800	1,800	1,800
"Additional Assets"					1,077	3,044	5,060	7,222
Total Assets	2,220	8,100	15,350	21,700	24,232	24,554	24,925	25,442
Share capital	201	2,000	5,000	5,000	5,000	5,000	5,000	5,000
Shareholders' advances	1,304	2,800	3,386	6,719	8,200	8,200	8,200	8,200
Surplus					150	1,365	2,689	4,221
IBRD 1st loan	715	3,300	3,464	3,181	2,882	2,565	2,229	1,874
2nd loan			3,500	6,800	8,000	7,424	6,807	6,147
Total Liabilities & Equity	2,220	8,100	15,350	21,700	24,232	24,554	24,925	25,442

SINCAT
Draft Letter of Representation

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

Gentlemen:

(1) This letter supersedes our letter dated May 12, 1955 addressed to you on the subject discussed below. It will confirm certain understandings which have been reached between representatives of the International Bank for Reconstruction and Development (hereinafter referred to as the Bank) the Cassa per Opere Straordinarie di Pubblico Interesse nell'Italia Meridionale (the Cassa) Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS), and SINCAT.

(2) You have informed us that the Bank is considering a loan to the Cassa and that part of that loan will be specifically allocated for loans for various industrial undertakings in the area of the Cassa's competence.

(3) We have proposed that there should be financed out of the proceeds of the loan our project in Sicily for the exploitation and processing of potassium ore and the expansion of existing chemical production facilities including a fertilizer plant project, now under construction, financed by the Cassa under IBRD loan 117 IT for an amount of Lit. 3,600,000,000. The project involves the follow ng major items:

(a) Exploitation of the potassium ore mine at Sta. Catarina, Caltanissetta province, Sicily, and erection and operation of a processing plant at Priolo of about 130,000 tons mineral per year capacity.

(b) Erection and operation at Priolo of chemical plants for the production of 300,000 tons p.a. complex fertilizer, 170,000 tons p.a. sulphuric acid, 70,000 tons p.a. nitric acid, 36,000 tons p.a. anhydrous ammonia, 5,000 tons p.a. caustic soda and 4,500 tons p.a. chlorine and facilities for the production of ammonium sulphate and chlorine derivatives.

The pro forma balance sheets on completion of the project which we have discussed would be as follows:

Assets		Liabilities	
Fixed Assets	Lit. 23,500,000,000	Capital	Lit. 5,000,000,000
Less Depreciation	2,145,000,000	Shareholders' advances	8,200,000,000
Net Fixed Assets	Lit. 21,355,000,000	Surplus	150,000,000
Net Current Assets	1,800,000,000	IBRD 1st loan	2,882,000,000
"Additional Assets"	1,077,000,000	2nd loan	8,000,000,000
	Lit. 24,232,000,000		Lit. 24,232,000,000

(4) The cost of the project should be considered as Lit. 23,500,000,000 for fixed assets, and Lit. 1,800,000,000 for net current assets.

(5) We have been informed that if the proposed loan should be made, it would be made to the Company by IRFIS, to which the Cassa would lend a portion of the Bank's loan for the purpose. You have said that before you could approve favorable consideration by the Cassa or IRFIS of the proposed loan you would require certain undertakings from the Company

with respect to share capital, working capital and shareholders' advances.

(6) The assurances and undertakings which you have requested, to be effective while any part of the loan to the Company will be outstanding, are that valid arrangements will be made, under which:

A. Except as the Bank, the Cassa and IRFIS shall otherwise agree, the share capital of the Company shall be at least 5,000,000,000 Lire paid in as required and shareholders' advances, on completion of the project, shall total at least the difference between Lit. 13,200,000,000 and paid in share capital.

B. If the completion of the project or its successful operation is hindered or delayed or is threatened with hindrance or delay because the funds available are inadequate to ensure its completion and the provision of the necessary working capital, prompt arrangements shall be made in accordance with a financial plan approved by IRFIS to provide the necessary funds as and when they are required.

