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79024-022 Peru Huinco II Loan No 365 Pe (Mar 1963 - Nov 1963)
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PERU VOLUME VIII

R 63-13	3/4/63	Presidents Report Proposed Loan - Peru
SecM63-54	3/12/63	Closing of Loan - Peru
	3/13/63	Certificate of Secretary on Loan for Railway Rehabilitation Project
SecM63-242	10/10/63	Invitation to Negotiate (Huinco hydro-electric)
SecM63-258	11/1/63	Status of Negotiations (Second Lima Light Project)
R 63-130	11/14/63	Presidents Report (Lima Light Project)
SecM63-274	11/21/63	Signing of Loan
PR 63/51	11/22/63	$5 Million Power Loan in Peru
LA& GA	11/22/63	Huinco II Project

LA & GA
11/22/63

LOAN NUMBER 365 PE

Guarantee Agreement

(Huinco II Project)

BETWEEN

REPUBLIC OF PERU

AND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DATED NOVEMBER 22, 1963

LOAN NUMBER 365 PE

Guarantee Agreement

(Huinco II Project)

BETWEEN

REPUBLIC OF PERU

AND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DATED NOVEMBER 22, 1963

Guarantee Agreement

AGREEMENT, dated November 22, 1963, between REPUBLIC OF PERU (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Lima Light and Power Company (Empresas Electricas Asociadas) (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement, the Bank has agreed to make to the Borrower a loan in various currencies equivalent to fifteen million dollars ($15,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

SECTION 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, subject, however, to the modifications thereof set forth in Schedule 3 to the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein. The terms defined in said Loan Agreement shall have the same meaning as if such definitions were fully set forth herein.

ARTICLE II

SECTION 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Debentures of the Series F, and the premium, if any, on the prepayment of the Loan or the redemption of the Debentures of the Series F, all as set forth in the Loan Agreement, the Fifth Supplemental Indenture and the Debentures of the Series F.

ARTICLE III

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

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including the Banco Central de Reserva del Peru.

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

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

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

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

SECTION 3.04. This Agreement, the Loan Agreement, the Fifth Supplemental Indenture and the Debentures of the Series F shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

SECTION 3.05. The principal of, and interest and other charges on, the Loan and the Debentures of the Series F shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

SECTION 3.06. The Guarantor covenants that it will not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations contained in the Loan Agreement and will take or cause to be taken all reasonable action which shall be necessary in order to enable the Borrower to perform such covenants, agreements and obligations.

ARTICLE IV

SECTION 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Debentures of the Series F to be executed and delivered by the Borrower. The *Ministro de Hacienda y Comercio* of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12(b) of the Loan Regulations.

ARTICLE V

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

For the Guarantor:

Ministerio de Hacienda y Comercio
Lima, Peru

Alternative address for cablegrams and radiograms:

Minhacienda
Lima, Peru

For the Bank:

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

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D. C.

SECTION 5.02. The *Ministro de Hacienda y Comercio* of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PERU

By /s/ F. BERCKEMEYER
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ G. M. WILSON
Vice President

LOAN NUMBER 365 PE

Loan Agreement

(Huinco II Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND

LIMA LIGHT AND POWER COMPANY
(Empresas Electricas Asociadas)

DATED NOVEMBER 22, 1963

LOAN NUMBER 365 PE

Loan Agreement

(Huinco II Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

AND

LIMA LIGHT AND POWER COMPANY
(Empresas Electricas Asociadas)

DATED NOVEMBER 22, 1963

Loan Agreement

AGREEMENT, dated November 22, 1963, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and LIMA LIGHT AND POWER COMPANY (EMPRESAS ELECTRICAS ASOCIADAS) (hereinafter called the Borrower).

ARTICLE I

Loan Regulations; Special Definitions

SECTION 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, subject, however, to the modifications thereof set forth in Schedule 3 to this Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

SECTION 1.02. Except where the context otherwise requires, the following terms have the following meanings wherever used in this Loan Agreement or any Schedule hereto:

(a) The term "Indenture" means the Indenture dated as of July 1, 1957, executed by the Borrower in favor of Schroder Trust Company, as Trustee, and includes any indenture supplemental thereto which has been or shall be executed and delivered in accordance with the provisions of the Indenture.

(b) The term "Fifth Supplemental Indenture" means the supplemental indenture or supplemental indentures which shall be executed by the Borrower pursuant to the provisions of Section 5.04 of this Agreement providing for the issue, authentication and delivery of Debentures of the Series F.

(c) The term "Debentures" shall mean debentures issued in accordance with the terms of the Indenture.

(d) The term "Debentures of the Series F" shall mean Debentures of the various series issued pursuant to the Fifth Supplemental Indenture and this Agreement.

(e) The term "subsidiary" shall mean any corporation, firm or association directly or indirectly controlled by the Borrower.

(f) The term "Affiliate" or "Hidrandina" means Energia Hidroeléctrica Andina S.A.

(g) The term "soles" and the symbol "S/." means currency of the Guarantor.

(h) The term "First Loan Agreement" means the Loan Agreement dated June 29, 1960 between the Bank and the Borrower.

(i) The term "First Guarantee Agreement" means the Guarantee Agreement dated June 29, 1960 between the Guarantor and the Bank.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to fifteen million dollars ($15,000,000).

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

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (¾ of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time.

SECTION 2.04. The Borrower shall pay interest at the rate of five and one-half per cent ($5\frac{1}{2}\%$) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

SECTION 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1%) per annum on the principal amount of any such special commitments outstanding from time to time.

SECTION 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

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

ARTICLE III

Use of Proceeds of the Loan

SECTION 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2 to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

SECTION 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the carrying out of the Project and, except as the Bank shall otherwise agree, title to all such goods shall be acquired by the Borrower free and clear of all liens, charges and encumbrances.

ARTICLE IV

Debentures

SECTION 4.01. The Borrower shall execute and deliver Debentures of the Series F representing the principal amount of the Loan of the form, tenor and purport prescribed in the Indenture as modified by the Fifth Supplemental Indenture and as provided therein and in the Loan Regulations.

SECTION 4.02. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall, against payment by the Bank of any amount to be withdrawn from the Loan Account, deliver to or on the order of the Bank, Debentures of the Series F in the aggregate principal amount so paid.

SECTION 4.03. The Borrower shall effect original issues of the Debentures of the Series F only as provided herein and in the Fifth Supplemental Indenture.

SECTION 4.04. The Bank and the Borrower shall be at liberty to make such arrangements as they may from time to time mutually agree as to procedure for the issue, authentication and delivery of the Debentures of the Series F and such arrangements may be in addition to or in substitution for any of the provisions of this Agreement or of the Loan Regulations.

SECTION 4.05. (a) The Debentures of the Series F shall be bearer Debentures with coupons for semi-annual interest attached (hereinafter sometimes called Series F coupon Debentures). Debentures of the Series F delivered to the Bank shall be Series F coupon Debentures in such temporary or definitive form (authorized by the Fifth Supplemental Indenture) as the Bank shall request. Series F coupon Debentures payable in dollars shall be substantially in the form set forth in the Fifth Supplemental Indenture. Series F coupon Debentures payable in any currency other than dollars shall be substantially in the form set forth in the Fifth Supplemental Indenture, except that they shall (i) provide for payment of principal, interest and premium on redemption, if any, in such other currency, (ii) provide for such place of payment at such agency as the Bank shall specify, and (iii) contain such other modifications as the Bank shall reasonably request in order to conform to the laws or to the financial usage of the place where they are payable.

(b) All Debentures of the Series F shall have the guarantee of the Guarantor endorsed thereon substantially in the form set forth in Schedule 3 of the Loan Regulations.

ARTICLE V

Particular Covenants

Section 5.01. The Borrower shall carry out and complete the Project and operate and maintain its business and properties, including the Project, with due diligence and efficiency and in conformity with sound engineering, business, financial and electric utility practices. To that end, the Borrower shall employ engineering consultants mutually acceptable to the Borrower and the Bank on terms and conditions mutually satisfactory to the Borrower and the Bank.

Section 5.02. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans and specifications (including construction schedules) for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(b) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower and of its subsidiaries.

(c) The Borrower shall enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, the sites, works, construction and operations included in the Project and all other plants, works, properties, equipment and operations of the Borrower and its subsidiaries, and to examine any relevant records and documents.

(d) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the use of the goods purchased therewith, the progress of the Project and the operations and financial condition of the Borrower and of its subsidiaries.

SECTION 5.03. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

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

SECTION 5.04. The Borrower shall execute and deliver a supplemental indenture, the form and substance of which shall be satisfactory to the Bank, providing for the issue, authentication and delivery of Debentures of the Series F; shall protocolize, record, file and register said supplemental indenture as provided in Section 7.09 of the Indenture as promptly as shall be reasonably practicable; and shall, upon the protocolization, recordation, filing and registration thereof, furnish to the Bank an opinion or opinions satisfactory to the Bank of legal counsel acceptable to the Bank showing that said supplemental indenture has been validly and effectively protocolized, recorded, filed and registered, and has created valid and effective liens, charges and priorities in accordance with its terms.

SECTION 5.05. Except as the Bank and the Borrower shall otherwise agree, the Borrower will not, and will not permit any subsidiary to, create, incur, assume or suffer to exist any mortgage, pledge, lien or encumbrance, except the lien of the Indenture, upon any of its properties or assets, whether now owned or hereafter acquired, unless such mortgage, pledge or lien shall provide for the security of the Debentures in priority to the debentures, notes or other obligations or liabilities of whatsoever character which are to be secured by such mortgage, pledge or lien; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iii) any "permitted lien" as defined in the Indenture on the date of this Agreement, excluding subsection (i) of said definition.

SECTION 5.06. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Indenture, the Fifth Supplemental Indenture or the Debentures of the Series F, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Debenture of the Series F to a holder thereof other than the Bank when such Debenture of the Series F is beneficially owned by an individual or corporate resident of the Guarantor.

SECTION 5.07. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Debentures of the Series F are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Indenture, the Fifth Supplemental Indenture or the Debentures of the Series F.

SECTION 5.08. (a) Except as shall be otherwise agreed between the Bank and the Borrower, the Borrower shall insure or cause to be insured with responsible insurers all goods financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase and importation of the goods into the territory of the Guarantor and shall be for such amounts as shall be consistent with sound commercial practices. Such insurance shall be payable in dollars or in the currency in which the cost of the goods insured thereunder shall be payable.

(b) In addition, the Borrower shall take out and maintain, with responsible insurers, insurance against such risks and in such amounts as shall be consistent with sound business and electric utility practices.

SECTION 5.09. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall, except as the Bank shall otherwise agree, take all steps necessary to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

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

SECTION 5.10. The Borrower shall not agree to any change in the contract between it and its Affiliate, dated February 7, 1956, known as the Amended Contract for the Supply of Electric Power, unless the Borrower shall have notified the Bank in advance and obtained approval by the Bank of the change or a determination by the Bank that the change is not material.

SECTION 5.11. The Borrower shall have its financial statements (balance sheet and related income and earned surplus statements) certified annually by an independent accounting firm satisfactory to the Bank and shall promptly after their preparation transmit to the Bank certified copies of such statements and a signed copy of the accountant's report.

SECTION 5.12. Unless it shall have obtained the prior approval of the Bank, the Borrower shall not make any investment in any corporation, firm or association in excess of $1,000,000 or its equivalent in other currencies.

SECTION 5.13. Unless it shall have obtained the prior approval of the Bank, the Borrower will not redeem or prepay, prior to the maturity thereof, any Debentures otherwise than: (i) upon a refunding thereof by the issuance of Debentures of the same or later maturity or maturities; or (ii) for the purpose from time to time of meeting the next semi-annual sinking fund or analogous payment.

SECTION 5.14. The Borrower shall not consent to any action taken at any meeting of Debentureholders pursuant to Section 13.06 of the Indenture or by written instrument pursuant to Section 13.09 of the Indenture, unless the Bank shall have given its approval of such action or consent.

SECTION 5.15. The Borrower may authorize the issue, execution and delivery of additional Debentures upon compliance with the present provisions of Sections 4.02 and 4.04 of the Indenture.

SECTION 5.16. The Borrower shall duly perform all covenants, agreements and obligations to be performed by it under the Indenture.

SECTION 5.17. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall, as promptly as may be required, offer for subscription at a price reasonably related to their market price such additional capital shares as shall be sufficient to provide funds, not otherwise available, needed to carry out and complete the Project and to provide adequate working capital during and at the completion thereof.

ARTICLE VI

Remedies of the Bank

SECTION 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if the event specified in Section 6.02 of this Agreement shall occur, or (iii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Debentures of the Series F then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement, or in the Indenture, or in the Debentures of the Series F to the contrary notwithstanding.

SECTION 6.02. The following event is specified for the purposes of paragraph (j) of Section 5.02 of the Loan Regulations, namely, one of the events specified in the Indenture as "events of default."

ARTICLE VII

Modification of First Loan Agreement

SECTION 7.01. For the purposes of the First Loan Agreement, paragraph (c) of Section 5.02 of the Loan Regulations of the Bank dated June 15, 1956, as amended in Schedule 3 of said First Loan Agreement, is further amended hereby to read as follows:

> "(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement, or the Guarantee Agreement, or the loan agreement dated November 22, 1963, or the guarantee agreement of even date therewith, or the Indenture, the Supplemental Indenture (as defined in the Loan Agreement), the Fifth Supplemental Indenture (as defined in the loan agreement dated November 22, 1963), the Debentures of the Series D, or the Debentures of the Series F (as defined in the loan agreement dated November , 1963)."

and the term "Loan Regulations" as used for the purposes of the First Loan Agreement shall mean Loan Regulations No. 4 of the Bank, dated June 15, 1956, as modified by the First Loan Agreement and as further amended hereby.

ARTICLE VIII

Effective Date; Termination

SECTION 8.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (c) of the Loan Regulations:

(a) that the Borrower has complied with Section 5.04 of this Agreement; and

(b) that the Borrower shall have certified in writing to the Bank that, as of a date to be agreed between the Borrower and the Bank, there has been no material adverse change in its condition since the date of this Agreement.

SECTION 8.02. The following are specified as additional matters, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank: namely, that the requirements of Section 5.04 of this Agreement have been satisfied.

SECTION 8.03. A date 60 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE IX

Miscellaneous

SECTION 9.01. The Closing Date shall be January 31, 1967, or such other date as shall be agreed by the Bank and the Borrower as the Closing Date.

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

For the Borrower:

Empresas Electricas Asociadas
Casilla 1384
Lima, Peru

Alternative address for cablegrams and radiograms:

Asociadas
Lima, Peru

For the Bank:

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

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D.C.

In Witness Whereof, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for
Reconstruction and Development

By /s/ G. M. Wilson
Vice President

Lima Light and Power Company
(Empresas Electricas Asociadas)

By /s/ C. Mariotti
Authorized Representative

SCHEDULE 1

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 15, 1967	$180,000
August 15, 1967	185,000
February 15, 1968	190,000
August 15, 1968	195,000
February 15, 1969	200,000
August 15, 1969	205,000
February 15, 1970	210,000
August 15, 1970	215,000
February 15, 1971	225,000
August 15, 1971	230,000
February 15, 1972	235,000
August 15, 1972	240,000
February 15, 1973	250,000
August 15, 1973	255,000
February 15, 1974	260,000
August 15, 1974	270,000
February 15, 1975	275,000
August 15, 1975	285,000
February 15, 1976	290,000
August 15, 1976	300,000
February 15, 1977	310,000
August 15, 1977	315,000
February 15, 1978	325,000
August 15, 1978	335,000
February 15, 1979	345,000
August 15, 1979	355,000
February 15, 1980	365,000
August 15, 1980	375,000
February 15, 1981	385,000
August 15, 1981	395,000
February 15, 1982	405,000
August 15, 1982	415,000
February 15, 1983	425,000
August 15, 1983	440,000
February 15, 1984	450,000
August 15, 1984	465,000
February 15, 1985	475,000
August 15, 1985	490,000
February 15, 1986	505,000
August 15, 1986	515,000
February 15, 1987	530,000
August 15, 1987	545,000
February 15, 1988	560,000
August 15, 1988	580,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment and Redemption

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

Time of Prepayment or Redemption	*Premiums*
Not more than three years before maturity	½%
More than three years but not more than six years before maturity	1%
More than six years but not more than eleven years before maturity	1½%
More than eleven years but not more than sixteen years before maturity	2½%
More than sixteen years but not more than twenty-one years before maturity	3½%
More than twenty-one years but not more than twenty-three years before maturity	4½%
More than twenty-three years before maturity	5½%

SCHEDULE 2

Description of Project

The Project includes three separate, but related, parts: the second stage of the Marcapomacocha Diversion Scheme; the second stage of the Huinco Hydroelectric Plant; and expansion of the Borrower's distribution system during the period from 1963 to mid-1966.

I. The Second Stage of the Marcapomacocha Diversion Scheme

The Marcapomacocha Scheme entails the diversion of water from the Marcapomacocha Basin on the Eastern Slope of the Andes Mountain Range to the Santa Eulalia Basin on the Western Side of that Range. The principal works to be constructed for the second stage of this scheme include:

A) Two concrete gravity dams to control the flow from two natural lakes, Antacoto and Marcapomacocha, and a discharge gallery through the rock barrier which separates the two lakes;

B) A 4.5 km long collecting canal from Lake Marcacocha to Lake Antacoto;

C) A 12.5 km long canal conveying the outflow of Lakes Antacoto and Marcapomacocha to the existing diversion tunnel; and

D) A 4 km collecting canal to conduct the water from the Tuctu Creek to the existing Antacasha Intake.

It is expected that this part of the Project will be completed in the second half of 1965.

II. The Second Stage of the Huinco Hydroelectric Power Plant

The Huinco Hydroelectric Power Plant, located about 65 km northeast of Lima, uses water from the Santa Eulalia and Marcapomacocha Basins. Its second stage development will include the following principal elements:

A) Construction of a dam in the Sheque zone to accumulate water during low consumption hours to be utilized during high peak hours;

B) Installation in the powerhouse cavern of the third and fourth units, each consisting of a twin Pelton type turbine and a 60 MW generator; of two 90,000 kVA transformer banks, each consisting of three single-phase units; and of the corresponding auxiliary equipment;

C) Corresponding expansion of the outdoor switchyard;

D) Construction of a tail-water reservoir in the Huinco zone;

E) Expansion of the Santa Rosa Substation in Lima by the installation of two additional 90,000 kVA transformer banks, each consisting of three single-phase units; expansion of the corresponding 220 kV and 60 kV installations as well as of the outdoor switchyard; and

F) Expansion of the central dispatching center and communication system.

It is expected that this part of the Project will be completed by mid-1966.

III. The Expansion of the Distribution System from 1963 to Mid-1966

The Borrower's distribution system in the Greater Lima area will be expanded. The principal works include:

A) Construction of one 220/60 kV main transforming station in Barsi, and of four 60/10 kV transforming and distribution stations in La Regla, Santa Marina, Miraflores and Raimondi-Galvez. A switching station will be built in Garagay and the existing Mirones

Transforming Station will be enlarged. Four new 60/10 kV, 25 MVA transformers and one 60/10 kV, 17.2 MVA transformer with their corresponding equipment will be installed in the transforming stations.

B) Construction of the 220 kV connection between Santa Rosa and Barsi, consisting of 9 km of 220 kV overhead line and 40 km of 220 kV monophase underground cable (3 monophase and 1 reserve cables) as well as approximately 20 km of 60 kV overhead lines and underground cables;

C) Construction of two main substations (Maranga and Barranco) with 30 kV and 10 kV equipment with 5 km of three-phase 30 kV overhead line; and 10 MVA 30/10 kV transforming equipment;

D) Expansion of the 10 kV distribution system, including the construction of about 120 substations and transforming cabins with the corresponding 10 kV/220 V equipment; installation of new transformers with a total capacity of about 60,000 kVA and of underground cables for a total length of about 150 km;

E) Expansion of the underground and overhead telephone cable net to connect the new distribution centers; and

F) Expansion of the 220 V distribution net (about 240 km of underground cable) and installation of about 45,000 meters.

SCHEDULE 3

Modifications of Loan Regulations No. 4

For the purposes of this Agreement the provisions of Loan Regulations No. 4 of the Bank, dated February 15, 1961, are modified as follows:

(a) Wherever the terms "Bond" or "Bonds" are used in the Loan Regulations, the terms "Debenture of the Series F" or "Debentures of the Series F" shall be substituted therefor.

(b) The following sentence is added at the end of Section 3.07:

> "Whenever it shall be necessary to value soles in terms of dollars or another currency, such value shall be as reasonably determined by the Bank."