C. Shareholders' advances provided under subparagraphs A or B:

I. Shall not be withdrawn;

II. Shall in all respects be subordinated to all debts of the Company; and

III. Interest or any other remuneration shall be payable and paid thereon only out of net profits and only to the extent that dividends would be payable thereon if such shareholders' advances had originally been paid in as share capital;

D. The undersigned would not without the approval of the Bank, the Cassa and IRFIS pay dividends or make any other payments to shareholders, or adopt any policy, which would result in, or envisage:

I. The ratio of current assets to current liabilities to be less, at any time, than 2:1

II. The excess of current assets over current liabilities to be less, at any time after completion of the project, than 1,800,000,000 lire.

(7) For the purpose of the preceding paragraph we have agreed that "current assets" should be considered as cash and assets readily convertible to cash and all other assets, which would within one year in the ordinary course of the company's business be converted into cash or assets readily convertible into cash, and that "current liabilities" should be considered as liabilities due and payable and all other liabilities which would be payable or could be called for payment within one year.

(8) The undersigned hereby gives you the assurances and undertakings set forth in paragraph (6) above to be effective on the condition that you make a loan to the Cassa and that from the proceeds thereof IRFIS

agrees to make a loan to the Company for the above-mentioned purpose in the approximate amount of Lit. 8,000,000,000 thereby increasing the total financing from Bank funds to Lit. 11,600,000,000.

(9) It is understood that the terms and conditions of any such loan will be set forth in an agreement to be negotiated and entered into between the undersigned and IRFIS and that the substance of the assurances and undertakings given in this letter will be incorporated therein.

Yours truly,

SINCAT
Società Catanese S.p.A.

Italy - 5th regs.

FORM No. 27
(8-55)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

MRT

CLASS OF SERVICE: LETTER TELEGRAM

DATE: NOVEMBER 1, 1957

TO: WHEELOCK
GRANOTEL
ROME

COUNTRY (ITALY

TEXT:

Cable No. THREE

Mr. Cope

REFERENCE YOUR LETTER ONE AND OUR TODAYS TELEPHONE CONVERSATION FIRST GLAD TO HEAR BANK HAS RELENDING RIGHT AND AGREE THERE IS NOTHING MORE TO BE DONE THAN MAKE AIDE-MEMOIRE OF YOUR CONVERSATION WITH BAFFI SECOND I AGREE THAT YOU SHOULD NOT REPEAT NOT RAISE QUESTION OF REMOVAL OF RESTRICTIONS ON LENDING REPAYMENTS REGARDS

Signed: COPE

AUTHORIZED BY:

NAME: S. R.Cope

DEPT: Europe, Africa and Australasia

SIGNATURE:

For Use by Archives Division

Checked for Dispatch

SRCope:mln

(Cleared with Mr. Iliff)

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 minumum 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 of cables outside of these hours.

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

Lm 189.

Cone

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
TELEPHONE EXECUTIVE 3-6360 WASHINGTON 25, D. C. CABLE ADDRESS-INTBAFRAD

November 1, 1957.

No. 12

Mr. L. M. Svoboda
Grand Hotel
Rome, Italy

Dear Ladya:

This will cover our comments on Cone.

To answer your question on surety arrangements, it is not necessary to include anything about this in either the report or the Letter of Agreement. ISVEIMER takes the commercial risk for all the loans and they are the ones to be satisfied on the security and, as you indicate, they will get surety from CGE. ✓

In order that all the project presentations are uniform, two points should be watched:

1. Percent return should be on the total of share capital and shareholders' advances.

2. In specifying production as % of capacity, the expected normal production rate, allowing adequate time for maintenance and repairs, should be considered 100% of capacity. Also, if three-shift operation is possible but only one or two shifts are planned for an indefinite time, the latter basis should be termed 100% with an appropriate footnote.

For the Crotone aluminum plant for example, the theoretical rate is 11,000 tons per year, but about 9% of the pots are expected to be out for rebuilding once the plant is run in. The normal production capacity would be 10,000 tons per year, this should be considered 100% and not 90% as shown. Sorry to mix up Crotone in the discussion on Cone but the example is much clearer.

Now to more specific points --

1. The statements in the project description about the complete manufacture of the water heaters and in management about the simple operations are incompatible. ✓

To Mr. L. M. Svoboda   November 1, 1957

2. In the section on "Present Status" expenditures prior to September 1, 1957 should be shown, in order to show that this loan will not be a refinancing operation.