(c) By the deletion of subparagraph (c) of Section 5.02 and the substitution therefor of the following subparagraph:

> "(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the First Loan Agreement, the First Guarantee Agreement, the Loan Agreement, the Guarantee Agreement, the Indenture, the Supplemental Indenture (as defined in the First Loan Agreement), the Fifth Supplemental Indenture, the Debentures of the Series D (as defined in the First Loan Agreement) or the Debentures of the Series F."

(d) Section 6.01 is deleted.

(e) The words "under Section 6.03 or" are deleted from Sections 6.05 and 6.10.

(f) Section 6.07 is deleted.

(g) The first two sentences of Section 6.09 are deleted.

(h) By the deletion of subparagraphs (c) and (d) of Section 6.11 and the substitution for subparagraph (d) of the following re-lettered subparagraph:

"(c) The Bank shall reimburse the Borrower for the reasonable cost of any exchange made pursuant to paragraph (a)."

(i) Subparagraph (a) of the Section 6.12 is deleted, and subparagraph (b) is re-lettered "(a)".

(j) Section 6.13 is deleted.

(k) Section 6.18 is deleted.

(l) By the addition in Section 7.01, after the words "Guarantee Agreement" where those words occur, of the words "the Indenture, the Fifth Supplemental Indenture".

(m) By the deletion of the second sentence of Section 7.02 and the substitution therefor of the following sentence:

"Such obligations shall not be subject to any prior notice to, demand upon or action against the Borrower or to any prior notice to or demand upon the Guarantor with regard to any default by the Borrower, and shall not be impaired by any of the following: any extension of time, forbearance or concession given to the Borrower; any assertion of, or failure to assert, or delay in asserting, any right, power or remedy against the Borrower or in respect of any security for the Loan; any modification or amplification of the provisions of the Loan Agreement contemplated by the terms thereof; any modification or amplification of any other document related to the Loan or related to any security therefor; any failure of the Borrower to comply with any requirement of any law, regulation or order of the Guarantor or of any political subdivision or agency of the Guarantor."

(n) By the deletion of subparagraph (j) of Section 7.04 and the substitution therefor of the following:

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

(o) Subparagraph (a)(ii) of Section 9.02 is deleted.

(p) Paragraph 9 of Section 10.01 is deleted.

(q) By the deletion of Schedules 1 and 2.

FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

Bank Press Release No. 63/51
November 22, 1963

Subject: $15 million power loan in Peru

PR #63/51 11/22/63

The World Bank today made a loan equivalent to $15 million to Lima Light and Power Company (Empresas Electricas Asociadas) of Peru. The loan will help to finance a program for expanding the supply of electricity in the Greater Lima area, and will also help pay the cost of a related scheme for the use of water resources. As a result of the new works, Lima Light will add 120,000 kilowatts of generating capacity to its system; in addition, there will be a substantial increase in the output of existing power plants, more drinking water for Lima, and enough water for the irrigation of a sizable tract of arid land south of Lima.

Ten private banks are participating in the loan to the extent of $615,000, representing the first three maturities and part of the fourth maturity which fall due between February 1967 and August 1968. The participating banks are as follows:

Bank of America National Trust & Savings Association, San Francisco
Girard Trust Corn Exchange Bank, Philadelphia
Irving Trust Company, New York
Wells Fargo Bank, San Francisco
Fidelity-Philadelphia Trust Company
The Bank of California National Association, San Francisco
The Philadelphia National Bank
The First Pennsylvania Banking and Trust Company, Philadelphia
Grace National Bank of New York
Crocker-Citizens National Bank, San Francisco

Lima Light and Power Company is a privately-owned public utility corporation. Greater Lima, its service area, has a population of over two million, or about one-fifth of Peru's total, and is the administrative, commercial and industrial center of the country. The company's power sales have been increasing at an average annual rate of about 10%; more than half the sales are to industrial and commercial consumers. The industries served include plants producing cement, rubber goods, vegetable oil, textiles, paper, metal products, fertilizers and fish meal.

To meet the rapidly rising demand for electricity in the Lima area, Lima Light undertook a long-range program in 1960 to provide about 280,000 kilowatts of new capacity. The main items in this program were the Huinco hydroelectric project, which will ultimately provide 240,000 kilowatts of capacity, and the associated Marcapomacocha water diversion scheme. A Bank loan of $24 million was made for the first stage of these projects in 1960. It included structures to collect water from the Marcapomacocha Basin and a six-mile diversion tunnel through the Andes mountain range to bring the waters to the Santa Eulalia Basin on the western side. The Marcapomacocha Diversion Scheme came into operation in 1962; the Huinco hydroelectric plant, located on the Santa Eulalia River about 40 miles northeast of Lima, will come into operation in 1964 with an initial capacity of 120,000 kilowatts.

Because power demand has increased at a faster rate than was expected in 1960, Lima Light has accelerated its construction program and the second stages of these projects, for which today's loan was made, are being undertaken about a year earlier than had been planned. When they are completed, the generating capacity of the company's system should be adequate to meet demand until 1969.

In the second stage of the Marcapomacocha Diversion Scheme, additional canals will be built to divert the natural outflow of six lakes to the existing tunnel through the mountains, and dams will be built to regulate the outflow of the two largest of these lakes, Marcacocha and Antacoto. The additional water thus made available will increase generation in Lima Light's hydroelectric power plants by about 500 million kilowatt hours annually. It will also increase the drinking water supply to Lima and make possible the irrigation of 12,350 acres of land south of Lima. Two more generating units will be installed at the Huinco power station to bring it to its full capacity of 240,000 kilowatts. Small reservoirs will be built at the intake of the plant and at the tailwater to provide daily regulation of the water flow. The plant and the receiving substation in Lima will be equipped with additional transformers and associated equipment. Bank funds will also be used for the strengthening and expansion of the Lima distribution system during the years 1963 to mid-1966. Included in this expansion will be connections for 45,000 new customers.

The total cost of the projects is estimated at the equivalent of $30 million. The Bank loan will cover most of the foreign exchange requirements and the remaining costs will be met by Lima Light and Power Company from earnings and from other borrowings.

The Bank loan is for a term of 25 years and bears interest at the rate of 5-1/2% per annum including the 1% commission which is allocated to the Bank's Special Reserve. Amortization will begin in February 1967. The loan is guaranteed by the Republic of Peru.

Record Removal Notice

File Title	Barcode No.
Huinco Power Project (02) - Peru - Loan 0365 - P007944 - International Bank for Reconstruction and Development [IBRD] Country Files	30275640

Document Date	Document Type
[no date]	Board Record

Correspondents / Participants

Subject / Title
Certificate of Secretary - Resolution No. 63-41 - Approval of Loan to Lima Light and Power Company (Empresas Electricas Asociadas) (Huinco II Project) in the amount of $15,000,000 to be guaranteed by the Republic of Peru

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	September 04, 2018

Mr. George D. Woods — November 20, 1963

Robert W. Cavanaugh

Participations in the Proposed Loan to
Lima Light and Power Company
(Empresas Electricas Asociadas) - PERU

• Ten banks have agreed to participate in this proposed loan for $615,000, representing all of the first three maturities and part of the fourth maturing from February 15, 1967 to August 15, 1968, as follows:

	(in thousands)				
	2/15/67	8/15/67	2/15/68	8/15/68	Total
Bank of America National Trust & Savings Association San Francisco	$ 30	$ 45	$ 45	$ -	$ 120
Girard Trust Corn Exchange Bank, Philadelphia	15	25	-	60	100
Irving Trust Company, New York	15	25	60	-	100
Wells Fargo Bank, San Francisco	30	-	60	-	90
Fidelity-Philadelphia Trust Company, Philadelphia	15	20	25	-	60
The Bank of California National Association, San Francisco	15	20	-	-	35
The Philadelphia National Bank, Philadelphia	15	20	-	-	35
The First Pennsylvania Banking and Trust Company, Philadelphia	15	15	-	-	30
Grace National Bank of New York, New York	15	15	-	-	30
Crocker-Citizens National Bank, San Francisco	15	-	-	-	15
	$ 180	$ 185	$ 190	$ 60	$ 615,000.

The interest rate will be 5-1/4%.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM63-274

FROM: The Secretary

November 21, 1963

SIGNING OF LOAN - PERU

The following arrangements have been made for the signing of the loan to Peru (Lima Light and Power Company):

Time	- 4:00 p.m., Friday, November 22, 1963
Place	- Conference Room, 12th Floor
Signing Officials	- For the Guarantor: His Excellency Fernando Berckemeyer Ambassador of Peru
	- For the Borrower: Dr. Carlos Mariotti General Manager of Lima Light and Power Co.
	- For the Bank: Mr. Wilson

Seating

The Ambassador   Mr. Wilson

Mr. Machado — [table] — Dr. Mariotti

Rep.Oper. W. H.   Rep.Tech. Oper.

(NOTE: Mr. Weiner, Department of Operations Western Hemisphere, will arrange for the attendance of the signing officials; Mr. Webb of the Legal Department will supervise the execution of the documents.)

Representatives attending the signing are requested to be in the Conference Room shortly before 4:00 p.m.

Distribution:

Mr. Machado
President
Vice Presidents
Department Heads
Mr. Weiner
Mr. Webb

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR EXECUTIVE DIRECTORS' MEETING

CONFIDENTIAL

R 63-130

(for consideration on November 21, 1963)

FROM: The Secretary

November 14, 1963

NOTICE OF MEETING

PROPOSED LOAN - PERU

There will be a meeting of the Executive Directors in the Board Room at 10:30 a.m., Thursday, November 21, 1963, to consider the attached President's Report and Recommendations (P-350) on a proposed loan to the Lima Light and Power Company in Peru.

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

1. Draft Loan Agreement;
2. Draft Guarantee Agreement;
3. Statutory Loan Committee Report;
4. A report entitled "Appraisal of the Second Stage of the Huinco Hydroelectric Project - Peru" (TO-383);
5. Draft resolution authorizing the loan.

A report entitled "Current Economic Position and Prospects of Peru" (WH-121a), dated September 28, 1962, was distributed to the Executive Directors on October 2, 1962 (SecM62-192).

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

RESTRICTED
Report No. P-350

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO THE
LIMA LIGHT AND POWER COMPANY
(EMPRESAS ELECTRICAS ASOCIADAS)
PERU

November 13, 1963

REPORT AND RECOMMENDATIONS OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON THE PROPOSED
LOAN TO THE LIMA LIGHT AND POWER COMPANY
(EMPRESAS ELECTRICAS ASOCIADAS) PERU

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1. I submit the following report and recommendations on a proposed loan of an amount in various currencies equivalent to $15 million to the Lima Light and Power Company (Empresas Electricas Asociadas), hereinafter referred to as "Lima Light." The loan would help finance the foreign exchange cost of completing the expansion, initiated with the assistance of Loan 260 PE, of power generation and transmission facilities serving the greater Lima area and the expansion of distribution facilities in the area.

PART I: HISTORICAL

2. In October 1959, Lima Light asked the Bank to assist in financing the construction of the first stage of the Huinco hydroelectric plant and the associated Marcapomacocha water division scheme. A loan of $24 million for this purpose was made on June 29, 1960 (Loan 260 PE). Lima Light subsequently asked the Bank to consider a second loan of $15 million equivalent to help finance the second stages of these two related parts of its program and also the improvement and expansion of distribution facilities in the greater Lima area. A Bank Mission visited Lima in April 1963, and negotiations for the loan began in Washington on October 23, 1963. Mr. Juan Castelli and Dr. Mario Hangartner represented the borrower. The Government of Peru was represented by Mr. Carlos Gibson, Commercial Minister of the Peruvian Embassy in Washington.

3. The proposed loan would increase the loans to Peru held by the Bank from $80.93 million to $95.93 million equivalent. The only other project for which a Bank loan may be proposed within the next two to three months is the Port of Paita, with a foreign exchange component of slightly under $3 million.

4. The Bank has already made the following loans to Peru:

Year	Loan No.	Borrower	Purpose	Amount (in US$ equiv.)
1952	57 PE	Republic of Peru	Port development (Callao)	2.41
1952	67 PE	Republic of Peru	Agricultural development	1.30
1954	98 PE	Republic of Peru	Agricultural development	1.70
1954	105 PE	Banco de Fomento	Agricultural development	5.00
1955	114 PE	Republic of Peru	Irrigation project	18.00
1955	116 PE	Cemento Pacasmayo	Construction of cement plant	2.50
1955	127 PE	Republic of Peru	Highway maintenance	4.99
1957	162 PE	Banco de Fomento	Agricultural development	5.00
1958	208 PE	Autoridad Portuaria del Callao	Port development	6.57
1960	257 PE	Banco de Fomento Agropecuario	Agricultural development	5.00
1960	260 PE	Lima Light and Power Company	Power development	24.00
1960	271 PE	Republic of Peru	Highway reconstruction	5.50
1961	300 PE	Republic of Peru	Highway maintenance and improvement	10.00
1963	334 PE	Peruvian Corp.	Railway rehabilitation	13.25

Total (net of cancellations, terminations and refundings)		105.22*
of which has been repaid		21.78
Total now outstanding		83.44*
Amount sold	9.80	
of which has been repaid	6.57	2.51
Net amount now held by Bank		80.93*

*Includes $31.03 million not yet disbursed.

5. Most of the $31 million balance of effective loans not yet disbursed is for projects which are still being executed and are on schedule. $7 million of this balance reflects unusual delays on disbursements for two projects - the Port of Callao (Loan 208) and the Aguaytia-Pucallpa Highway (Loan 271) - which are traceable to delays both of contractors and of the Government. We have made representations about these delays, and they are being dealt with. These delays do not raise any questions about the ability of Lima Light to carry out its construction program on schedule.

PART II: DESCRIPTION OF THE PROPOSED LOAN

6. The loan, which would have the following characteristics, would be similar in most respects to the first loan to Lima Light (Loan 260 PE)

Borrower	Lima Light and Power Company, (Empresas Electricas Asociadas), a privately-owned corporation.
Guarantor:	The Republic of Peru.
Amount:	The equivalent in various currencies of $15 million.
Purpose:	To finance the foreign exchange cost of the second stage of the Marcapomacocha water diversion scheme, the installation of two additional generating units with a capacity of 120 MW at the Huinco powerhouse, and the improvement and expansion of the Lima distribution system through mid-1966.
Amortization	44 semi-annual installments from February 15, 1967 to August 15, 1988.
Interest Rate	5½% per annum.
Commitment Charge:	3/4 of 1% per annum.
Payment Dates:	February 15 and August 15.

PART III: LEGAL INSTRUMENTS AND LEGAL AUTHORITY

7. A draft Loan Agreement between the Bank and Lima Light (No.1) and a draft Guarantee Agreement between the Bank and the Government of Peru (No. 2) are attached.

8. The Loan Agreement is similar to the previous loan agreement with Lima Light.

9. Lima Light already has outstanding debentures, including debentures issued under the previous loan agreement, which were issued pursuant to an Indenture administered by Schroder Trust Company in New York. The Loan Agreement provides (Sections 4.01, 4.02 and 5.04) that the proposed loan will be evidenced by additional debentures issued under the same Indenture. The Indenture establishes a first floating charge upon all tangible and intangible property of the Borrower and provides that additional debentures may be issued only if Lima Light satisfies the trustee that it meets the following tests:

a. that the actual net income of Lima Light before interest and income taxes for a recent 12 months period is not less than 150% of the aggregate amount of the annual interest charges on existing and proposed debentures and all other funded indebtedness; and

b. that the net tangible assets of Lima Light at the time of the proposed issue are at least equal to 150% of the aggregate principal amount of all existing and proposed debentures and all other outstanding funded debt.

10. Other Loan Agreement provisions of interest are:

a. The usual form of the Bank's negative pledge covenant has been changed to accommodate it to existing liens permitted under the Indenture which governs the issue of Lima Light's debentures (Section 5.05).

b. A default under Loan 260 PE will be a default under the Loan Agreement (Section 6.02 a).

c. A default under the Indenture which governs the debentures will be a default under the Loan Agreement (Section 6.02 b).

d. A default under the proposed loan will be a default under Loan 260 PE (Section 7.01).

11. The Guarantee Agreement is similar, in substance, to previous Guarantee Agreements given by the Republic of Peru. Since the Borrower is a private corporation, the guarantee would extend only to the payment of principal, interest and other charges.

12. Execution of the Loan Agreement will be authorized by the Board of Directors of Lima Light. By a Supreme Decree issued under Law No. 11636 of November 13, 1951, the Government is authorized to guarantee the proposed loan.

13. The report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement, is attached (No. 3).

PART IV: APPRAISAL OF THE PROPOSED LOAN

14. A detailed appraisal of the project, TO-383, is attached (No.4).

Borrower

15. Lima Light is a public utility corporation which was originally incorporated under Peruvian law in 1910. About 56% of its shares is held by a group of Swiss investment companies and banks. The balance of the shares is widely distributed, with a large number held by shareholders in Peru. Most of the fifteen members of the Board of Directors are resident in Lima. The company is well managed.

16. Lima Light has a good earnings record and a long record of dividend payments. In recent years it has earned a return of at least 10% annually on net fixed assets in service, valued at replacement cost. The Electric Industry Law of 1955 allows tariffs to be established at a level sufficient to produce revenues to cover all operating costs, interest and a return of 11½% on share capital and reserves.

Justification of the Project

17. The project consists of three related parts: the second stage of the Marcapomacocha water diversion scheme, which would increase generation in existing power plants by 450 million kwh yearly and also increase the drinking water supply to Lima and make possible the irrigation of 5,000 hectares of arid land south of Lima; the second stage of the Huinco hydroelectric plant, which would increase the generating capacity of the plant from 120 MW to 240 MW; and the strengthening and expansion of the Lima distribution system through mid-1966. The first stages of the Marcapomacocha scheme and the Huinco plant are

now under construction, on schedule, and are being financed with the help of Loan 260 PE. After the completion of both stages, the generating capacity of the system should be adequate to meet demand until sometime in 1969.

18. The project is the most efficient means by which Lima Light can expand power generation and distribution facilities needed to serve the rapidly growing greater Lima area, which is Peru's center of government and business and home for about one-fifth of the Peruvian population. Power sales in the area have been growing by about 10% per year, and are expected to continue to increase by at least 8% annually during the coming years. Lima Light holds an exclusive concession, valid to 2006, for the distribution of power in this area.

Arrangements for financing

19. Capital expenditures, including interest during construction and net additions to working capital, would total $53 million equivalent in the four year period ending 1966 during which the two stages of Huinco and the second stage of Marcopomacocha would be completed. Under its financial plan, Lima Light would finance about 56% of its requirements from borrowings and about 44% from its own resources, contributions from customers, sales of share capital, and advances from Hidrandina. Hidrandina is a corporation, controlled by the same financial group that holds the controlling interest in Lima Light, which generates electric power, all of which is purchased for distribution by Lima Light.

20. The proposed loan completes all arrangements needed for carrying out Lima Light's financing plan, except for the sale of about $3.5 million of common shares which have to be arranged within the next two years but for which the placement prospects are good. The financial plan is reasonable, and the project could be completed even were the Company to experience unexpected delay in placing the common stock or an unexpected shortfall in revenue.

Procurement

21. Procurement procedures under Loan 260 PE have been satisfactory. Apart from two alternators which have already been ordered and financed on reasonable terms by a supplier's credit, all major electrical and mechanical equipment for the project is to be procured by Lima Light through international competitive bidding.

The economic situation

22. A report on the "Current Economic Position and Prospects of Peru" (WH-121) dated September 28, 1962, was distributed to the Executive Directors on October 2, 1962 (SecM62-192).

23. The information that has become available since the date of that report confirms its general conclusion, namely, that Peru's economic position is, on the whole, good and warrants further external borrowing for high priority projects. The Gross National Product has been growing at a rate of about 6.5 per cent per year since 1959, sparked primarily by a very rapid increase in exports, particularly fish products, minerals and agricultural staples. Exports are expected to grow more slowly in the future, but planned increases in public investments, particularly if they are adequately programmed, and a generally favorable climate for private investment, should provide the basis for further fairly rapid growth of the economy.

24. Since 1959 the country has been able to maintain internal and external financial stability. The budget deficit has been reduced to manageable proportions and Government borrowing from the Central Bank has declined. Overall credit expansion has also been slower, and while monetary expansion has been somewhat more rapid than the growth of the economy, there has been no drastic increase in prices. This conduct is all the more remarkable considering that the period was one of political instability, during which the country had two elections and a military coup. While Government savings are still low, there are reasonable prospects for a continuation of the relatively cautious monetary policies followed since 1959, and consequently for continued monetary stability. The new Government, which came into power in July of this year, is planning substantial increases in expenditures in 1964, but these are accompanied by proposals to increase revenues, and also to improve the allocation of capital expenditure through a new and improved planning mechanism.

25. Peru still has unresolved political and social conflicts between different groups of the population and between different regions of the country. Any protracted political difficulties would, of course, be bound to impede the country's economic and financial stability and growth. The new Government appears to be aware of and sensitive to this problem, and is seeking new ways to deal with it. Among these is the transfer from the Central Government to newly-elected municipal governments of appropriate responsibilities hitherto centralized in Lima, including responsibility for local public works, to generate participation at the local level which has been lacking in the past.

26. The maintenance of monetary stability and the spectacular growth of exports have contributed to virtual balance in the external current account and to a rapid recovery of the gold and foreign exchange reserves. Free convertibility has been maintained and the foreign exchange rate has remained stable since 1959 despite a flurry of capital flight in mid-1962 and during the 1963 election. Foreign exchange earnings are likely to grow at a slower rate than in the past, but the greatly increased diversification of exports which Peru has achieved in the past few years makes these earnings less subject to sharp changes. The outlook for the key commodities (agricultural, marine and mineral) also appears favorable, which augurs well for continued economic growth and balance in Peru's external accounts.

27. Peru's external public debt has increased rapidly in the recent past. As of December 31, 1962, it amounted to $501 million, including $82 million undisbursed, and an additional $30 million were contracted between January 1 and March 15, 1963 (see Annex). The comparable figure for December 31, 1961 was $291 million. Of the $246 million of new debt contracted during 1962, 85% was in the form of suppliers' and bank credits. Service payments on Peru's present external public debt will amount to $58 million in 1963 and $59 million in 1964, equivalent to about nine per cent of estimated foreign exchange earnings in both these years. This debt burden does not appear excessive.

28. Approximately half of the new debts contracted during 1962 were incurred by the previous Government for two large projects - the Mantaro hydroelectric project and the Santa Corporation's steel mill - whose economic justification had not been fully studied. The new Government has been concerned to define what the next steps on these two projects should be in the light of the commitments that had been undertaken, and to this end has initiated a thorough review of the feasibility and economic justification of these projects. At the request of the Government, the Bank has been assisting in this review. Until these reviews have been completed it is too early to say what steps the Government will finally take. A general measure to improve control over commitment of the public credit has also been introduced: one of the early measures taken by the new Government was to tighten radically the procedures for reviewing proposals before authorizing new Government borrowing or guarantees.

Prospects of Fulfillment of Obligations:

29. The project has been planned by Lima Light's own civil engineering staff. These plans were reviewed and a detailed design prepared by the Swiss consulting firm, Motor Columbus. Satisfactory arrangements have been made for the construction of the project. The management is qualified to execute the proposed project and to operate the expanded power system.

30. The market prospects for the power to be produced by the project, the interest coverage and earnings test specified in the existing Indenture and the favorable Peruvian electric power legislation offer assurances that Lima Light will be able to provide the funds needed to cover its share of the cost of the project and to service the proposed loan.

31. The service of the loan, together with Peru's other foreign exchange obligations, should not impose an undue burden on the Peruvian edonomy.

PART V: COMPLIANCE WITH ARTICLES OF AGREEMENT

32. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI: RECOMMENDATIONS

33. I recommend that the Bank make a loan to the Lima Light and Power Company (Empresas Electricas Asociadas) with a guarantee of the Republic of Peru in an amount in various currencies equivalent to $15 million for a total term of 25 years with interest (including commission) at 5½% per annum and on such other terms as are specified in the attached draft Loan and Guarantee Agreements, and that the Executive Directors adopt a resolution to that effect in the form attached (No. 5).

GMWilson

G. M. Wilson
Vice President
for George D. Woods
President

Washington, D. C.
November13, 1963

PERU: EXTERNAL PUBLIC DEBT

(Debt repayable in foreign currencies, in thousands of U.S. dollar equivalents)

DEBT OUTSTANDING

	Debt Outstanding Dec. 31, 1962		Major reported additions Jan. 1-March 15, 1963
	Net of Undisbursed	Including Undisbursed	
TOTAL	418,819	500,518	29,600
Publicly-issued Bonds	52,995	52,995	-
Privately-placed Debt	281,036	287,960	-
Loans from: IBRD	47,246	74,197	13,250
IDB	-	3,950	-
U.S. Government	10,341	54,215	16,350
Argentine Government	6,241	6,241	-
Federal Republic of Germany	21,000	21,000	-

ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON TOTAL OF DEBT SHOWN ABOVE /1

Year	Debt Outstanding plus undisbursed January 1	Payments during year: Amortization	Interest	Total
1963	485,801	49,023	9,263	58,286
1964	464,762	39,843	19,368	59,211
1965	423,339	36,564	19,303	55,867
1966	385,235	37,092	17,603	54,695
1967	346,643	37,945	15,543	53,488
1968	307,242	41,557	13,289	54,846
1969	264,279	42,641	10,903	53,544
1970	220,279	43,332	8,316	51,648
1971	175,643	20,890	6,127	27,017
1972	153,504	19,040	5,227	24,267
1973	133,273	19,039	4,732	23,771
1974	113,103	19,148	4,084	23,232
1975	92,887	18,049	3,287	21,336
1976	74,729	15,548	2,576	18,124
1977	59,077	13,510	2,000	15,510

/1 Includes service on all debt shown above except for two loans, totaling $14.7 million, for which amortization terms are not available.

1

October 23/63
Legal Department

LOAN NUMBER PE

LOAN AGREEMENT

(Huinco II Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

LIMA LIGHT AND POWER COMPANY
(Empresas Electricas Asociadas)

Dated November , 1963

LOAN AGREEMENT

AGREEMENT, dated November , 1963, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and LIMA LIGHT AND POWER COMPANY (EMPRESAS ELECTRICAS ASOCIADAS) (hereinafter called the Borrower).

ARTICLE I

Loan Regulations; Special Definitions

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, subject, however, to the modifications thereof set forth in Schedule 3 to this Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

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

(a) The term "Indenture" means the Indenture dated as of July 1, 1957, executed by the Borrower in favor of Schroder Trust Company, as Trustee, and includes any indenture supplemental thereto which has been or shall be executed and delivered in accordance with the provisions of the Indenture.

(b) The term "Fifth Supplemental Indenture" means the supplemental indenture or supplemental indentures which shall be executed by the Borrower pursuant to the provisions of Section 5.04 of this Agreement providing for the issue, authentication and delivery of Debentures of the Series F .

(c) The term "Debentures" shall mean debentures issued in accordance with the terms of the Indenture.

(d) The term "Debentures of the Series F " shall mean Debentures of the various series issued pursuant to the Fifth Supplemental Indenture and this Agreement.

(e) The term "subsidiary" shall mean any corporation, firm or association directly or indirectly controlled by the Borrower.

(f) The term "Affiliate" or "Hidrandina" means Energia Hidroeléctrica Andina S.A.

(g) The term "soles" and the symbol "S/." mean currency of the Guarantor.

(h) The term "First Loan Agreement" means the Loan Agreement dated June 29, 1960 between the Bank and the Borrower.

(i) The term "First Guarantee Agreement" means the Guarantee Agreement dated June 29, 1960 between the Guarantor and the Bank.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to fifteen million dollars ($15,000,000).

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

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.04. The Borrower shall pay interest at the rate of five and one-half per cent (5 1/2%) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent (1/2 of 1%) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2 to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the carrying out of the Project and, except as the Bank shall otherwise agree, title to all such goods shall be acquired by the Borrower free and clear of all liens, charges and encumbrances.

ARTICLE IV

Debentures

Section 4.01. The Borrower shall execute and deliver Debentures of the Series F representing the principal amount of the Loan of the form, tenor and purport prescribed in the Indenture as modified by the Fifth Supplemental Indenture and as provided therein and in the Loan Regulations.

Section 4.02. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall, against payment by the Bank of any amount to be withdrawn from the Loan Account, deliver to or on the order of the Bank, Debentures of the Series F in the aggregate principal amount so paid.

Section 4.03. The Borrower shall effect original issues of the Debentures of the Series F only as provided herein and in the Fifth Supplemental Indenture.

Section 4.04. The Bank and the Borrower shall be at liberty to make such arrangements as they may from time to time mutually agree as to procedure for the issue, authentication and delivery of the Debentures of the Series F and such arrangements may be in addition to or in substitution for any of the provisions of this Agreement or of the Loan Regulations.

Section 4.05. (a) The Debentures of the Series F shall be bearer Debentures with coupons for semi-annual interest attached (hereinafter sometimes called Series F coupon Debentures). Debentures of the Series F delivered to the Bank shall be Series F coupon Debentures in such temporary or definitive form (authorized by the Fifth Supplemental Indenture) as the Bank shall request. Series F coupon Debentures payable in dollars

Fifth
shall be substantially in the form set forth in the/Supplemental Indenture. Series F coupon Debentures payable in any currency other than dollars
Fifth
shall be substantially in the form set forth in the/Supplemental Indenture, except that they shall (i) provide for payment of principal, interest and premium on redemption, if any, in such other currency, (ii) provide for such place of payment at such agency as the Bank shall specify, and (iii) contain such other modifications as the Bank shall reasonably request in order to conform to the laws or to the financial usage of the place where they are payable.

(b) All Debentures of the Series F shall have the guarantee of the Guarantor endorsed thereon substantially in the form set forth in Schedule 3 of the Loan Regulations.

ARTICLE V

Particular Covenants

Section 5.01. The Borrower shall carry out and complete the Project and operate and maintain its business and properties, including the Project, with due diligence and efficiency and in conformity with sound engineering, business, financial and electric utility practices. To that end, the Borrower shall employ engineering consultants mutually acceptable to the Borrower and the Bank on terms and conditions mutually satisfactory to the Borrower and the Bank.

Section 5.02. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans and specifications (including construction schedules) for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(b) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower and of its subsidiaries.

(c) The Borrower shall enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, the sites, works, construction and operations included in the Project and all other plants, works, properties, equipment and operations of the Borrower and its subsidiaries, and to examine any relevant records and documents.

(d) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the use of the goods purchased therewith, the progress of the Project and the operations and financial condition of the Borrower and of its subsidiaries.

Section 5.03. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan.

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

Section 5.04. The Borrower shall execute and deliver a supplemental indenture, the form and substance of which shall be satisfactory to the Bank, providing for the issue, authentication and delivery of Debentures of the Series F ; shall protocolize, record, file and register said supplemental indenture as provided in Section 7.09 of the Indenture as promptly as shall be reasonably practicable; and shall, upon the protocolization, recordation, filing and registration thereof, furnish to the Bank an opinion or opinions satisfactory to the Bank of legal counsel acceptable to the Bank showing that said supplemental indenture has been validly and effectively protocolized, recorded, filed and registered, and has created valid and effective liens, charges and priorities in accordance with its terms.

Section 5.05. Except as the Bank and the Borrower shall otherwise agree, the Borrower will not, and will not permit any subsidiary to, create, incur, assume or suffer to exist any mortgage, pledge, lien or encumbrance, except the lien of the Indenture, upon any of its properties or assets, whether now owned or hereafter acquired, unless such mortgage, pledge or lien shall provide for the security of the Debentures in priority to the debentures, notes or other obligations or liabilities of whatsoever character which are to be secured by such mortgage, pledge or lien; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iii) any "permitted lien" as defined in the Indenture on the date of this Agreement, excluding subsection (i) of said definition.

Section 5.06. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Indenture, the Fifth Supplemental Indenture or the Debentures of the Series F, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Debenture of the Series F to a holder thereof other than the Bank when such Debenture of the Series F is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.07. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Debentures of the Series F are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Indenture, the Fifth Supplemental Indenture or the Debentures of the Series F.

Section 5.08 (a) Except as shall be otherwise agreed between the Bank and the Borrower, the Borrower shall insure or cause to be insured with responsible insurers all goods financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase and importation of the goods into the territory of the Guarantor and shall be for such amounts as shall be consistent with sound commercial practices. Such insurance shall be payable in dollars or in the currency in which the cost of the goods insured thereunder shall be payable.

(b) In addition, the Borrower shall take out and maintain, with responsible insurers, insurance against such risks and in such amounts as shall be consistent with sound business and electric utility practices.

Section 5.09. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall, except as the Bank shall otherwise agree, take all steps necessary to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

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

Section 5.10. The Borrower shall not agree to any change in the contract between it and its Affiliate, dated February 7, 1956, known as the Amended Contract for the Supply of Electric Power, unless the Borrower shall have notified the Bank in advance and obtained approval by the Bank of the change or a determination by the Bank that the change is not material.

Section 5.11. The Borrower shall have its financial statements (balance sheet and related income and earned surplus statements) certified annually by an independent accounting firm satisfactory to the Bank and shall promptly after their preparation transmit to the Bank certified copies of such statements and a signed copy of the accountant's report.

Section 5.12. Unless it shall have obtained the prior approval of the Bank, the Borrower shall not make any investment in any corporation, firm or association in excess of $1,000,000 or its equivalent in other currencies.

Section 5.13. Unless it shall have obtained the prior approval of the Bank, the Borrower will not redeem or prepay, prior to the maturity thereof, any Debentures otherwise than: (i) upon a refunding thereof by the issuance of Debentures of the same or later maturity or maturities; or (ii) for the purpose from time to time of meeting the next semi-annual sinking fund or analogous payment.

Section 5.14. The Borrower shall not consent to any action taken at any meeting of Debentureholders pursuant to Section 13.06 of the Indenture or by written instrument pursuant to Section 13.09 of the Indenture, unless the Bank shall have given its approval of such action or consent.

Section 5.15. The Borrower may authorize the issue, execution and delivery of additional Debentures upon compliance with the present provisions of Sections 4.02 and 4.04 of the Indenture.

Section 5.16. The Borrower shall duly perform all covenants, agreements and obligations to be performed by it under the Indenture.

Section 5.17. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall, as promptly as may be required, offer for subscription at a price reasonably related to their market price such additional capital shares as shall be sufficient to provide funds, not otherwise available, needed to carry out and complete the Project and to provide adequate working capital during and at the completion thereof.

ARTICLE VI

Remedies of the Bank

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if the event specified in Section 6.02 of this Agreement shall occur, or (iii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Debentures of the Series F then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement, or in the Indenture, or in the Debentures of the Series F to the contrary notwithstanding.

Section 6.02. The following events are specified for the purposes of paragraph (j) of Section 5.02 of the Loan Regulations:

(a) a default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the First Loan Agreement or the First Guarantee Agreement; or

(b) one of the events specified in the Indenture as "events of default."

ARTICLE VII

Modification of First Loan Agreement

Section 7.01. For the purposes of the First Loan Agreement, paragraph (c) of Section 5.02 of the Loan Regulations of the Bank dated June 15, 1956, is hereby amended to read as follows:

> "(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement or the Guarantee Agreement, or under the loan agreement dated November , 1963, or the guarantee agreement of even date therewith.";

and the term "Loan Regulations" as used for the purposes of the First Loan Agreement shall mean Loan Regulations No. 4 of the Bank, dated June 15, 1956, as modified by the First Loan Agreement and as further amended hereby.

ARTICLE VIII

Effective Date; Termination

Section 8.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (a) (ii) of the Loan Regulations:

(a) that the Borrower has complied with Section 5.04 of this Agreement; and

(b) that the Borrower shall have certified in writing to the Bank that, as of a date to be agreed between the Borrower and the Bank, there has been no material adverse change in its condition since the date of this Agreement.

Section 8.02. The following are specified as additional matters, within the meaning of Section 9.02 (e) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank: namely, that the requirements of Section 5.04 of this Agreement have been satisfied.

Section 8.03. A date 60 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE IX

Miscellaneous

Section 9.01. The Closing Date shall be January 31, 1967, or such other date as shall be agreed by the Bank and the Borrower as the Closing Date.

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

For the Borrower:

Empresas Electricas Asociadas
Casilla 1384
Lima, Peru

Alternative address for cablegrams and radiograms:

Asociadas
Lima, Peru

For the Bank:

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

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D.C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By_______________________________
President

LIMA LIGHT AND POWER COMPANY
(EMPRESAS ELECTRICAS ASOCIADAS)

By_______________________________
Authorized Representative

SCHEDULE 1

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 15, 1967	$ 180,000
August 15, 1967	185,000
February 15, 1968	190,000
August 15, 1968	195,000
February 15, 1969	200,000
August 15, 1969	205,000
February 15, 1970	210,000
August 15, 1970	215,000
February 15, 1971	225,000
August 15, 1971	230,000
February 15, 1972	235,000
August 15, 1972	240,000
February 15, 1973	250,000
August 15, 1973	255,000
February 15, 1974	260,000
August 15, 1974	270,000
February 15, 1975	275,000
August 15, 1975	285,000
February 15, 1976	290,000
August 15, 1976	300,000
February 15, 1977	310,000
August 15, 1977	315,000
February 15, 1978	325,000
August 15, 1978	335,000
February 15, 1979	345,000
August 15, 1979	355,000
February 15, 1980	365,000
August 15, 1980	375,000
February 15, 1981	385,000
August 15, 1981	395,000
February 15, 1982	405,000
August 15, 1982	415,000
February 15, 1983	425,000
August 15, 1983	440,000
February 15, 1984	450,000
August 15, 1984	465,000
February 15, 1985	475,000
August 15, 1985	490,000
February 15, 1986	505,000
August 15, 1986	515,000
February 15, 1987	530,000
August 15, 1987	545,000
February 15, 1988	560,000
August 15, 1988	580,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment and Redemption

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

Time of Prepayment or Redemption	Premiums
Not more than three years before maturity	1/2%
More than three years but not more than six years before maturity	1%
More than six years but not more than eleven years before maturity	1-1/2%
More than eleven years but not more than sixteen years before maturity	2-1/2%
More than sixteen years but not more than twenty-one years before maturity	3-1/2%
More than twenty-one years but not more than twenty-three years before maturity	4-1/2%
More than twenty-three years before maturity	5-1/2%

SCHEDULE 2

Description of Project

The Project includes three separate, but related, parts: the second stage of the Marcapomacocha Diversion Scheme; the second stage of the Huinco Hydroelectric Plant; and expansion of the Borrower's distribution system during the period from 1963 to mid-1966.

I. THE SECOND STAGE OF THE MARCAPOMACOCHA DIVERSION SCHEME

The Marcapomacocha Scheme entails the diversion of water from the Marcapomacocha Basin on the Eastern Slope of the Andes Mountain Range to the Santa Eulalia Basin on the Western Side of that Range. The principal works to be constructed for the second stage of this scheme include:

A) Two concrete gravity dams to control the flow from two natural lakes, Antacoto and Marcapomacocha, and a discharge gallery through the rock barrier which separates the two lakes;

B) A 4.5 km long collecting canal from Lake Marcapomacocha to Lake Antacoto;

C) A 12.5 km long canal conveying the outflow of Lakes Antacoto and Marcapomacocha to the existing diversion tunnel; and

D) A 4 km collecting canal to conduct the water from the Tuctu Creek to the existing Antacasha Intake.

It is expected that this part of the Project will be completed in the second half of 1965.

II. THE SECOND STAGE OF THE HUINCO HYDROELECTRIC POWER PLANT

The Huinco Hydroelectric Power Plant, located about 65 km northeast of Lima, uses water from the Santa Eulalia and Marcapomacocha Basins. Its second stage development will include the following principal elements:

A) Construction of a dam in the Sheque zone to accumulate water during low consumption hours to be utilized during high peak hours;

B) Installation in the powerhouse cavern of the third and fourth units, each consisting of a twin Pelton type turbine and a 60 MW generator; of two 90,000 kVA transformer banks, each consisting of three single-phase units; and of the corresponding auxiliary equipment;

C) Corresponding expansion of the outdoor switchyard;

D) Construction of a tail-water reservoir in the Huinco zone;

E) Expansion of the Santa Rosa Substation in Lima by the installation of two additional 90,000 kVA transformer banks, each consisting of three single-phase units; expansion of the corresponding 220 kV and 60 kV installations as well as of the outdoor switchyard; and

F) Expansion of the central dispatching center and communication system.

It is expected that this part of the project will be completed by mid-1966.

III. THE EXPANSION OF THE DISTRIBUTION SYSTEM FROM 1963 to MID-1966

The Borrower's distribution system in the Greater Lima area will be expanded. The principal works include:

A) Construction of one 220/60 kV main transforming station in Barsi, and of four 60/10 kV transforming and distribution stations in La Regla, Santa Marina, Miraflores and Raimondi-Galvez. A switching station will be built in Garagay and the existing Mirones Transforming Station will be enlarged. Four new 60/10 kV, 25 MVA transformers and one 60/10 kV, 17.2 MVA transformer with their corresponding equipment will be installed in the transforming stations.