3. Table at top of Page 2

   What are "other funds" - short term or long term loans and from where?

4. Page 2 - Second Table - Some of the figures for 1962 seem incorrect. (See comments on the Balance Sheet below)

5. The return on share capital should probably be 6.6%, but see my comment 12. compared wrong figures

6. Page 2 - last sentence bottom of page - This appears to be misleading. I thought CGE had only three retail stores in all of Italy?

7. Financing - It might be well to put the information on marketing arrangements in as a separate section headed Marketing.

8. Markets - This should be expanded with a short discussion of the retail prices of the products and their competitive position in the Italian market, including their position in view of the common market aspects.

9. What percentage of the total output does SME sell? Does this go through CGE first?

10. Earnings and Debt Service Coverage - The last sentence of the first paragraph adds nothing to the discussion and should be removed -- unless you are implying that CGE is considering such a step.

11. Conclusions and Recommendations - A three-year grace period is entirely too long for this project -- wasn't our original discussion on the basis of one or 1½ years? If not, then I certainly slipped up. reduced to [illegible] years

12. Earnings Statement - Net Income as % of Share Capital - The figures for the four years 1957-60 appear to be incorrect. They should be 6.6%, 13.7%, 3.3% and 6% of share capital. However, as I said above, you should show earnings as a percentage of share capital plus shareholders' advances. no apparently they compared wrong years

13. Sources and Application of Funds: Share Capital and Shareholders' Advances - 1960 - This proposed capitalization of 150 million lire of shareholders' advances should be footnoted for clarity.

To Mr. L. M. Svoboda November 1, 1957

14. Sources and Application of Funds - Debt Service - 1962
Should the IBRD debt service drop from 98 in 1961 to 84 in 1962? In addition, there is an inconsistency between the change in long term debt shown by subtracting interest from debt service and the changes in long term debt shown on the balance sheet. should be 98 ✓

15. Footnote terms of "Other long term debt service". ✗ Crow

16. Balance Sheet - Depreciation - 1960 and following - The increase in the depreciation from 1959 to 1960 is 53 (135-82). This is inconsistent with the figure for depreciation accruals for 1960 shown on the earnings statement, which is 42. should be 42 ✓

17. IBRD Loan and Other Long Term Debt, 1962 - The decrease in total debts from 1961 to 1962 is 26 [698 - (622 + 76) minus 672 (587 + 85)]. This is inconsistent with the difference between debt service and interest payments as shown in the Sources and Application of Funds and Earnings Statement which show a total debt service in 1962 of 100 (84 + 16) minus interest payments of 49 or a debt reduction of 51. ✓ corrected

18. Letter of Agreement

Para. 3

a) insert "a" between "to" and "total" ✓
b) delete "per year" after "refrigerators" ✓
c) check figures against revisions in report ✗
d) after the table insert "It is understood that the amounts shown as surplus and additional assets may be reduced by the amounts of dividends paid during the interim period subject to the restrictions of this letter," unless you want to restrict dividend payments during the construction period. If so use a paragraph similar to the one in the original SIL letter. However, I don't think this restriction is necessary. insert letter ✓

4

19. Para. 4 - instead of "working capital" use "net current assets". ✓

20. Para.6A - Except as the Bank, the Cassa and ISVEIMER shall otherwise agree. ✓

21. Para.6C - Shareholders' advances provided under sub paragraphs A or B. ✓

22. CGE Balance Sheets - the 1956 figures should be included. ✗ Crow

Again we'd like to see a revised draft before final approval.

Best regards,

Sincerely
Walt

W. J. Armstrong

c.c.--Mr. Bateson
Mr. Street
Mr. Collier

Italy - Ln 189
MP

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D.C.
TELEPHONE EXECUTIVE 3-6360
CABLE ADDRESS-INTBAFRAD

November 1, 1957

No. 11

Mr. L. M. Svoboda
Grand Hotel
Rome, Italy

Dear Ladya:

This letter will cover our comments on Crotone even though there seems to be no hurry on this project. Unless the power rate question is resolved favorably by the middle of November or unless the Cassa is willing to take the risk on its inclusion with a possible later cancellation then we should drop the project.