B) Construction of the 220 kV connection between Santa Rosa and Barsi, consisting of 9 km of 220 kV overhead line and 40 km of 220 kV monophase underground cable (3 monophase and 1 reserve cables) as well as approximately 20 km of 60 kV overhead lines and underground cables;

C) Construction of two main substations (Maranga and Barranco) with 30 kV and 10 kV equipment with 5 km of three-phase 30 kV overhead line; and 10 MVA 30/10 kV transforming equipment;

D) Expansion of the 10 kV distribution system, including the construction of about 120 substations and transforming cabins with the corresponding 10 kV/220 V equipment; installation of new transformers with a total capacity of about 60,000 kVA and of underground cables for a total length of about 150 km;

E) Expansion of the underground and overhead telephone cable net to connect the new distribution centers; and

F) Expansion of the 220 V distribution net (about 240 km of underground cable) and installation of about 45,000 meters.

SCHEDULE 3

Modifications of Loan Regulations No. 4

For the purposes of this Agreement the provisions of Loan Regulations No. 4 of the Bank, dated February 15, 1961, are modified as follows:

(a) Wherever the terms "Bond" or "Bonds" are used in the Loan Regulations, the terms "Debenture of the Series F" or "Debentures of the Series F" shall be substituted therefor.

(b) The following sentence is added at the end of Section 3.07:

"Whenever it shall be necessary to value soles in terms of dollars or another currency, such value shall be as reasonably determined by the Bank."

(c) By the deletion of subparagraph (c) of Section 5.02 and the substitution therefor of the following subparagraph:

"(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement, the Indenture, the Fifth Supplemental Indenture or the Debentures of the Series F."

(d) Section 6.01 is deleted.

(e) The words "delivered pursuant to any request under Section 6.03" and the words "in such request" are deleted from Sections 6.05 and 6.10.

(f) Section 6.07 is deleted.

(g) The first two sentences of Section 6.09 are deleted.

(h) The final sentence of subparagraph (d) of Section 6.11 is deleted.

(i) Subparagraph (a) of Section 6.12 is deleted.

(j) Section 6.13 is deleted.

(k) Section 6.18 is deleted.

(l) By the addition in Section 7.01, after the words "Guarantee Agreement" where those words occur, of the words "the Indenture, the Fifth Supplemental Indenture".

(m) By the deletion of the second sentence of Section 7.02 and the substitution therefor of the following sentence:

"Such obligations shall not be subject to any prior notice to, demand upon or action against the Borrower or to any prior notice to or demand upon the Guarantor with regard to any default by the Borrower, and shall not be impaired by any of the following: any extension of time, forbearance or concession given to the Borrower; any assertion of, or failure to assert, or delay in asserting, any right, power or remedy against the Borrower or in respect of any security for the Loan; any modification or amplification of the provisions of the Loan Agreement contemplated by the terms thereof; any modification or amplification of any other document related to the Loan or related to any security therefor; any failure of the Borrower to comply with any requirement of any law, regulation or order of the Guarantor or of any political subdivision or agency of the Guarantor."

(r) By the deletion of subparagraph (j) of Section 7.04 and the substitution therefor of the following:

"(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties to the Loan Agreement and Guarantee

"Agreement or any claim by any such party against any other such party arising thereunder; provided, however, that nothing herein shall be deemed to preclude any of the said parties from exercising, or instituting any legal or equitable action to enforce, any right or claim arising out of or pursuant to the Indenture, the Fifth Supplemental Indenture or the Debentures of the Series F, and submission to arbitration hereunder shall not be deemed to be a condition precedent or in any way to prejudice such exercise or other enforcement of any such right or claim."

(o) Subparagraph (a) (ii) of Section 9.02 is deleted.

(p) Paragraph 9 of Section 10.01 is deleted.

(q) By the deletion of Schedules 1 and 2.

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October 23, 1963
Legal Department

LOAN NUMBER PE

GUARANTEE AGREEMENT

(Huinco II Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT

Dated November , 1963

GUARANTEE AGREEMENT

AGREEMENT, dated November , 1963, between REPUBLIC OF PERU (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Lima Light and Power Company (Empresas Electricas Asociadas) (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement, the Bank has agreed to make to the Borrower a loan in various currencies equivalent to fifteen million dollars ($15,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, subject, however, to the modifications thereof set forth in Schedule 3 to the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein. The terms defined in said Loan Agreement shall have the same meaning as if such definitions were fully set forth herein.

ARTICLE II

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

ARTICLE III

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

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including the Banco Central de Reserva del Peru.

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

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

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

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

Section 3.04. This Agreement, the Loan Agreement, the Fifth Supplemental Indenture and the Debentures of the Series F shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Debentures of the Series F shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3.06. The Guarantor covenants that it will not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations contained in the Loan Agreement and will take or cause to be taken all reasonable action which shall be necessary in order to enable the Borrower to perform such covenants, agreements and obligations.

ARTICLE IV

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

ARTICLE V

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

For the Guarantor:

Ministerio de Hacienda y Comercio
Lima, Peru

Alternative address for cablegrams and radiograms:

Minhacienda
Lima, Peru

For the Bank:

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

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D.C.

Section 5.02. The _Ministro de Hacienda y Comercio_ of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PERU

By ______________________
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By ______________________
President

3

STATUTORY LOAN COMMITTEE REPORT

To: The President, International Bank for Reconstruction and Development

Report of Loan Committee under Section 4 (iii) of Article III of the Articles of Agreement on the Proposed Loan (Huinco II Project) to Lima Light and Power Company (Empresas Electricas Asociadas) to be guaranteed by the Republic of Peru.

The undersigned Committee constituted under Section 7 of Article V of the Articles of Agreement of International Bank for Reconstruction and Development (the Bank) hereby submits its report pursuant to Section 4(iii) of Article III of said Articles in respect of the proposal that the Bank grant to Lima Light and Power Company (Empresas Electricas Asociadas) a loan in an amount in various currencies equivalent to U.S.$15,000,000 which loan is to be guaranteed by the Republic of Peru. The purpose of said loan is to assist in the financing of the Second Stage of the Marcapomacocha Diversion Scheme, of the Second Stage of the Huinco Hydroelectric Power Plant and of the expansion of electric power distribution facilities.

1. The Committee has carefully studied the merits of the proposal to grant such a loan, and of the purposes to which the proceeds of the loan are to be applied.

2. The Committee is of the opinion that the project toward the financing of which the proceeds of such loan are to be applied comes within the purposes of the Bank as set forth in Article I of said Articles of Agreement, and that said project is designed to promote the development of the productive facilities and resources of the Republic of Peru and is in the interests of the Republic of Peru and of the members of the Bank as a whole.

3. Accordingly, the Committee finds that said project merits financial assistance from the Bank, and hereby recommends said project for such assistance.

COMMITTEE

/s/ G.M.Wilson
Vice President

/s/ C. Gibson
Expert selected by Governor for Peru

/s/ Orvis A. Schmidt
Director,
Department of Operations Western Hemisphere

/s/ A. Broches
General Counsel

/s/ H.B.Ripman
Assistant Director
Department of Technical Operations

/s/ Robert W. Cavanaugh
Treasurer

Dated at Washington, D.C.

November 13, 1963

4

RESTRICTED
Report No. TO-383a

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

APPRAISAL OF THE SECOND STAGE OF THE HUINCO HYDROELECTRIC PROJECT

PERU

November 13, 1963

Department of Technical Operations

CURRENCY EQUIVALENTS

US $1	=	27 Soles
1 Sol	=	$0.037
1 Million Soles	=	$37,037

APPRAISAL OF THE SECOND STAGE OF THE

HUINCO HYDROELECTRIC PROJECT

PERU

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APPRAISAL OF THE SECOND STAGE OF THE

HUINCO HYDROELECTRIC PROJECT

PERU

SUMMARY

i. Lima Light and Power Company - Empresas Electricas Asociadas (Lima Light) has asked the Bank to consider a loan of $15 million equivalent to help finance the construction of the second stage (120 MW) of the Huinco hydroelectric plant, the second stage of the associated Marcapomacocha diversion scheme, and expansion of its distribution system. The total cost of this project is estimated at $30 million equivalent. The first stage of the project was financed by a Bank loan of $24 million in 1960 and construction is proceeding on schedule.

ii. Lima Light is a privately owned public utility responsible for supplying power to the Greater Lima area and with its head office in Lima. It is controlled by a Swiss Group of public utility holding companies and Banks.

iii. The management and organization of Lima Light are good. As of March 1963, Lima Light and Hidrandina, a company controlled by the same financial group, operated generating plants with a combined capacity of 229 MW. Total power sales were 869 million kwh in 1962. Based on reasonable forecasts sales are expected to reach 1326 kwh in 1967.

iv. To meet the increase in power demand Lima Light has prepared a construction program for the years 1963 through mid-1966 and the proposed loan is to help finance this program. Because the Government is giving serious consideration to the construction of a very large hydroelectric project in Peru, which would supply power to Lima, it has not been practical for Lima Light, at this stage, to prepare plans beyond 1966. However, the program they have prepared is reasonable.

v. The project proposed for Bank financing consists of extensions to the Marcapomacocha diversion scheme, the installation of two more 60 MW units in the Huinco hydroelectric plant and appurtenant work, and the expansion of the distribution system in the Greater Lima area during the years 1963 to mid-1966. The project is technically sound and satisfactory arrangements have been made for its execution. Its estimated cost is reasonable.

vi. The present financial position of Lima Light is sound. Its power rates are satisfactory. Its earnings record is good. Under its proposed financing plan, it would finance about 44% of its requirements for the next 4 years from its own resources and sales of new share capital and the balance from borrowings including the proposed Bank loan. Financial

forecasts show that based on conservative assumptions and present rate levels, the sound financial position of the Company would be maintained in future years.

vii. The project would be suitable for a Bank loan of $15 million equivalent with a term of 25 years including a grace period of 3 years.

APPRAISAL OF THE SECOND STAGE OF THE

HUINCO HYDROELECTRIC PROJECT

PERU

I. INTRODUCTION

1. Lima Light and Power Company, Empresas Electricas Asociadas (Lima Light), has asked the Bank to consider a loan of $15 million equivalent to help finance the construction of the second stage of the Huinco hydroelectric project having a total estimated cost of $30 million equivalent. In this stage 120 MW of additional generating capacity would be installed in the Huinco hydroelectric plant, additional water would be diverted through the associated Marcapomacocha trans-Andean tunnel and the distribution system of Lima would be strengthened and extended to meet the needs of the city to mid-1966. The appraisal of the project and Lima Light's operations and finances is based on comprehensive documentation prepared by Lima Light and on information obtained by a Bank mission which visited Lima in April 1963.

2. The first stage of the project was partially financed by an earlier Bank loan of $24 million made to Lima Light in June 1960. The loan was for a term of 25 years with a grace period of five years with interest at 6%. The undisbursed balance at the end of September 1963 amounted to $7.6 million.

3. This first stage is being constructed on schedule. The Huinco plant with the initial 120 MW installation should be completed and be in operation as scheduled by the end of 1964. The Marcapomacocha diversion scheme including the main 10 km long tunnel was completed and placed in operation in November 1962 and the expansion of the distribution system has been carried out as planned.

4. Power demand has increased at a faster rate than estimated in 1960 and this has required an acceleration of the Company's construction program. A new 22.5 MW gas turbo generator unit was installed, and work on the second stages of Huinco and Marcapomacocha has to be started about one year earlier than anticipated.

5. The financing plan for the first stage of the project called for the issue, largely in foreign capital markets, of about $17 million worth of new stock and debentures, in addition to the Bank loan and substantial self-financing. Of this, about $13 million were raised, or covered by firm commitments from Lima Light's Swiss holding group, before the Bank loan was made effective late in 1960. This amount was estimated to cover the Company's cash requirements until 1963, when further issues totalling about $4 million were expected to be placed to complete the Company's financing plan through 1964. Anticipating the larger requirements resulting from the accelerated construction program the Company attempted to raise additional funds abroad as early as 1961. As public foreign issues were not

possible because of uncertainties created by political developments in Latin America. Lima Light has depended in the last two years on sales of shares in limited amounts to the local capital market and interim loans and credits from its Swiss holding group (see paragraph 9) and other sources to meet its additional cash requirements.

II. THE BORROWER

General

6. The Borrower would be Lima Light and Power Company, a privately owned public utility corporation responsible for supplying power in the Greater Lima area, with head office in Lima.

7. The Company was originally incorporated in accordance with Peruvian Laws in 1910, under the name "Lima Light Power and Tramway Company". The name was changed in 1935 to "Lima Light and Power Company" when the streetcar operations and associated properties were transferred to a new company, fully independent from Lima Light.

8. Lima Light's present concession was granted by the Peruvian Government in 1956. It is valid for a period of 50 years and it gives the Company the exclusive right for generation and distribution of power within its area of operations. This area, which was originally 336 sq. km. was increased on several occasions and by the end of 1962 covered 623 sq. km.

9. In April 1963, Lima Light had about S/. 595 million of common and about $9 million of preferred stock outstanding. About 56% of the share capital is owned by a Swiss group of public utility holding companies and banks. The balance of the shares is widely distributed with a large number held by shareholders in Peru.

Organization and Management

10. There is a Board of Directors of 15 members, including the two General Managers, and two alternate directors. A majority of the Directors is resident in Lima.

11. The General Managers, one concerned chiefly with engineering and the other with finance, are jointly responsible for the operation of Lima Light. They are assisted by seven managers, in charge of departments for planning and new works, operations, commercial services and general secretariat, general services and expansion works administration, and company administration. At the end of 1962, the Company had a total of 1,000 employees and 1,280 construction workers.

12. The Company has a good and experienced management and efficient organization. Its relationship with Peruvian authorities is good.

Associated Company

13. The financial group which controls Lima Light also hold a controlling interest in the associated Company "Energia Hidroelectric Andina (Hidrandina) S.A." This Company was established in 1946, with head office in Lima, for financing, construction and operation of power plants. The installations owned by Hidrandina are part of the Lima Light power system. Pursuant to a long term renewable contract, Lima Light purchases all power generated by Hidrandina and pays amounts sufficient to cover the total cost of operations as determined by the Peruvian Electric Industry Law.

14. The contract renews itself automatically and gives Lima Light an option to purchase the assets of Hidrandina. Its terms are reasonable and adequately safeguard the interests of Lima Light.

Existing Installations

15. The generating capacity of the system in March 1963 was 229 MW, installed in three hydro plants and one thermal plant as follows:

Plant	Capacity	Owner
Santa Rosa thermal	67.6 MW	Lima Light
Callahuanca hydro	67 MW	Lima Light
Huampani hydro	31.4 MW	Hidrandina
Moyopampa hydro	63 MW	Hidrandina

There are also two small old hydro plants totalling 10 MW.

16. The Santa Rosa Thermal plant consists of a steam plant and a gas turbine plant. The steam plant, with a capacity of 14 MW, includes a new boiler, two turbine units of 5.5 MW each, built in 1925 and recently overhauled and a 3 MW turbine. The gas turbine plant consists of four groups with a total rated capacity of 53.6 MW. The first group of 10 MW started operation in 1949. In 1960 and 1961, two additional groups of 10.7 MW each were installed. In 1962 a fourth unit, with 22.2 MW capacity, started operating. The Santa Rosa thermal plant is within the area of the city of Lima.

17. The three hydro plants are located on the Santa Eulalia and Rimac Rivers. Seasonal regulation of the Santa Eulalia River is provided by a number of upstream reservoirs with a total capacity of 75 million cu.m. The water volume for the above-mentioned hydro plants was increased in 1962 by the water caught and regulated on the eastern slope of the Andes and led to the Santa Eulalia River through the tunnel which forms part of the first stage of the Marcapomacocha project. The first stage of the Huinco hydroelectric plant of 120 MW, also on the Santa Eulalia River, is currently under construction.

18. The transmission network consists of 314 km of 64 kv lines and 60 km of 30 kv lines. The primary distribution system consists of 69 km of 64 kv overhead lines and 16 km of 64 kv underground three-phase cable,

supplying the transformer stations which have a total capacity of 239 MVA. The secondary distribution network consists of:

Overhead Lines	Underground Cables	Voltage
69 km	-	30 kv
394 km	812 km	10 and 2.3 kv
781 km	1946 km	220 v

It includes six transformer stations, 538 substations, 94 cabins and 493 pole transformers.

19. A part of the distribution network is defined by law as public property but it is operated and maintained by Lima Light. This applies to certain primary lines, distribution transformers, low tension feeders and house connections excluding meters. These works are financed partly from direct payments by consumers and partly from an extension fund administered by the Company. Lima Light is permitted under present rate legislation to charge as operating costs its annual contributions to this extension fund.

20. Total energy production by the Lima Light system in 1962 amounted to 995 million kwh. Losses in the system including the Company's own consumption, were 12.6%. The yearly average load factor of the system was 54.42%. The system is well maintained and operated.

III. POWER MARKET

21. In 1961 the population of greater Lima was 2,140,000 with a rate of growth that would bring it to three million in 1968. The area served by Lima Light contains about 20% of the total population of Peru. It is the main administrative, commercial and industrial center of the country. The total number of consumers at the end of 1962 was over 226,000. The main industries served include plants producing cement, rubber goods, vegetable oil, textiles, paper, metallurgy, fertilizers, to which, in the last few years, the very important fishmeal industry has been added.

22. Total power sales during the last four years were as follows:

		% increase
1959	619 million kwh	9.79
1960	697 million kwh	12.64
1961	788 million kwh	13.09
1962	869 million kwh	10.28

The peak load during the same period increased from 155 MW to 208 MW. (See Annex 1.)

23. A breakdown of sales by categories during 1962 is as follows:

39.0% industrial
36.5% residential
16.5% commercial
4.8% public lighting
2.2% traction
1.0% miscellaneous

24. In the forecast of sales prepared by Lima Light (see Annex 2) an increase of 10% per year is assumed for 1963 and 1964, and of 8% for the following years up to and including 1967. On this basis sales would increase from 869.6 million kwh in 1962 to 1,326 million kwh in 1967, and the necessary generation in 1967 would reach 1,516 million kwh. In 1967 peak load would reach 324 MW. The forecasts of future sales, energy requirements, and system peak load are reasonable.

IV. CONSTRUCTION PROGRAM

25. The proposed loan would help finance the construction program planned for the years 1963 through mid-1966. This program would be in addition to the one now in progress and scheduled for completion at the end of 1964. The two programs correspond to the first and second stages of the Huinco hydroelectric plant and the associated Marcapomacocha diversion scheme together with appurtenant transmission and distribution facilities. Forecasts of capacity requirements show that completion of the first stage will keep the relatively expensive thermal generation in reserve for only about a year (see Annex 3). First stage distribution expansion completed in 1962 must be continued without pause through mid-1966.

26. The program is a reasonable one. The installation of the fourth unit at Huinco, which is part of the program, might be deferred but studies carried out by Lima Light's consulting engineers show that it would be most economical to install the third and fourth units at the same time. The resulting generating capacity of the system should be adequate to meet demand until sometime in 1969.

27. For expansion beyond 1969 Lima Light has made preliminary studies of two hydroelectric projects: (a) a 60 MW plant (Matucana) on the Rimac River in the vicinity of its present plants, and (b) a 330 MW plant which can be developed in two steps on the Huaura River 150 km north of Lima. Another possibility for expansion lies in the recent discovery of a large natural gas deposit (Aguaytia) 400 km northeast of Lima. Preliminary studies indicate that the gas could be brought to Lima at an attractive price by 1968.

28. The Government is doing preliminary work on the large Mantaro hydroelectric project, 200 km east of Lima, which could be developed up to an ultimate capacity of 2,000 MW. Even if the project were developed in stages, the first stage would provide substantial capacity which Lima, as the largest market in Peru, would largely have to absorb. The first stage of Mantaro could possibly be in operation by 1969. No comprehensive study

has yet been made to establish whether it would be economically justified to start construction of the Mantaro project at the present time. If the Mantaro project were to be built by the Government, Lima Light would have to limit new construction to expansion of its distribution system.

29. The management of Lima Light is aware of the difficulties of raising the ever increasing amounts of capital necessary for continuous system expansion. Since the management believes that the Mantaro project is too large for the present power market, it has approached the Government regarding the possibility of developing the Huaura project jointly with the Government.

30. Because of the uncertainties regarding Lima Light's long range operations it has not been practical to consider any steps for expansion beyond the present construction program which will be completed in 1966.