If the project does stay in, there is no problem in considering financing 53.5% of the total cost.

More specific points -- mostly drafting changes -- follow:

1. Financing - Page 1, Para 1, Line 3 "and working capital, will be provided from the general funds of the Company through the inter-plant accounts".

2. Page 2 - Footnote the reason for the increase in advances "after four years of operation".

3. Page 2 - "Financial Position" - add a sentence on the ability of Montecatini to service its debt-burden.

4. Page 2 - Expansion Program - The end of this paragraph would be clarified by a direct reference to the potash project for which Montecatini is requesting Bank financing. A suggested re-draft of the last three sentences is as follows:

"The Company has developed a four-year program which provides for a considerable volume of new investment, mainly in mining, for the present proposed expansion of aluminum production, and for further expansion in the chemical field. Total expenditures are estimated at Lit. 40 billion. In 1956, the Company borrowed locally Lit. 16 billion, and in early 1957, it raised its share capital by Lit. 16 billion. The balance of Lit. 8 billion would be covered by the IBRD loan for the present project (Lit. 4 billion) and another IBRD loan also for Lit. 4 billion, proposed to be made for a potash project in Sicily."

5. Page 2 - 3 Markets - The market description might be strengthened by the following revisions:

a) Page 3, Para 1 might be altered to read:

"Total production has risen by about 70% since 1950 while production by Montecatini has risen by about 60% mainly as the result of an expansion project completed in 1951."

b) Para. 2 - Foreign trade in aluminum has fluctuated from year to year, but, in spite of the steady rise in production, total imports exceeded total exports by some 3-4,000 tons in 1954 and 1955. On the other hand, exports of semi-processed materials have exceeded imports.

c) Para. 4 - Omit the first sentence.

d) Para 5 - A further expansion in Italian consumption of aluminum seems probable, in view of the fact that Italian per consumption in 1955 was only 1.29 kilos, compared with 2.51 in France, 3.52 in Germany, and 4.30 in Austria.

e) Para. 6 - Should the Italian market not be able to absorb the increased domestic output of aluminum by 1960, the company should probably not find it difficult to market any surplus - which would be relatively small - in other European countries. Western European consumption in 1955 was 795,700 tons, compared with a production of 547,100 tons. Although there may be an increase in competitive pressure as a result of the current still uncompleted wave of expansion of capacity, particularly in the United States and Canada, the favorable price of power insures the plant a production cost competitive with larger plants elsewhere in the world.

6. Page 4 - Earnings and Debt Service Coverage

Para 1, sentence 2. - Change to "At current prices of ...¢ per lb., the Company's net sales would amount to, etc.

7. Economic Justification

Para 1, sentence 1 - The new plant will produce aluminum at a competitive price to meet the growing Italian demand.

8. Annex 1 - Percent of Capacity - (See letter on Cone)

9. Annex 3 - Ratios

a) Current Assets/Current Liabilities

1953 - should be 2.57 instead 2.58
1955 - " " 2.16 " 2.15

b) Equity/Total Liabilities and Equity

1956 - should be 0.59 not probably in 1953 but use debt-equity ratio instead

c) Net Profit as % of Share Capital

1956 - should be 13.0 instead of 12.9

d) Net Profit as % of Sales

1953 - should be 6.9 — " — 6.8

10. Letter of Agreement

a) Paragraph 2: "Cassa'" in the last line should be "Cassa's".

b) Paragraph 3: Revise the third sentence as follows:

"For illustrative purposes we have informed you that the proforma balance sheet of the Crotone plant on completion of the project would be as shown below. We have also informed you that, within the first operating year, the Company would make further advances amounting to Lit. 620,000,000 for net current assets."

c) Paragraph 4: Revise the fifth line to read:

"or ISVEIMER of the proposed loan you would require certain assurances and under -"

There's no apparent hurry on this one but if it looks as though the project will stay in, then we will want a clean draft to submit for final approval.

Best regards,

Walt

W. J. Armstrong

cc: Messrs. Bateson
Street
Collier