V. THE PROJECT

31. The project, part of which is proposed for Bank financing, consists of the following main items (see Annex 4 for technical details):

(a) Marcapomacocha Diversion Scheme, Second Stage.
(b) Huinco Hydroelectric Plant, Second Stage.
(c) Distribution System Expansion 1963 to mid-1966.

Marcapomacocha Diversion Scheme, Second Stage

32. Second stage construction would serve to collect the natural outflow of Lakes Marcapomacocha and Antacoto, by means of a 12.5 km long canal from the two lakes to the entrance of the existing diversion tunnel. Another canal would be built in the Tuctu area in order to lead the water flowing from this zone to the tunnel (see map). In order to increase the total useful storage capacity to about 90 million cu.m., concrete gravity dams would be built to regulate the outflow of the Lakes Marcapomacocha and Antacoto. The two lakes would be connected by a 200 meter long tunnel. In addition, a 4.5 km long canal would divert into Lake Antacoto, the natural outflow of Lakes Yantac, Ancococha, Capicancha and Marcacocha. After the second stage is completed the minimum diversion flow through the main tunnel would be increased from 2 cu.m./sec. to 6 cu.m./sec.

33. The second stage of the Marcapomacocha Scheme would increase generation in existing power plants by 450 million kwh yearly. At the same time, it would also increase the drinking water supply to Lima and make possible the irrigation of 5,000 hectares of arid land south of Lima.

Huinco Hydroelectric Plant, Second Stage

34. The first stage of the Huinco Hydroelectric Plant is being built on the Santa Eulalia River, 65 km east of Lima. Its principal features are a conveyance tunnel 13.5 km long and an underground powerhouse. It will be equipped with two generating units operating under a net head of 1,200

meters and rated at 60 MW each. The Sheque Dam, which was intended to provide daily regulation of flows to the plant, was not built on account of poor geological conditions at the dam site.

35. The proposed second stage of construction is intended to utilize the full potential of the Santa Eulalia River flow as increased by the diversion of waters from the eastern slope of the Andes after completion of the second stage of the Marcapomacocha Scheme. The third and fourth generating units would be installed at the Huinco powerhouse, with identical characteristics as those installed during the first stage and total generating capacity of the plant would reach 240 MW. The plant would also be equipped with six additional step-up transformers, each with a capacity of 28.3 MVA. At the Santa Rosa receiving station in Lima, six additional step-down transformers would be installed, each of 28.3 MVA and additional load dispatching and communication equipment would be provided.

36. This stage would also include the construction of a rockfill dam at Sheque near the original site to provide daily regulation and another small dam at the tailwater of the plant to reregulate flows. These facilities would enable Huinco to operate as a peaking plant at its full 240 MW capacity during dry seasons and make possible release of water so that downstream plants could use the largest possible volume of the flows for base load operations. The upstream reservoir of about 500,000 cu.m., would be formed by an earth and rock dam about 27 m. high. Due to the pervious nature of the stream bed the entire area of the reservoir may have to be lined with asphalt and the estimates are made to reflect this contingency. Plans for the downstream reservoir are less well developed pending completion of foundation explorations, but the dam would be low and no serious problems are foreseen. Extensive lining may also be required for this reservoir.

Distribution System Expansion 1963 to mid-1966.

37. The strengthening and expansion of the Lima distribution system is a continuous operation and the work contemplated for the years 1963 to mid-1966 which is part of the proposed project, would consist of the following principal items:

(a) Six transformer stations at 64/10 kv with total installations of 117 MVA. Four of these would be new stations and the others would be enlargements of existing stations.

(b) One new main transformer station at 220/64 kv, 85 MVA, to be the first step in a 200 kv ring circuit.

(c) Two new main substations totaling 13 MVA.

(d) About 120 new substations at 10 kv/220 v, averaging 275 kva.

(e) Nine km of 220 kv transmission lines.

(f) 20 km of overhead and underground 64 kv feeder lines.

(g) 400 km of 10 kv overhead and underground cables.

(h) Improved communication system.

(i) Connections for 45,000 new customers including watt-hour meters.

Design and Engineering

38. The design of all items of the proposed project have been prepared by Lima Light's own engineering staff, a small group of experienced and well qualified engineers. Because of the size of the Huinco plant, the company retained the services of the Swiss consulting firm Motor Columbus to review the plans, prepare the detailed design and assist in the supervision of construction works. Motor Columbus will have the same responsibilities in connection with the second stage. Geological surveys, drillings, and other studies have been started and will continue in order to reach the final decisions regarding foundation treatment for the two reservoirs. It is the intention of Lima Light to employ a specialized firm for the final interpretation of the drillings. Motor Columbus will prepare the final plans. The design of the Marcapomacocha works and the distribution system expansion is carried out by Lima Light's own engineering staff.

Construction

39. The Company's chief engineer, would continue to have responsibility for the execution of the works and for supervision of construction assisted by the resident engineer of Motor Columbus. The civil works would be carried out by local contractors chosen on the basis of competitive bidding. All construction equipment and materials required for the project would be purchased by Lima Light. For important items of machinery and equipment purchase arrangements would be made by Motor Columbus. International bidding procedures would be used for machinery and equipment except for the two alternators, for which contract has already been placed and a credit obtained from the supplier.

Schedule of Construction

40. The construction schedule prepared by Lima Light shows the coordination of the second stages of the Marcapomacocha scheme and of the Huinco plant and the completion of both by mid-1966. The last generating unit in the powerhouse would be tested and on the line by about the middle of 1966. Expansion of the distribution system would be carried out at a uniform rate through the years 1963 to mid-1966. The construction schedule is reasonable.

Cost Estimates

41. The cost of the project is estimated as follows (see Annex 5 for details):

	Foreign Exchange Million $	Local Currency Million Soles	Total Million $
Marcapomacocha Second Stage			
Civil Works	1.13	104.00	4.99
Contingencies	0.12	18.60	0.81
Total	1.25	122.60	5.80
Huinco Second Stage			
Civil Works	1.11	78.90	4.03
Equipment	3.31	20.46	4.07
Alternators	0.96	3.00	1.07
Contingencies	0.57	16.20	1.17
Engineering Fees	0.40	-	0.40
Total	6.35	118.56	10.74
Distribution System 1963-1966			
Civil Works and Equipment	6.75	102.60	10.55
Contingencies	0.65	9.72	1.01
Total	7.40	112.32	11.56
Interest During Construction	1.00	27.00	2.00
Grand Total	16.00	380.48	30.10

42. The proposed loan of $15 million would cover total foreign exchange costs, except for the two alternators. In addition, the loan would cover estimated interest charges on the Bank loan during the construction period.

43. The estimated costs of the civil works are based on wages and prices of construction material in effect at the end of 1962. Equipment costs are based on quotations obtained from qualified manufacturers and include allowances for freight, insurance and other charges. Contingency allowances have been considered both on foreign exchange costs and on local currency costs. The allowances have been computed at various rates, with a maximum of 20% for the two Huinco reservoirs for which detailed geological data have yet to be obtained. The estimates were prepared by Lima Light which has had extensive experience in this type of work. The work on the first stage of the project provided an unusually good basis for the estimates. They are adequate and reasonable.

44. The unit cost of the Huinco project, including both stages, would be $264 per installed kilowatt. This is a reasonable cost considering that the Huinco plant would provide firm peaking power for the system and increase the output of existing installations downstream.

45. The cost of power produced by the project and delivered to the main substation in Lima would be S/. 0.20/kwh (7.5 mills/kwh) based on

operation and maintenance costs of Lima Light's existing hydro plants, straightline depreciation at 3%, and an average cost of capital of 8%.

VI. FINANCIAL ASPECTS

Electric Power Legislation

46. The supply of electric power in Peru is regulated by the Electric Industry Law of July 1955. The law's provisions regarding power rates and financial policies are sound, in accordance with its stated purpose to stimulate private investment in the industry. (A summary of the main provisions is given in Annex 6.)

47. Power rates are established by the National Tariff Commission, which consists of seven members appointed by the President according to rules designed to ensure the competence of the members and a reasonable degree of independence of the Commission. Rate revisions and revaluations of assets are made every three years or, at shorter intervals, at the request of either the Minister of Development and Public Works or the Concessionaire, if existing rates generate more or less than the permitted return.

48. Installations are revalued by appraisal on the basis of replacement costs. Corresponding adjustments are made in the Concessionaire's accounts for depreciation reserves, foreign currency obligations and equity.

49. Costs which can be charged to operations include all operating expenses, purchased power, straightline depreciation at rates established by the National Tariff Commission (with a maximum of 5% annually), interest, taxes, and exchange losses on amortization of foreign debt, if any. The permitted return is 11½% on common share capital and reserves invested in the business. This return consists of an 8½% dividend to be distributed to the shareholders, and of a 3% "commercial profit". Preferred share capital is entitled to a dividend of 8% and a commercial profit of 1½%. Dividends and interest are tax exempt. The commercial profit is subject only to taxes in existence when the law became effective, in fact a 20% profit tax.

50. The present rates of Lima Light, last increased in April 1962 by about 25%, are satisfactory. Over the last few months they resulted in an average revenue of about S/. 0.60/kwh (US mills 22.2/kwh). (Details of present rates and typical monthly bills are given in Annex 7.)

Present Financial Position

51. The financial statements of Lima Light are audited by Price, Waterhouse, Peat and Company.

52. Condensed balance sheets for the years ended December 31, 1958 through 1967 are shown in Annex 8. As of December 31, 1962, fixed assets valued at replacement cost totalled S/. 2,581 million ($95.6 million). Deducting the depreciation reserve of S/. 671 million ($24.9 million), net

fixed assets were S/. 1,910 million ($70.7 million). After the Electric Industry Law became effective, assets in operation have been revalued three times; in 1955-1956 by almost 100%, in 1959 by 27% and in 1961 by 14%.

53. The capitalization at the end of 1962 resulted in a debt/equity ratio of 48/52, as shown below (in millions):

Equity Equivalent	Soles	Dollars	Percent of Total
Share Capital: 28,035,114 ordinary shares Soles 20 par	560.7	20.8	
899,340 preferred shares Dollars 10 par	241.2	8.9	
Provisional Certificates for Capital Increase	22.5	0.8	
Retained earnings (net of dividends payable)	77.5	2.9	
Exchange Equalization Account	65.0	2.4	
Total	966.9	35.8	52.0
Debt			
Dollar Sinking Fund Debentures			
Series A, 7%, due through 1972	130.6	4.8	
Series B, 7%, due through 1973	144.5	5.4	
Series C, 7%, due through 1975	157.0	5.8	
Series D, 6%, due through 1985* (IBRD Loan 260 PE)	384.0	14.2	
Sub-total: funded debt	816.1	30.2	
less: current portion	27.6	1.0	
	788.5	29.2	42.4
Swiss Banks' credits, 6%, due 1964 and 1965	31.9	1.2	
Advances from Associated companies, 7% to 8%	48.3	1.8	
Suppliers' credits due 1964 through 1967, 6½%	24.2	0.9	
Sub-total: other debt	104.4	3.9	6.4
Total debt	892.9	33.1	48.0
Total Capitalization	1,859.8	68.9	100.0

* Includes amount of loan drawn down but not fully covered by issuance of debentures (see paragraph 58).

54. In the three year period through December 31, 1962, ordinary share capital increased by S/. 183.8 million to S/. 560.7 million. This increase resulted from the sale of new shares, S/. 33.1 million in 1960, the distribution of stock dividends out of surplus, S/. 31.7 million in 1962, and the 1962 revaluation, amounting to S/. 51.5 million; the S/. 67.5 million balance reflected the conversion into ordinary shares, at the rate of S/. 22.5 million a year, of provisional certificates issued for the amount of the 1956 revaluation. The last tranche of provisional certificates has since been converted into ordinary shares. The ordinary shares are quoted in Lima.

55. The 8% preferred shares were sold in Switzerland and Peru in two issues, \$6 million in 1960 and \$3 million in 1962. They are quoted in Zurich and Lima.

56. Reserves and surplus totalled about S/. 142.5 million consisting of S/. 77.5 million of free reserves and surplus and of a S/. 65 million credit balance in an exchange equalization account. This credit represents the amount by which surplus from revaluations of assets exceeded exchange differences having arisen from the restatement of foreign currency liabilities at current exchange rates.

57. The funded debt, entirely in foreign exchange, was issued under an indenture dated July 1, 1957 (Series A), and supplemental indentures dated November 1, 1958 (Series B), March 1, 1960 (Series C) and September 15, 1960 (Series D). A summary of the main provisions is given in Annex 9. The first three series, A to C, were placed in Switzerland, largely with the holding group controlling Lima Light, and, to a lesser extent, in Peru where they are widely distributed. They are quoted in Zurich and Lima. The third supplemental indenture covers the issue of Series D debentures for the amounts withdrawn under IBRD Loan 260 PE.

58. All issues, including the existing Bank loan, are secured by a first floating charge on all property, present and future. The same security would be obtained in connection with the new Bank loan (Series F). The issue of additional debentures is limited, under the indenture, by earnings and assets tests which require (a) that actual net income for a recent twelve month period be at least 150% of annual interest charges on existing and proposed debentures, and (b) that net tangible assets at the time of the proposed issue be not less than 150% of debentures and other funded debt outstanding and proposed. Under the present arrangements for Loan 260 PE Lima Light delivers debentures meeting these tests as required from time to time by the Bank. The same procedure would be followed in connection with the proposed loan.

59. Other debt included: (a) a Sw.F. 5 million (S/. 31.9 million) loan obtained in 1962 from a group of Swiss banks, at 6% interest, repayable in two equal tranches September 1, 1964 and 1965, unless funded by issues of debentures, (b) advances from associated companies of about S/. 48.3 million, at 7% to 8% interest, which were converted to Series E debentures earlier this year and (c) a 6½% credit from Brown Boveri and Company, for Sw.F. 3.9 million (S/. 24.2 million), covering the purchase of turbo gas generating equipment, and payable in installments over a five year period starting 1962.

60. Lima Light's current position has deteriorated in the last two years, reflecting difficulties experienced in obtaining the long term financing required in connection with its program. As of December 31, 1962, current assets were S/. 165.5 million and current liabilities were S/. 189 million, resulting in a negative position of about S/. 23.5 million. This situation, which is not serious in view of the availability to the company of short term credits from local and foreign Banks as well as the Swiss holding group, should improve substantially starting 1963, as provided for in the proposed financing plan.

Earnings Record

61. Lima Light's earnings record is good, as evidenced by the summarized income statements for the year 1958 through 1962 shown in Annex 10. Straightline depreciation was charged at conservative rates of about 4% annually on the replacement value of assets. Net income before interest rose from S/. 45.5 million in 1958 to S/. 111.0 million in 1962, reflecting increases over the four year period of 55% in sales and about 23% in average revenues per kwh sold. The return on net fixed assets in operation ranged between 10.4% and 13.2%. It was 10.4% in 1962, based on assets revalued in 1961 and on net income not yet fully reflecting the April 1962 rate increase (see paragraph 50).

62. The Company has a long record of dividend payments. Up to 1956, cash dividends of 7% on the par value were paid for several years. Starting in 1956 dividends were paid net of taxes at the rate of 8½%, in accordance with the provisions of the Electrical Industry Law. In addition stock is distributed from time to time to incorporate into share capital the revaluations of assets and retained earnings (see paragraph 54).

Financing Plan

63. A forecast of sources and application of funds for the five years through 1967 is shown in Annex 11. In the four year period ending 1966, during which the two stages of Huinco and the second stage of Marcapomacocha would be completed, capital expenditure, including interest during construction, would total about S/. 1,296 million. Providing for additional working capital of about S/. 127 million, as further discussed in paragraph 72 below, would bring the period's requirements to about S/. 1,423 million as follows (in millions):

	1963	1964	1965	1966	Total 4 years	
	------------Soles------------				Soles	$ equiv.
Huinco Stage I	264.0	55.0	4.0	-	323.0	12.0
Huinco Stage II	25.0	60.0	178.0	27.0	290.0	10.7
Marcapomacocha Stage II	14.0	70.8	71.8		156.6	5.8
Distribution	86.4	89.5	93.0	110.0	378.9	14.0
Interest during construction	46.8	62.3	29.6	8.4	147.1	5.5
Additions to plant	436.2	337.6	376.4	145.4	1,295.6	48.0
Net additions to working capital	92.7	22.5	(22.2)	34.0	127.0	4.7
Total	528.9	360.1	354.2	179.4	1,422.6	52.7

64. Under the proposed plan, Lima Light would finance about 44% of its requirements from its own resources, contribution from customers, advances from Hidrandina and sales of share capital; the balance, of 56%, would be from borrowings. This plan is summarized below (in millions):

	1963	1964	1965	1966	Total 3 years Soles	$ equiv.	% of Total
	-----------	Soles	-----------				
Internal cash generation	212.6	237.1	332.9	361.5	1,144.1	42.4	
less: interest charged to operations	30.2	24.8	62.2	85.0	202.2		
amortization	27.6	52.3	70.5	76.2	226.6		
cash dividends and bonus	75.6	85.3	87.2	90.0	338.1		
taxes and financial expenses	15.7	13.7	11.6	11.9	52.9		
Sub-total: deductions	149.1	176.1	231.5	263.1	819.8	30.4	
Net internal cash generation	63.5	61.0	101.4	98.4	324.3	12.0	22.8
Contributions from customers	28.8	34.8	32.7	36.0	132.3	4.9	9.2
Advances from Hidrandina	14.8	14.7	14.5		44.0	1.7	3.2
Sales of shares: common		95.0			95.0	3.5	6.7
preferred	27.0				27.0	1.0	1.9
Sub-total: own resources	134.1	205.5	148.6	134.4	622.6	23.1	43.8
Borrowings							
Existing IBRD Loan 260 PE	208.5	52.0	5.0		265.5	9.8	18.6
Proposed IBRD Loan	77.1	102.6	180.3	45.0	405.0	15.0	28.5
Series E, 6½% debentures	157.5				157.5	5.8	11.1
less: funding of holding group advances	(48.3)				(48.3)	(1.8)	(3.4)
Supplier's credit			20.3		20.3	.8	1.4
	394.8	154.6	205.6	45.0	800.0	29.6	56.2
TOTAL	528.9	360.1	354.2	179.4	1,422.6	52.7	100.0

65. The borrowings contemplated are:

(a) about $9.8 million (S/. 265.5 million), the balance of Loan 260 PE still available at the end of 1962;

(b) the proposed new Bank loan of $15 million (S/. 405 million), assumed for forecast purposes to carry interest at 5½% and a term of 25 years, including a 3 year grace period;

(c) a credit from Brown Boveri, of about S/. 20 million covering the purchase of two alternators and repayable through 1967 (see paragraph 39);

(d) an issue of Series E, $6\frac{1}{2}\%$, 15 year debentures totaling Sw.F. 25 million ($5.8 million).

66. The Swiss Group has already taken up or placed about Sw.F. 23 million of the Series E debentures; the Sw.F. 2 million balance is expected to be placed in the near future. Of the Sw.F. 23 million already subscribed about Sw.F. 13 million were sold for cash; the balance was used to fund advances (S/. 48 million) and short term credits (S/. 7 million) from the Swiss Group, which were made in anticipation of new issues of debentures or stock. The amount funded also includes advances from the Group to Hidrandina which Lima Light had assumed in 1962 in exchange for cash contributions as indicated in paragraph 68 below.

67. Internal cash generation, net of interest chargeable to operations, amortization and cash dividends would amount to S/. 324 million or slightly under 23% of total requirements.

68. By contract, signed September 1960 as a condition of effectiveness for loan 260 PE, Hidrandina is obligated to make available to Lima Light all of its net internal cash generation through 1965, first to repay earlier advances from Lima Light, and second to make long term advances to Lima Light to aid in financing the first stage of the Huinco and Marcapomacocha projects. Lima Light received about S/. 22.5 million in 1960, as settlement of earlier advances and about S/. 15 million in 1962, against take over of an equivalent amount of Hidrandina's liabilities to the Swiss Group (to be funded this year along with most of Lima Light's short term debts to the Group as indicated in paragraph 70 below). Another S/. 44 million are expected to be provided, as long term advances, in the three years through December 31, 1965.

69. Connection charges from customers are expected to generate about S/. 132 million, or about 9% of the period's requirements.

70. New share capital would be issued for S/. 122 million: S/. 27 million ($1 million) in the form of 8% dollar preferred stock and S/. 95 million ($3.5 million) in the form of common stock. The preferred stock issue was sold recently, entirely in Peru. The management of Lima Light expects to be able to sell the common stock next year: about one third to local investors in Peru, the balance to the Swiss Group.

71. It is not unreasonable to expect that Lima Light can raise the $3.5 million equivalent of common stock still required to complete its financing plan. This view is based on the Company's good financial record, made possible by a satisfactory implementation of the Electrical Industry Law, and on past experience including the sale, within the last twelve months, of $9 to $10 million of preferred stock and debentures to the Swiss Group and local investors.

72. Furthermore, as already indicated in paragraphs 60 and 63, the financing plan contemplates substantial additions to the Company's working capital, starting with about S/. 93 million in 1963 and accumulating to a net increase of S/. 127 million in 1966. As a result, a positive current position would be restored starting this year, with current assets exceeding current liabilities by at least S/. 21 million (in 1965) and up to S/. 49 million (in 1964) in each year through 1966. This, together with the increased amount that the Company could borrow prudently from the various foreign and local sources available, should provide an adequate contingency against possible delays in raising the common stock or a shortfall in revenues.

Estimated Future Earnings

73. Forecast income statements for the five years through 1967 are shown in Annex 10. Net income before interest is expected to increase from S/. 111 million in 1962 to S/. 223 million in 1967, based on existing rates and a conservatively assumed increase in power sales. The return on net fixed assets in operation, at replacement value, would average about 8.6%. It would decrease from 13% in 1963 to 7.3% in 1964, reflecting the commissioning of Huinco I, and would gradually increase after 1965 to reach 9.2% in 1967. These returns are satisfactory.

74. Net income before interest would be at least twice the interest charges of the corresponding year except in 1963 and 1964, when the coverage would be 1.8 times and 1.7 times respectively. Similar coverages of debt service by internal cash generation would be obtained (see Annex 11).

Future Financial Position

75. The debt/equity ratio would change from 48/52 at the end of 1962 to 55/45 in 1963 and 56/44 in 1965. It would gradually improve after completion of the program, reaching 53/47 in 1967 as shown in Annex 8.

Performance Under Debt Limitation Tests

76. Based on the past financial results and the forecasts used in this report, the new debentures to be issued from time to time in connection with Lima Light's present program will meet the 150% earnings and net tangible assets tests in the indenture.

VII. CONCLUSIONS

77. The project to be carried out by Lima Light and proposed for Bank financing, is technically sound. The estimated cost of the project is reasonable.

78. The project is necessary to provide the capacity required to meet the conservatively estimated increase in power demand in the area served.

79. The management of Lima Light is good. Its staff with the assistance of the consultants already retained, is well qualified to execute the project.

80. The earnings of Lima Light are good and its financial position is sound. The forecasts prepared show that this satisfactory situation would be maintained in future years. The financing plan for the period through 1966 is based on reasonable estimates of internal cash generation and on sources of funds firmly assured, except for about $3.5 million equivalent of common stock expected to be issued next year, and for a relatively small balance still to be raised under an issue of debentures presently under way. It is reasonable to expect that the funds still required to complete the financing plan will be raised as required. The expected improvement of its current position and the ready availability of short term credit facilities, provide Lima Light with adequate contingencies for a satisfactory completion of its financing plan.

81. The project would form a suitable basis for a Bank loan of $15 million equivalent with a proposed term of 25 years, including a grace period of 3 years.

November 13, 1963

LIMA LIGHT AND POWER COMPANY

Records and Forecasts of Operations

RECORDS	1958	1959	1960	1961	1962
Total Sales (million/kwh)	564	619	697	788	870
Losses including own consumption	90	100	111	113	125
Total Generation	654	719	808	901	995
Hydro	633	707	795	864	911
Thermal	21	12	13	37	84
Peak Load (MW)	140	155	173	192	208
Load Factor (%)	53.3	52.7	53.2	53.2	54.4

FORECASTS	1963	1964	1965	1966	1967
Total Sales (million/kwh)	957	1053	1137	1228	1326
Loss including own consumption	138	151	163	176	190
Total Generation	1095	1204	1300	1404	1516
Callahuanca hydro	390	390	340	340	350
Moyopampa hydro	370	370	335	340	350
Huampani hydro	150	150	120	120	130
Huinco hydro		60	505	604	686
Santa Rosa thermal	185	234	-	-	-
Peak Load (MW)	233	257	278	300	324
Load Factor (%)	53.2	53.8	53.0	53.8	53.2

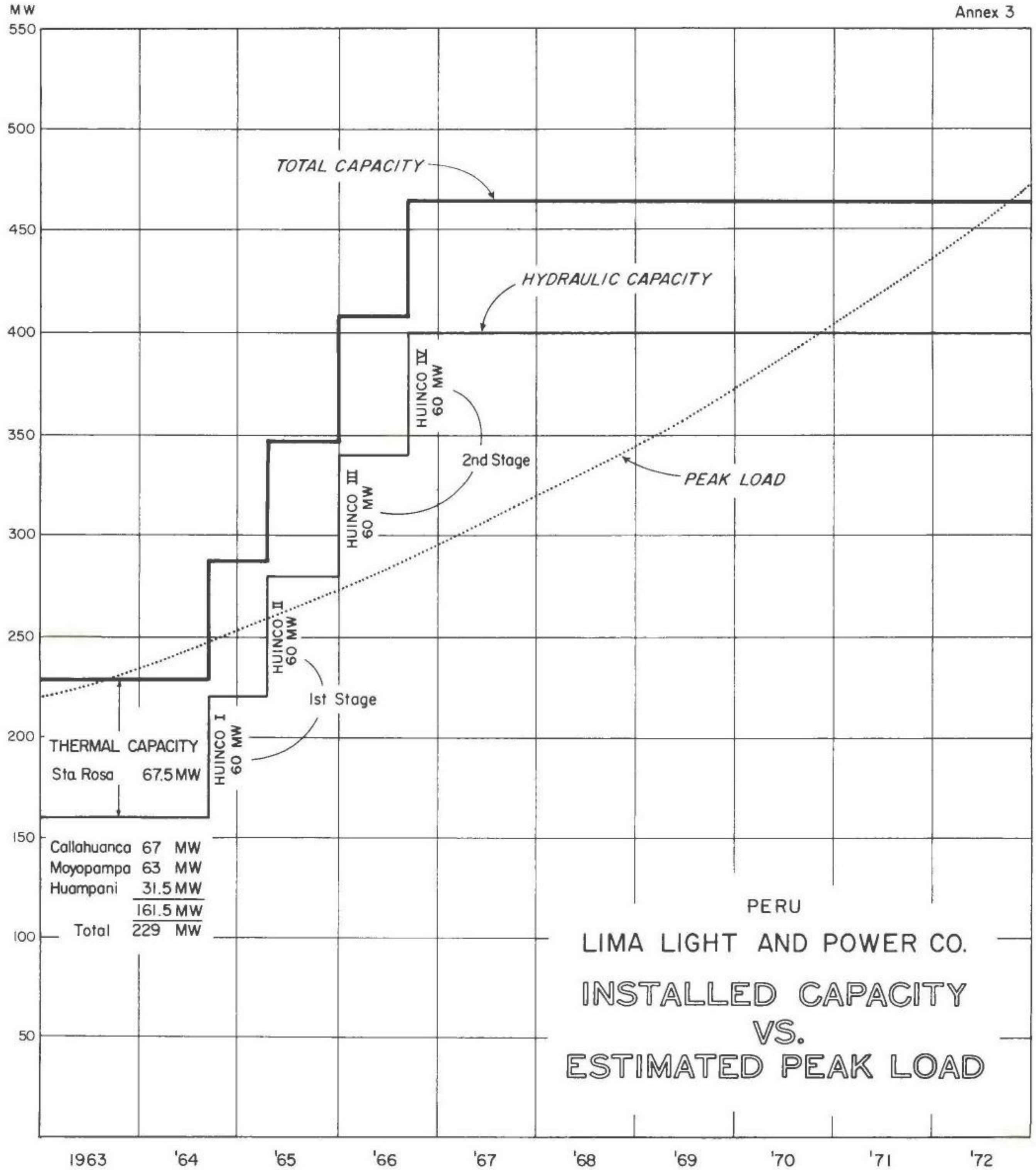
Note: The hydro generation has been estimated on the basis of average stream flow and a reasonable program of operation of individual units.

LIMA LIGHT AND POWER COMPANY

Actual and Forecast Sales of Energy 1958-1967

RECORDS (in millions of kwh)	1958	1959	1960	1961	1962	% 1962
Residential supply	228.7	249.1	280.1	306.5	317.0	36.5
Commercial supply	48.3	55.6	62.4	96.6	143.4	16.5
Industrial supply	229.4	258.5	291.0	319.4	338.8	39.0
Traction	25.2	21.6	24.2	21.0	19.2	2.2
Public lighting	31.3	33.4	37.5	41.0	41.9	4.8
Various	1.1	1.6	1.8	3.5	8.7	1.0
Total	564.0	619.8	697.0	788.0	869.0	
Annual Increase (%)	7.2	9.8	12.6	13.1	10.3	

FORECAST (in millions of kwh)	1963	1964	1965	1966	1967
Residential supply	366	403	435	470	508
Commercial supply	190	205	218	232	247
Industrial supply	330	270	407	445	486
Traction	20	20	18	17	17
Public Lighting	49	53	57	61	65
Various	2	2	2	3	3
Total	957	1053	1137	1228	1326
Annual Increase (%)	10	10	8	8	8



JULY 1963

IBRD-1169R

LIMA LIGHT AND POWER COMPANY

Huinco Hydroelectric Project
Second Stage

Details of the Project

Marcapomacocha Diversion

Tuctu Canal

Concrete lined 4 km long from Tuctu Creek to Antacasha intake which was built in the first stage.

Conveying Canal

Concrete lined 12.5 km long with 12 cu.m./sec. capacity from Marcapomacocha Reservoir to the entrance well of the trans-Andean tunnel which was built in the first stage.

Marcapomacocha Dam

Concrete gravity type, 47 m long, 11 m high with two bottom outlets and spillways at each end.

Antacota Dam and Tunnel

Five concrete gravity type dams totaling 344 m long and varying from 2.5 to 16 m high; and a lined tunnel 160 m long and 2.2 m diameter connecting the reservoirs formed by Antacota and Marcapomacocha Dams.

Marcacocha-Antacota Canal

Concrete lined 4.5 km long with 12 cu.m./sec. capacity carrying the outflows of four lakes into the Antacota reservoir.

Huinco Hydro Plant

Powerhouse Equipment

2 twin Pelton turbines, horizontal axis, flow volume 6.25 cu.m./sec.
2 alternators, 85 MVA, power factor 0.76, generation voltage 12.5 kv.
6 transformers, 28.3 MVA, 12.5/220 kv with protection equipment.

Santa Rosa Receiving Station Equipment

6 transformers 28.3 MVA, 220/60 kv with appurtenant equipment.

Compensation Reservoir at Intake

500,000 cu.m. volume formed by dam 27 m high. Type of dam still under study but probably will be rockfill type with grouted cutoff or with asphalt lining over entire reservoir area.

Reregulating Reservoir

Design still under study but probably will be a low concrete gravity type with grouted cutoff.

Distribution System

Transformer Stations

Santa Marina: Existing station fed at 10 kv to be changed to a 64/10 kv station with a new 64/10 kv, 25,000 KVA transformer.

La Regla: New station with one 64/10 kv, 17,200 KVA transformer.

Garagay: Initial construction to feed La Regla. Later will be developed to 220 kv.

Mirones: Dismantle old 30/10 kv installation and expand existing 64/10 kv installation.

Miraflores: Existing 10 kv station developed to 64/10 kv with 2 new 25,000 KVA transformers.

Galvez: New station, 64/10 kv, 25,000 KVA transformer.

New Main Station: 220/64 kv, 85 MVA transformer.

Transmission and Other Work

Barsi-Santa Marina: 4 km overhead line, 64 kv, on wooden poles.

Balnearios-Miraflores: 7 km, underground oil cable, 64 kv.

Santa Rosa-Galvez: 8.4 km underground oil cable, 64 kv.

Santa Rosa-New Main Station: 9 km overhead line on steel towers and 40 km underground oil cable, all 220 kv.

Other Work: Two main substations (Maranga and Barranco) fed at 10 kv and 30 kv respectively with top demands at 3,000 and 10,000 KVA respectively; 120 new substations, 10kv/220 v averaging 274 KVA; 150 km underground cable at 10 kv; 240 km underground cable at 220 v; cables for 30 kv, 2.3 kv, and 220 v overhead lines; communication system including six emergency mobile units; underground and overhead connections for 45,000 new customers; 45,000 watt-hour meters.

LIMA LIGHT AND POWER COMPANY

Huinco Hydroelectric Project
Cost Estimate - Second Stage

	Foreign Exchange Million $	Local Currency Million Soles	Total Million $
Marcapomacocha Diversion			
Preliminary Studies	0.04	1.00	0.08
Access Roads	0.09	2.70	0.19
Camps and Installations	0.27	10.15	0.65
Transport Equipment	0.05	0.15	0.05
Dams	0.33	25.00	1.26
Canals	0.35	65.00	2.76
	1.13	104.00	4.99
Contingencies	0.12	18.60	0.81
TOTAL	1.25	122.60	5.80
Huinco Hydro Plant			
Construction Equipment	0.13	3.50	0.26
Transport Equipment	0.06	0.19	0.07
Compensation Reservoir	0.55	48.35	2.34
Reregulating Reservoir	0.37	26.86	1.36
Powerhouse Equipment	1.54	10.20	1.92
Alternators	0.96	3.00	1.07
Receiving Substation	1.77	10.26	2.15
	5.38	102.36	9.17
Engineering Fees	0.40	-	0.40
Contingencies	0.57	16.20	1.17
TOTAL	6.35	118.56	10.74
Distribution System			
Transformer Stations	1.32	34.83	2.61
220 kv and 60 kv Feeder Lines	1.01	16.74	1.63
Main Substations	0.09	2.16	0.17
Substations	0.68	10.26	1.06
Distribution Nets	1.68	19.44	2.40
Communication System	0.18	1.62	0.24
New Connections	1.03	15.66	1.61
Meters	0.76	1.89	0.83
	6.75	102.60	10.55
Contingencies	0.65	9.72	1.01
TOTAL	7.40	112.32	11.56
GRAND TOTAL COST	15.00	353.48	28.10

LIMA LIGHT AND POWER COMPANY

Main Provisions of Electrical Industry Law

National Tariff Commission

Tariffs for sale of electricity are established by the National Tariff Commission which consists of seven members. The Chairman is appointed by the President of Peru for a term of four years. The other six members are appointed for two year terms and represent respectively the Department of Industries and Electricity (Ministry of Development and Public Works), the Department of Taxes, the National School of Engineering, the National Society of Industries, the Electrotechnical Association of Peru and the Association of Peruvian Electrical Companies. The terms of appointment may be extended. The members must be professionally qualified and, with the exception of the member representing the Association of Electrical Companies, must not have a direct or indirect financial interest in electric public utility enterprises.

Regular tariff revisions are carried out every three years. Additional revisions can be made at the request of either the Department of Industries and Electricity or the Concessionaire. The Commission shall reach a decision within a period of 60 days. This may be extended to 90 days in complex cases. Tariffs established by the Commission become effective after a period of 15 days unless an application for reconsideration has been made either by the Department of Industries and Electricity or the Concessionaire concerned. The Commission must act on any such application within 30 days.

Revaluation of Assets

The assets of a Concessionaire are defined to include all fixed and movable property necessary for the operation of the concession, intangible assets like promotion, surveys, options, contracts and other expenses related to the organization of the concession, interest and other financial charges during construction and working capital in an amount not exceeding three months revenues from sale of power.

At the time of each tariff revision the assets are revalued on the basis of an appraisal made by the Commission to determine the replacement value of fixed and movable property and intangible assets. Experts nominated by the Ministry of Public Works and the Concessionaire shall present to the Commission independent appraisals.

The adjustments to be made in the Concessionaire's accounts to reflect the new value of the assets shall be made in the following order:

(a) Depreciation reserves are adjusted in the same proportion as the assets are revalued.

(b) Foreign currency obligations expressed in Peruvian currency are adjusted in the same proportion as the assets are revalued. The difference between the amount obtained and the obligation converted at the current rate of exchange shall be reflected in an "Exchange Equalization Account".

(c) The balance remaining is used to adjust the Concessionaire's equity capital.

Determination of Tariffs

The tariffs are established at a level sufficient to produce revenues to cover all operating costs and a return of 11½% on the capital invested by the Concessionaire. The return consists of an annual dividend of 8½% and a "commercial profit" of 3%. 1/

Operating costs include salaries, wages, social benefits, administration, cost of fuel and materials used for maintenance, cost of purchased power, interest, foreign exchange losses, depreciation allowance, contribution to Extension Fund and all taxes. The depreciation allowance shall be based on the useful life of the individual pieces of property. Total depreciation shall not exceed 5% of the total value of the property.

Tax and Other Privileges

Public utility companies enjoy the following privileges:

(a) Interest on bonds and the fixed dividend of 8½% are exempt from existing and future taxes.

(b) Dividends paid out of the 3% commercial profit are subject only to the income and unemployment taxes which were in effect in 1955.

(c) Equipment and materials to be used for public electric services shall be exempt from customs duties unless the articles are produced in sufficient quantity and quality in Peru.

(d) If free exchange is not available to meet foreign currency obligations, the Government shall provide the necessary foreign currency at the official exchange rate.

1/ On the preferred share capital a return of 9½% has been established, consisting of a 8% dividend and a 1½% "commercial profit".

ANNEX 7

LIM LIGHT AND POWER COMPANY

Typical Monthly Electricity Bills

Class of Consumer	Average Consumption kwh	Load kw	Bill Soles	Average Soles/kwh	Rate $ mills/kwh
Domestic	20	-	10.00	0.50	18.5
Domestic	150	-	106.30	0.71	26.3
Domestic	500	-	253.80	0.51	18.9
Commercial	85	-	132.45	1.56	57.8
Commercial	500	-	767.40	1.53	56.7
Small Industrial	1,180	20	731.00	0.62	22.9
Industrial	14,500	60	6,743.60	0.46	17.1

LIMA LIGHT AND POWER COMPANY

Actual and Forecast Balance Sheets 1958-1967
(in millions of Soles)

Fiscal year ending December 31	Actual 1958	1959	1960	1961	1962	Forecast 1963	1964	1965	1966	1967
ASSETS										
Fixed assets in operation 1/	808.9	1,068.7	1,109.0	1,321.5	1,736.1	1,819.6	2,811.7	3,464.8	3,570.2	3,676.2
less: accumulated depreciation	377.8	502.8	540.9	615.6	670.7	736.3	820.3	960.4	1,102.1	1,260.2
Net fixed assets in operation	431.1	565.9	568.1	705.9	1,065.4	1,083.3	1,991.4	2,504.4	2,468.1	2,416.0
Work in progress 2/	93.0	209.9	475.6	809.9	844.6	1,162.5	466.2	147.8	142.8	112.8
Total net fixed assets	524.1	775.8	1,043.7	1,515.8	1,910.0	2,245.8	2,457.6	2,652.2	2,610.9	2,528.8
Current assets	213.5	113.6	130.2	121.8	165.5	227.1	242.6	220.4	254.4	277.2
Deferred assets	37.1	15.1	12.7	9.0	5.4	6.0	6.0	6.0	6.0	6.0
TOTAL ASSETS	774.7	904.5	1,186.6	1,646.6	2,080.9	2,478.9	2,706.2	2,878.6	2,871.3	2,812.0
LIABILITIES										
Capital and reserves										
Ordinary shares	262.2	376.9	432.5	455.0	560.7	620.0	730.0	750.0	800.0	825.0
Preferred shares			160.6	160.9	241.2	270.0	270.0	270.0	270.0	270.0
Provisional certificates for capital increase 3/	112.5	90.0	67.5	45.0	22.5					
Reserves and surplus 4/	32.0	42.5	68.5	184.8	142.5	124.0	131.3	134.1	108.0	110.0
Total	406.7	509.4	729.1	845.7	966.9	1,014.0	1,131.3	1,154.1	1,178.0	1,205.0
Debt										
Debentures, Series A, B, C, E	306.7	329.5	309.0	453.8	432.1	562.0	532.5	492.9	450.4	405.0
IBRD Loan 260 PE				182.0	384.0	592.5	644.5	641.3	624.1	605.8
Proposed IBRD loan						77.1	179.7	360.0	405.0	395.1
Other debt				47.0	104.4	70.9	62.8	74.9	58.4	45.7
Total debt	306.7	329.5	309.0	682.8	920.5	1,302.5	1,419.5	1,569.1	1,537.9	1,451.6
less: current portion	4.0	8.5	16.7	45.6	27.6	52.3	70.5	76.2	86.3	80.0
Net long term debt	302.7	321.0	292.3	637.2	892.9	1,250.2	1,349.0	1,492.9	1,451.6	1,371.6
Current liabilities	47.9	46.7	147.4	147.8	188.9	182.5	193.7	199.4	209.5	203.2
Deferred liabilities and provisions	17.4	27.4	17.8	15.9	32.2	32.2	32.2	32.2	32.2	32.2
TOTAL LIABILITIES	774.7	904.5	1,186.6	1,646.6	2,080.9	2,478.9	2,706.2	2,878.6	2,871.3	2,812.0
Installations financed by Customers	171.8	316.5	376.6	443.1	516.9	551.7	593.5	635.2	680.2	734.2
Debt/Equity ratio	43/57	9/61	29/71	43/57	48/52	55/45	54/46	56/44	55/45	53/47

1/ Revaluations of fixed assets in operation were S/. 219 million in 1959 and S/. 158 million in 1961. The 1961 revaluation was applied in approximately equal shares to (a) the credit of the exchange equalization account, which reflects the restatement of foreign currency liabilities and preferred stock at current exchange rates, (b) the revaluation of accrued depreciation and (c) the increase of surplus available for distribution to shareholders.

2/ Also includes construction inventories and advances to suppliers and contractors.

3/ Issued in 1956 for the additional equity resulting from the first revaluation of assets under the Electrical Industry Law of 1956, converted into ordinary shares at the rate of S/. 22.5 million annually through 1963.

4/ Includes, in addition to retained earnings, a credit balance in the exchange equalization account of S/. 65 million at December 31, 1962. This reserve is set aside, in accordance with the Electrical Industry Law, to provide for possible future revaluations of foreign currency liabilities.

LIMA LIGHT AND POWER COMPANY

Details of Funded Debt

	Series A	Series B	Series C
Amount issued	$6,000,000	$6,000,000	$6,000,000
Amount outstanding March 31, 1963	$4,870,000	$5,387,900	$5,704,500
Date of issue	July 1, 1957	November 1, 1958	March 1, 1960
Maturity	July 1, 1972	November 1, 1973	March 1, 1975

Interest — At 7%. Principal and interest payable in US currency at Schroder Trust Company, New York or, at the option of the holder, in such dollars or the equivalent thereof in Swiss francs at prevailing appropriate rate of exchange at Privatbank and Verwaltungsgesellschaft, Zurich, Switzerland.

Trustee — Schroder Trust Company, New York: Privatbank and Verwaltungsgesellschaft, Zurich, Switzerland, co-trustees.

Denominations — Coupon, $100, $500 and $1,000.

Callable — As a whole or in part on any interest date on at least 90 days notice, at a premium from 1959 to 1967 including (Series A) and from 1960 to 1968 including (Series B); and from 1962 to 1970 (Series C) and thereafter at 100. Callable for sinking fund on at least 10 days notice at 100.

Sinking Fund — Semi-annually beginning November 30, 1959 (Series A), March 31, 1961 (Series B), July 31, 1962 (Series C) equal to $355,233 for interest and principal of each series.

Security — Secured by a first floating charge on all property present and future.

Additional Debentures — May be issued provided opinions and certificates are supplied that the following tests are met:

(1) "The net income of the Company before interest and income taxes for the twelve months ending with any calendar month (not more than four months prior to

the date of the application for the authentication and delivery of additional Debentures) specified in such certificate, has been not less than 150% of the aggregate amount of the annual interest charges on all Debentures outstanding under this Indenture on the date of such application and the additional Debentures applied for and all other funded indebtedness of the Company;"

(2) "The net tangible assets of the Company, computed as at the end of the twelve-month period specified in such certificate pursuant to subdivision (1) above, are at least equal to 150% of the aggregate principal amount of all Debentures outstanding under this Indenture on the date of such application and the additional Debentures applied for and all other funded indebtedness of the Company."

It should be noted that assets and income must be translated into dollars for the purpose of these tests.

Dividend Restrictions	Company may not pay cash dividends in excess of net income after December 31, 1956.		
Purpose	Series A	Series B	Series C
	Refund outstanding debentures and bonds	Expansion program	Expansion program
Tax status	Free from Peruvian taxes.		

Series D (reserved for IBRD loan 260 PE)

Amount:	$24,000,000
Interest	6%
Date:	September 15, 1960
Maturity:	From September 15, 1965 to September 15, 1985

Debentures delivered as of December 31, 1962:	US$6,661,614.23
Consisting of:	D-1 US$3,639,000 D-2 Sw.F. 5,402,000 D-7 DM 7,067,000
Delivered during 1963:	US$7,301,520.76
Consisting of:	D-1 US$5,792,000 D-2 Sw.F. 4,332,000 D-7 DM 2,006,000

LIMA LIGHT AND POWER COMPANY

Actual and Forecast Income Statements 1958-1967

	Actual					Forecast				
Years ended December 31	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Sales increase in percent	7.16%	9.77%	12.64%	13.09%	10.28%	10%	10%	8%	8%	8%
Sales (Millions of kwh)	564	619	697	789	870	957	1,053	1,137	1,228	1,326
Average Revenue per kwh sold (cent. of Soles)	44.7	47.0	47.5	48.9	55.9	59.0	59.0	59.0	59.0	59.0
OPERATING REVENUES	252.4	291.2	331.2	385.6	486.0	565.8	622.3	671.8	725.5	783.3
OPERATING COSTS										
Operating Expenses 1/	112.4	117.4	134.4	161.6	211.1	254.2	283.2	233.9	257.0	283.0
Cost of Purchased Power (Hidrandina S.A.) 2/	54.6	59.8	71.0	82.0	87.3	90.0	92.0	94.0	96.0	98.0
Depreciation	34.0	42.6	46.0	52.9	65.3	65.6	84.0	140.1	141.7	158.1
Depreciation of Customers installations 3/	0.9	3.3	3.8	4.3	5.3	6.0	7.0	7.0	7.0	7.0
Extension Fund 3/	5.0	0.6	0.6	0.6	6.0	9.0	10.0	13.0	13.0	14.0
Total Operating Costs	206.9	223.7	255.8	301.4	375.0	424.8	476.2	488.0	514.7	560.1
NET INCOME BEFORE INTEREST	45.5	67.5	75.4	84.2	111.0	141.0	146.1	183.8	210.8	223.2
Interest Payable	12.0	23.1	25.1	39.7	57.5	77.0	87.1	91.8	93.4	89.7
Interest Charged to Construction (Credit)	(4.6)	(7.4)	(16.0)	(35.0)	(40.1)	(46.8)	(62.3)	(29.6)	(8.4)	
Financial Expenses	2.6	4.4	4.5	13.2	7.6	10.4	8.3	6.1	6.1	6.1
Taxes	1.6	2.6	2.7	0.8	3.6	4.7	5.4	5.5	5.8	6.0
Total Income Deductions	11.6	22.7	16.3	18.7	28.6	45.3	38.5	73.8	96.9	101.8
NET PROFIT	33.9	44.8	59.1	65.5	82.4	95.7	107.6	110.0	113.9	121.4
LESS: Cash Dividend	23.6	32.0	41.9	51.5	60.6	74.1	83.8	85.7	88.2	92.6
Commercial Profit 4/	9.2	11.5	15.9	12.5	20.3	20.1	22.3	22.8	23.9	27.0
Directors Bonuses	1.1	1.3	1.3	1.5	1.5	1.5	1.5	1.5	1.8	1.8

1/ The decrease in 1965 is due to the elimination of fuel costs as a result of the commissioning of Huinco in late 1964.

2/ In accordance with its exclusive purchase contract with Hidrandina, Lima Light pays for power purchased the total of the operating costs, interest and fixed charges and net profit of Hidrandina as determined by the tariff legislation. The substantial increase after 1959 of the cost of purchased power reflects the operation of Hidrandina's Huampani plant commissioned in 1960.

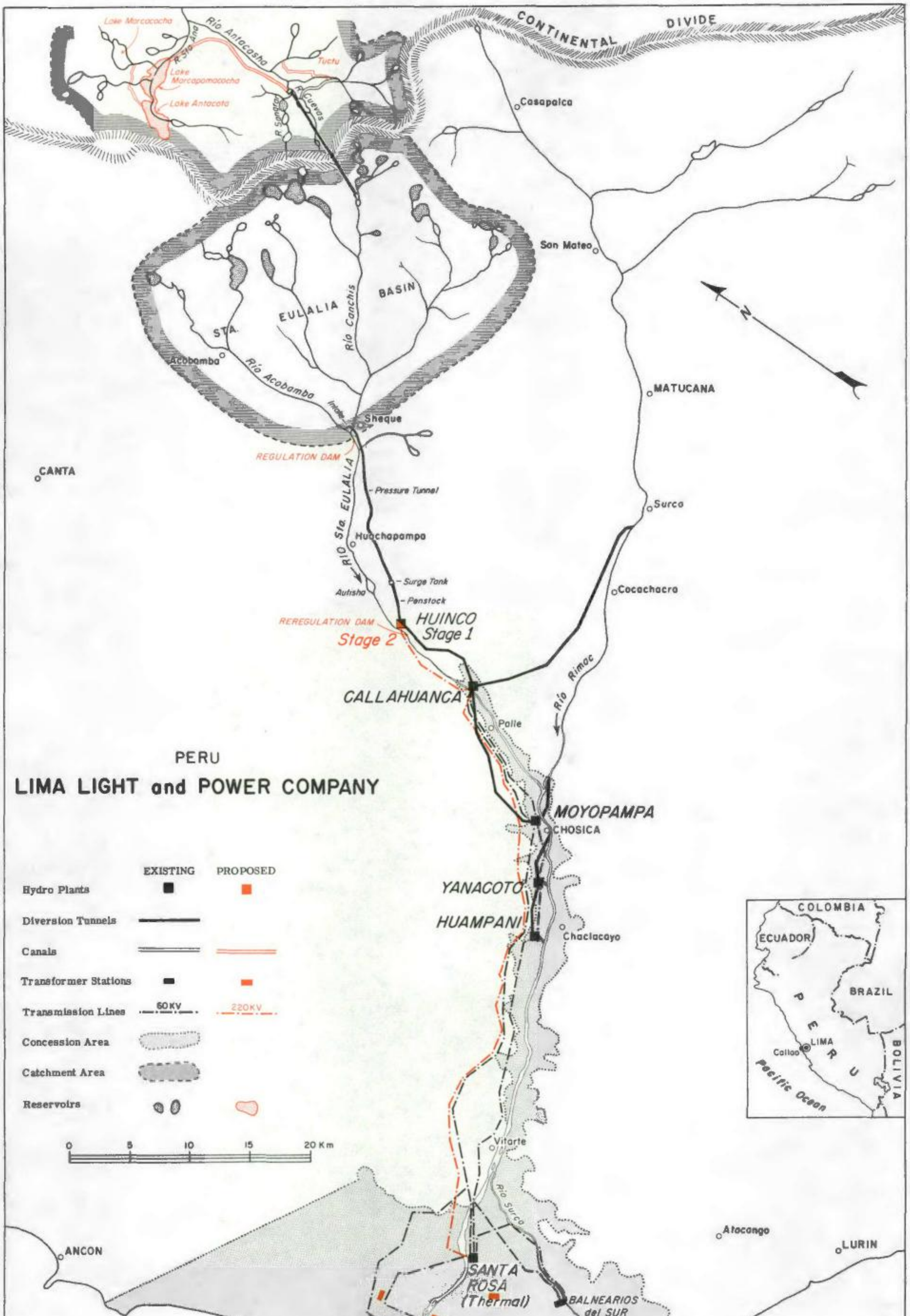
3/ Represent depreciation charges on distribution works financed by customers, owned by the public and supervised by Lima Light. The depreciation cash is used, under control by the Ministry of Industry, for meeting Lima Light costs of supervision, administration and maintenance of the works, and for reinvestment in distribution.

4/ Includes also the 8-1/2% dividend on free reserves which is not paid in cash.

LIMA LIGHT AND POWER COMPANY

Forecast Sources and Applications of Funds 1963-1967
(in millions of Soles)

	1963	1964	1965	1966	1967	Sub-total 1963-1966	Total 1963-1967
SOURCES OF FUNDS							
Internal Cash Generation							
Net Income before Interest	141.0	146.1	183.8	210.8	223.2	681.7	904.9
Depreciation	65.6	84.0	140.1	141.7	158.1	431.4	589.5
Net Cash from Extension Fund	6.0	7.0	9.0	9.0	11.0	31.0	42.0
Total	212.6	237.1	332.9	361.5	392.3	1,144.1	1,536.4
Borrowings							
IBRD Loan 260 PE	208.5	52.0	5.0			265.5	265.5
Proposed IBRD Loan	77.1	102.6	180.3	45.0		405.0	405.0
Debentures (Series E)	157.5					157.5	157.5
Supplier's Credit			20.3			20.3	20.3
Total	443.1	154.6	205.6	45.0		848.3	848.3
Contribution from Customers	28.8	34.8	32.7	36.0	43.0	132.3	175.3
Advances from Hidrandina	14.8	14.7	14.5			44.0	44.0
Capital Increases: Common Shares		95.0				95.0	95.0
Preferred Shares	27.0					27.0	27.0
TOTAL SOURCES OF FUNDS	726.3	536.2	585.7	442.5	435.3	2,290.7	2,726.0
APPLICATIONS OF FUNDS							
Construction Program							
Huinco Stage I	264.0	55.0	4.0			323.0	323.0
Huinco Stage II	25.0	60.0	178.0	27.0		290.0	290.0
Marcapomacocha Stage II	14.0	70.8	71.8			156.6	156.6
Distribution	86.4	89.5	93.0	110.0	130.0	378.9	508.9
Total	389.4	275.3	346.8	137.0	130.0	1,148.5	1,278.5
Interest							
Debentures (Series A, B, C)	30.0	28.0	25.9	23.6	21.2	107.5	128.7
Debentures (Series E)	10.2	10.2	10.1	9.6	9.0	40.1	49.1
IBRD Loan 260 PE	30.5	37.3	38.7	38.1	37.1	144.6	181.7
Proposed IBRD Loan	1.4	8.6	15.6	21.6	22.1	47.2	69.3
Other	4.9	3.0	1.5	.5	.3	9.9	10.2
Total	77.0	87.1	91.8	93.4	89.7	349.3	439.0
Amortization							
Debentures (Series A, B, C)	27.6	29.5	31.6	33.9	36.3	122.6	158.9
Debentures (Series E)			8.0	8.6	9.1	16.6	25.7
IBRD Loan 260 PE			8.2	17.2	18.3	25.4	43.7
Proposed IBRD Loan					9.9		9.9
Supplier's Credit: Gas turbine		7.0	7.0	7.0	3.2	21.0	24.2
Generators				9.5	9.5	9.5	19.0
Associated Companies	48.3					48.3	48.3
Swiss Banks		15.8	15.7			31.5	31.5
Total	75.9	52.3	70.5	76.2	86.3	274.9	361.2
Cash Dividends and Director Bonuses	75.6	85.3	87.2	90.0	94.4	338.1	432.5
Taxes	4.7	5.4	5.5	5.8	6.0	21.4	27.4
Financial Expenses	11.0	8.3	6.1	6.1	6.1	31.5	37.6
Additions to Working Capital	92.7	22.5	(22.2)	34.0	22.8	127.0	149.8
TOTAL APPLICATIONS OF FUNDS	726.3	536.2	585.7	442.5	435.3	2,290.7	2,726.0
Number of times Total Interest covered by Net Income before Interest	1.8	1.7	2.0	2.3	2.5		
Number of times Total Debt Service covered by Internal Cash Generation	2.0	1.7	2.0	2.1	2.2		



PERU
LIMA LIGHT and POWER COMPANY
EXISTING
PROPOSED
Hydro Plants
Diversion Tunnels
Canals
Transformer Stations
Transmission Lines
60KV
220KV
Concession Area
Catchment Area
Reservoirs
0
5
10
15
20 Km
CONTINENTAL DIVIDE
Lake Marcacocha
Lake Marcapomacocha
Lake Antacota
Río Antacasha
Tuctu
Casapalca
STA. EULALIA BASIN
Río Acobamba
Río Conchis
Acobamba
Sheque
REGULATION DAM
Pressure Tunnel
Huachapampa
Surge Tank
Penstock
Autisha
REREGULATION DAM
HUINCO
Stage 1
Stage 2
CALLAHUANCA
Río Rimac
San Mateo
MATUCANA
Surco
Cocachacra
CANTA
Palle
MOYOPAMPA
CHOSICA
YANACOTO
HUAMPANI
Chaclacayo
Vitarte
Río Surco
Atocongo
LURIN
ANCON
SANTA ROSA (Thermal)
BALNEARIOS del SUR
LIMA
CHORILLOS
BARSI
CALLAO
COLOMBIA
ECUADOR
BRAZIL
PERU
LIMA
Callao
BOLIVIA
Pacific Ocean
N
JULY 1963
IBRD-669R1

5

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Huinco Power Project (02) - Peru - Loan 0365 - P007944 - International Bank for Reconstruction and Development [IBRD] Country Files	30275640

Document Date	Document Type
[no date]	Board Record

Correspondents / Participants

Subject / Title

IBRD (Draft) Resolution No. 63 - Approval of Loan to Lima Light and Power Company (Empresas Electricas Asociadas) (Huinco II Project) in the amount of $15,000,000 to be guaranteed by the Republic of Peru

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	September 04, 2018

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

SecM63-258

FROM: The Secretary

November 1, 1963

STATUS OF NEGOTIATIONS - PERU
(Second Lima Light Project)

1.	NEGOTIATIONS:	- Substantially completed.
2.	BORROWER:	- Empresas Electricas Asociadas (Lima Light and Power Co.).
3.	GUARANTOR:	- Republic of Peru.
4.	AMOUNT:	- $15 million.
5.	INTEREST:	- To be determined.
6.	COMMITMENT CHARGE:	- 3/4 of 1% per annum.
7.	TERM:	- 25 years, with amortization beginning February 15, 1967.
8.	PURPOSE:	- To assist in financing the completion of the Huinco-Marcapomacocha hydro-project and distribution expansion through mid-1966.
9.	CONSIDERATION BY EXECUTIVE DIRECTORS:	- Second half of November 1963.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

Department of Operations - Western Hemisphere

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date November 1/63

NAME	ROOM NO.
Mr. Cope	651

	To Handle		Note and File
	Appropriate Disposition		Note and Return
✓	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

From L. Doucet

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

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SecM63-258

SEP 04 2018

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FROM: The Secretary

November 1, 1963

STATUS OF NEGOTIATIONS - PERU
(Second Lima Light Project)

1.	NEGOTIATIONS:	- Substantially completed.
2.	BORROWER:	- Empresas Electricas Asociadas (Lima Light and Power Co.).
3.	GUARANTOR:	- Republic of Peru.
4.	AMOUNT:	- \$15 million.
5.	INTEREST:	- To be determined.
6.	COMMITMENT CHARGE:	- 3/4 of 1% per annum.
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9.	CONSIDERATION BY EXECUTIVE DIRECTORS:	- Second half of November 1963.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

Department of Operations - Western Hemisphere

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date 10-31-63

NAME	ROOM NO.
Mr Doucet	
[BY SPECIAL]	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

For Board.

[Cleared with Front Office]

From

M Lejeune

CONFIDENTIAL

SecM63-258

FROM: The Secretary

~~October~~ Nov. 1, 1963

STATUS OF NEGOTIATIONS - PERU

(Second Lima Light Project)

1.	NEGOTIATIONS:	Substantially completed.
2.	BORROWER:	Empresas Electricas Asociadas (Lima Light and Power Co.).
3.	GUARANTOR:	Republic of Peru.
4.	AMOUNT:	$15 million.
5.	INTEREST:	To be determined.
6.	COMMITMENT CHARGE:	3/4 of 1% per annum.
7.	TERM:	25 years, with amortization beginning February 15, 1967.
8.	PURPOSE:	To assist in financing the completion of the Huinco-Marcapomacocha hydro-project and distribution expansion through mid-1966.
9.	CONSIDERATION BY EXECUTIVE DIRECTORS:	Second half of November 1963.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

SecM63-242

FROM: The Secretary

October 10, 1963

PERU

The Bank is planning to invite the Lima Light and Power Company and the Peruvian Government to send representatives to Washington to negotiate a loan of about $15 million to finance the second stage of the Huinco hydroelectric project.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMEN ASSOCIATION

ROUTING SLIP

Date: October 10, 1963

NAME	ROOM NO.
Mr. Knapp	1220

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

For your approval, please.

Mr. Schmidt would like this to go out today.

From Hazel Fleming

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

SecM63-242

FROM: The Secretary

October 10, 1963

PERU

The Bank is planning to invite the Lima Light and Power Company and the Peruvian Government to send representatives to Washington to negotiate a loan of about $15 million to finance the second stage of the Huinco hydroelectric project.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

FORM No. 58
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. M. M. Mendels

DATE: October 10, 1963.

FROM: Orvis A. Schmidt

SUBJECT: PERU - Notice of Invitation to Negotiate

SecM63-242

Would you kindly arrange to circulate the following notice of Invitation to Negotiate to the Board, today.

PERU

The Bank is planning to invite the Lima Light and Power Company and the Peruvian Government to ~~nego-tiate~~ send representatives to Washington to negotiate a loan of about $15 million to finance the second stage of the Huinco hydroelectric project.

FOR IMMEDIATE RELEASE

WORLD BANK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON 25, D. C. TELEPHONE: EXecutive 3-6360

PR #63/6
3/14/63

Bank Press Release No. 63/6
March 14, 1963

Subject: $13,250,000 million railway loan in Peru

The World Bank has made a loan equivalent to $13,250,000 to help finance a program to rehabilitate and modernize the two principal railway systems in Peru, the Central and Southern Railways. The Railways are an important element in Peru's transportation system, particularly for the movement of minerals, petroleum and bulk merchandise, and their efficient operation is essential to the country's economic growth. Under the program, motive power will be dieselized, carrying capacity increased and tracks improved, thereby enabling the Railways to reduce transportation costs and to provide more efficient service.

Four commercial banks are participating in the loan, without the World Bank's guarantee, for a total amount of $497,000, representing parts of the first three maturities which fall due between December 1967 and December 1968. The participants are The Pennsylvania Banking and Trust Company, Philadelphia; Girard Trust Corn Exchange Bank, Philadelphia; Manufacturers Hanover Trust Company, New York; and The Royal Bank of Canada, New York Agency.

The loan was made to The Peruvian Corporation Limited, a private company which owns and operates the Railways. The Corporation is incorporated in the United Kingdom and its affairs are directed by a Board which meets regularly in Lima.

The Central and Southern Railways are two distinct and separate systems. The Central Railway links the capital, Lima, and nearby Callao, Peru's chief port, with the Sierra -- the Plateau of the Andes. Its most important function is carrying refined metals, ores and concentrates from the Sierra to Callao for export, and bringing back supplies, such as fuel and cement, to the mining companies. About half Peru's earnings from foreign trade are derived from exports of minerals and the greater part of these exports are carried by the Central. Its other traffic consists mainly of agricultural produce brought from the Sierra to Lima and petroleum products, manufactured goods and foodstuffs destined for the Sierra.

The Southern Railway links the populated southern highlands of Peru, including the second largest city, Arequipa, and Cuzco, the principal city of the Sierra, with the ports of Mollendo and Matarani. The Southern is also important to landlocked Bolivia for, as a major link between the capital, La Paz, and the Pacific ports, it carries part of Bolivia's international trade. The Railway runs to the port of Puno on Lake Titicaca where it connects with steamers which cross to the Bolivian port of Guaqui and thence by a short railway line to La Paz. Both the steamers and the Guaqui-La Paz railway are owned and operated by the Peruvian Corporation. Traffic on the Southern Railway within Peru consists largely of general merchandise.

The program of rehabilitation and modernization is designed to meet the essential minimum requirements of the Central and Southern Railways. It calls for the purchase of 47 new diesel locomotives and related spare parts, 171 freight cars of various types, structural steel and equipment for certain workshops, about 29,000 tons of 80-pound rails with fittings for re-laying the tracks of the Railways, and miscellaneous equipment. The total cost of the program, which is scheduled for completion in 1965, is estimated at the equivalent of $21.3 million, of which $19.5 million is in foreign exchange. The Bank loan will cover part of the foreign exchange requirements. The Peruvian Corporation is obtaining the remaining funds from the Export-Import Bank of Washington and from its own resources.

The World Bank loan is for a term of 16 years and bears interest at the rate of 5-1/2% per annum including the 1% commission which is allocated to the Bank's Special Reserve. Amortization will begin in December 1967. The loan is guaranteed by the Republic of Peru.

Record Removal Notice

File Title	Barcode No.
Huinco Power Project (02) - Peru - Loan 0365 - P007944 - International Bank for Reconstruction and Development [IBRD] Country Files	30275640

Document Date	Document Type
[no date]	Board Record

Correspondents / Participants

Subject / Title

Certificate of Secretary Resolution No. 63-6 - Approval of Loan to The Peruvian Corporation (Railway Rehabilitation Project) in the amount of $13,250,000 to be guaranteed by the Republic of Peru

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	September 04, 2018

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

SecM63-54

FROM: The Secretary

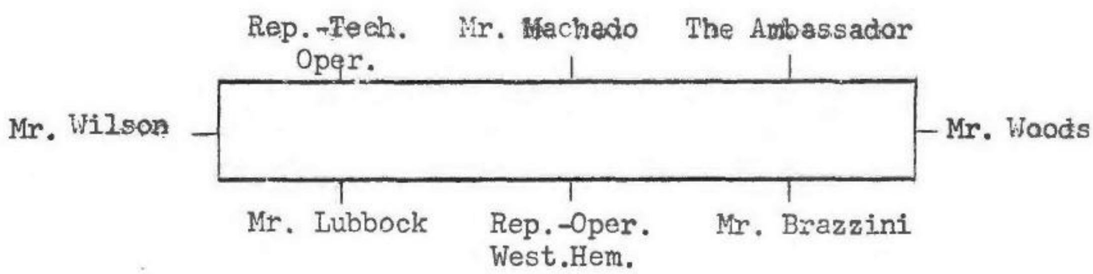
March 12, 1963

CLOSING OF LOAN - PERU

The following arrangements have been made for signing the loan to the Peruvian Corporation Ltd.:

Time	-	11:00 a.m., Wednesday, March 13, 1963	
Place	-	Room 1100	
Signing Officials	-	For the Guarantor:	His Excellency The Ambassador
	-	For the Borrower:	Mr. Brazzini
	-	For the Bank:	Mr. Woods

Seating



(NOTE: Mr. Mirza, Department of Operations - Western Hemisphere, will arrange for the attendance of the signing officials; Mr. Webb of the Legal Department will supervise the execution of the documents.)

Representatives attending the signing are requested to be in Room 1100 shortly before 11:00 a.m.

Distribution:

Mr. Machado
President
Vice Presidents
Department Heads
Mr. Mirza, Room 515
Mr. Webb, Room 10A8

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: March 11, 1963

FROM: Robert W. Cavanaugh

SUBJECT: Participations in the Proposed Loan to The Peruvian Corporation Ltd.

Four commercial banks have agreed to participate in this proposed loan for a total of $497,000 representing portions of each of the first three maturities.

The interest rate will be 5-1/4%.

Details of the participations are as follows:

	MATURITIES			
PARTICIPANTS	Dec. 1, 1967	June 1, 1968	Dec. 1, 1968	TOTAL
The Pennsylvania Banking and Trust Company, Philadelphia	$ 25,000	$ 25,000	$ --	$ 50,000
Girard Trust Corn Exchange Bank, Philadelphia	25,000	50,000	25,000	100,000
Manufacturers Hanover Trust Company, New York	147,000	--	--	147,000
The Royal Bank of Canada, New York Agency	40,000	160,000	--	200,000
	$ 237,000	$ 235,000	$ 25,000	$ 497,000

cc: Mr. Knapp
Mr. Wilson

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Huinco Power Project (02) - Peru - Loan 0365 - P007944 - International Bank for Reconstruction and Development [IBRD] Country Files	30275640

Document Date	Document Type
March 12, 1963	Board Record

Correspondents / Participants

Subject / Title

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

Cover page missing. Includes Annex A: IBRD: Resolution No. 63-6 - Approval of Loan to The Peruvian Corporation (Railway Rehabilitation Project) in the amount of $13,250,000 to be guaranteed by the Republic of Peru.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	September 10, 2018

For signature of of Mr. Wilson,

see Sec. 5, page 2.

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR EXECUTIVE DIRECTORS' MEETING

CONFIDENTIAL

R 63-13

(For consideration on
March 12, 1963)

FROM: The Secretary

March 4, 1963

PROPOSED LOAN - PERU

The attached President's Report and Recommendations on a proposed loan to the Peruvian Corporation Ltd. for the modernization and rehabilitation of the Central and Southern Railways in Peru will be considered by the Executive Directors at their Regular Meeting to be held at 10:00 a.m., Tuesday, March 12, 1963.

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

1. Draft Loan Agreement;
2. Draft Guarantee Agreement;
3. Draft letter ~~re list of goods~~, disbursements and reimbursements;
4. Draft letter re railway tariffs;
5. Statutory Loan Committee Report;
6. Report entitled "Peruvian Corporation Ltd. - Railway Rehabilitation Project - Peru";
7. Draft resolution authorizing the loan.

A report entitled "Current Economic Position and Prospects of Peru" (SecM62-192) was circulated on October 2, 1962.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

RESTRICTED

Report No. P-312

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO THE

PERUVIAN CORPORATION LTD.

FOR THE

MODERNIZATION AND REHABILITATION

OF THE CENTRAL AND SOUTHERN RAILWAYS

IN PERU

March 4, 1963

REPORT AND RECOMMENDATIONS OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE PERUVIAN CORPORATION LIMITED (PERU)

1. I submit herewith the following report and recommendations on a proposed loan in various currencies equivalent to US$13.25 million to the Peruvian Corporation Limited (the Corporation) to finance a part of the foreign exchange cost of modernization and rehabilitation of its railway system serving Central and Southern Peru.

PART I - HISTORICAL

2. In April 1958, the Bank made a loan of $15.0 million to the Corporation to finance a rehabilitation project similar to the present one. The loan was predicated on a number of conditions being complied with before it could become effective, the most important being a further increase in tariffs. However, shortly after the loan was signed, Peru's economic situation began to worsen, and with it the financial situation of the Corporation. The following devaluation of the sol caused a sharp increase in the Corporation's operating cost, requiring in turn a larger tariff increase than originally anticipated. This increase the Corporation was not able to obtain by the time the loan was to be made effective. Furthermore, the Tariff Commission which had been established by the Executive Power was abolished. There was then no prospect of the Corporation being able to fulfill the conditions of effectiveness in the foreseeable future, and in August 1959 the Bank terminated the loan agreement. However, it agreed at that time that the Bank would consider a new loan request, provided that the Corporation's financial prospects improved and that a satisfactory basis could be worked out for a new project.

3. By 1961, conditions had in fact improved to the point where the Bank could again consider financing the modernization and rehabilitation of the railroads. A Commission for Economic Regulation of Transport had been established by Act of Congress which gave reasonable assurance of the Corporation obtaining tariff adjustments in the future; the Corporation engaged the firm of Coverdale and Colpitts to study its operations and its prospects for growth of traffic and to prepare a new project of further modernization and rehabilitation; and finally, the Corporation established a Board of Directors in Lima. These improvements and the consultants' report were the basis for the Corporation's request for a new loan. In June 1961, a Bank mission visited Peru to appraise the project.

4. Formal negotiations began in Washington on May 24, 1962. Mr. W.H. White, Chairman and Mr. Michael R. Lubbock, Deputy Chairman, represented the Borrower, assisted on different occasions by Mr. Richard Gardiner, who at that time was Managing Director of the Corporation. The Government of Peru was represented by Mr. Carlos Gibson, Commercial Minister at the Peruvian Embassy in Washington. Presentation to the Board, however, had to be delayed until the Military Junta, which took over after the inconclusive general elections of June 10, 1962, confirmed the previous Government's intention to guarantee the proposed loan. A further delay was caused by the Cerro de Pasco Corporation, the principal user of the Central Railway, threatening to move all its freight by road. This threat has now been removed, as explained in more detail in this report and its attachments. Negotiations were, therefore, resumed in January 1963.

5. The proposed loan would increase the Bank's lending to Peru, net of cancellations and refundings, as of January 31, 1963, from $92 million to $105 million. The Bank has made the following loans to Peru:

Year	Borrower	Purpose		Amount (in $ million equivalents)
1952	Republic of Peru	Port development (Callao)		$ 2,410,528
1952	Republic of Peru	Agricultural development		1,300,000
1954	Republic of Peru	Agricultural development		1,700,000
1954	Banco de Fomento Agropecuario	Agricultural development		4,999,771
1955	Republic of Peru	Irrigation project		17,999,464
1955	Cemento Pacasmayo	Construction of cement plant		2,497,082
1955	Republic of Peru	Highway maintenance		4,994,887
1957	Banco de Fomento Agropecuario	Agricultural development		5,000,000
1958 1960	Autoridad Portuaria del Callao	Port development		6,575,000
1960	Banco de Fomento Agropecuario	Agricultural development		5,000,000
1960	Lima Light and Power Company	Power development		24,000,000
1960	Republic of Peru	Highway project (Aguaytia-Pucallpa)		5,500,000
1961	Republic of Peru	Highway maintenance and improvement		10,000,000
	Total (net of cancellations and refundings)			$91,976,732
	of which has been repaid			17,779,381
	Total now outstanding			$74,197,351*
	Amount sold		$8,311,482	
	of which has been repaid		5,240,482	3,071,000
	Net amount now held by Bank			$71,126,351

* Includes $25,947,053 undisbursed balance as of 1-31-63.

PART II - DESCRIPTION OF THE PROPOSED LOAN

6.

Purpose:	To finance a part of the foreign exchange cost of modernizing the Central and Southern Railways, the two principal railways of Peru owned by the Corporation.
Borrower:	The Peruvian Corporation Limited.
Guarantor:	Republic of Peru.
Amount:	The equivalent in various currencies of $13.25 million.
Amortization:	24 semi-annual instalments from December1, 1967 to June 1, 1979.
Interest rate:	5-1/2% per annum.
Commitment charge:	3/4 of 1% per annum.
Payment dates:	June 1 and December 1.

PART III - LEGAL INSTRUMENTS SECURITY AND LEGAL AUTHORITY

7. Drafts of a Loan Agreement (No. 1) and Guarantee Agreement (No.2) are attached. The following provisions are of special interest.

(a) Loan Agreement

(i) The Bank is to receive, as security for the loan, a first mortgage upon the immovable and movable properties of the Central and Southern Railways. The Corporation is permitted, however, to give pari passu security for the Export-Import Bank's lines of credits (Section 5.04);

(ii) The Corporation would be allowed to make payments to its parent company, the Peruvian Investment and Finance Limited, pursuant to the Inter-Company Debenture, only after June 30, 1967 and only from net earnings provided certain financial requirements are met, except for $2,205,000 payable during the five-year period ending June 30, 1967 that the parent company needs to service debentures issued by it to the public (Section 5.12);

(iii) Conditions of effectiveness include: granting of a mortgage to the Bank; a revision of the Inter-Company Debenture to restrict payments by the Corporation to its parent company; and the conclusion of a loan agreement for about $5,000,000 with the Export-Import Bank (Section 7.01).

(b) Guarantee Agreement

(i) The Guarantor undertakes to make, or allows to be made, timely adjustments in railway rates (Section 3.06).

(c) Collateral Documents

(i) The Corporation would use its own resources to finance the purchase of goods and costs for the program whenever, and to the extent that, its net quick assets, as defined, exceed the equivalent of $1.5 million, and it would reimburse the Loan Account periodically from June 30, 1965 to July 1, 1967 in the amount that net quick assets exceed $1.5 million (No. 3);

(ii) The Guarantor recognizes the importance of the regulation of inland transportation and confirms that its undertaking with respect to rates is consistent with the relevant legislation and acknowledges the importance of permitting the Corporation to maintain its financial position in conformity with sound financial practices (No. 4).

8. The Government of Peru is authorized by Law 12960 of 1958 to guarantee payment of principal, interest and other charges.

9. The Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement of the Bank is attached (No.5).

PART IV - APPRAISAL OF THE PROPOSED LOAN

10. A detailed appraisal of the project (Report TO-313d) is attached (No. 6).

The Project

11. The Project is the four-year program of the Borrower for the modernization and rehabilitation of its Central and Southern Railways. The program calls for the purchase of 47 new diesel locomotives and related spare parts; 171 freight cars of various types, structural steel and equipment for certain workshops; about 29,000 tons of 80-pound rails with fittings for relaying a part of the tracks of the Southern and Central Railways; and miscellaneous railway equipment.

The Borrower

12. The Corporation, incorporated in the United Kingdom in 1890, and at present domiciled in the U.S., is a wholly-owned subsidiary of the Peruvian Investment and Finance Limited. The parent Company's only other assets are two small real estate holdings. The Corporation's affairs are directed by a ten-member Board which meets regularly in Lima. The Chairman, Deputy Chairman and the former Managing Director are members of the Board and reside in London, and the other seven are prominent Peruvian businessmen. The Central and Southern Railways are each managed by a Manager who reports to the General Manager in Lima.

Execution of the Project

13. The project would be carried out entirely by the Corporation, which is well organized and managed, and is able to discharge its responsibilities efficiently. The consulting firm of Livesey and Henderson, of London, has been engaged by the Corporation to prepare the tender invitations for international competitive bidding, to analyze bids and make recommendations for awards. The Corporation plans to engage other consultants to study and make recommendations for increasing the efficiency of its operations.

Financing of the Project

14. The total cost of the four-year program is estimated to cost about US$21.3 million. The foreign exchange cost equivalent to about US$19.5 million would be financed as follows:

Proposed IBRD loan	US$ 13.25 million
Proposed new Eximbank loan	4.75 "
Funds from existing Eximbank loan (disbursed in 1962)	1.50 "
	US$ 19.50 million

The proposed Bank loan includes a reserve which is not expected to be fully drawn down. According to present estimates, the Corporation would generate by June 30, 1967, the Closing Date of the proposed loan, up to $5 million in excess of what it requires for working capital. Any such excesses would, as agreed in the loan documents, be used to finance a part of the foreign exchange cost of the project otherwise covered by the proposed loan. Actual disbursements from the proposed loan are therefore, likely to fall anywhere between US$8 million and US$13.25 million.

15. The proposed Eximbank loan of US$4.75 million to finance 19 locomotives for the Central, has been approved by the Eximbank's Board of Directors and a firm commitment is expected to be made shortly. The loan is expected to carry an interest rate of 5-3/4% with a repayment period of 7 years, starting in October 1964.

16. The local currency cost of the project, equivalent to about US$1.8 million, would be financed by the Corporation from funds generated by its own operations.

Method of Procurement

17. Contracts for all imported goods to be financed out of the proposed loan would be awarded on the basis of international competition, except for 5 diesel locomotives ($1,170,000) that had to be purchased from a previous supplier to achieve standardization of motive power on the Southern Railway, and for 1500 tons of rails and fittings ($215,000) that have already been ordered from the Corporation's regular supplier, on suitable terms, to meet an immediate need. The award for 19 locomotives for the Central Railway was also made on the basis of international competition in which a U.S. supplier was the lowest qualified bidder; the Corporation then sought and obtained Eximbank financing.

Justification of the Project

18. The project is needed to enable the Central and Southern Railway systems to provide reliable and efficient transportation service. The new investment will bring about large operational economies and represents the most economic means of providing needed transportation service to the areas served by the two railway systems.

19. The Central Railway links the capital, Lima, and the nearby Port of Callao, Peru's chief port, with the Sierra (the plateau of the Andes). Its most important function is carrying refined metals, ores and concentrates, from the Sierra to the Port of Callao for export, and bringing back supplies for the mining companies, such as fuel and cement. About half of Peru's foreign exchange earnings are derived from the export of minerals. The major part of such exports are carried by this railway. The remainder of the Central's traffic consists of

agricultural produce brought from the Sierra to Lima, and petroleum products, manufactured goods and foodstuffs destined for the Sierra. The estimated annual increase in mineral exports for the next few years is only 2% and, therefore, the growth in the Central's traffic demand would be rather slow. Furthermore, road competition is a threat to the railway. Recently the Cerro de Pasco Corporation, the most important mining operation in the area and the Central's main shipper, threatened to shift its freight to the road. Subsequently, the Cerro de Pasco Corporation reached an agreement with the Corporation to ship all its freight over the Central Railway as long as the present tariffs remain in effect, and thereafter, as long as the Central remains competitive. Because costs of road transportation are likely to increase at least at the rate of those of the railway, it seems unlikely that road transportation can displace rail transportation for such commodities as refined metals, concentrates, ores and bulk merchandise, as long as the railway can furnish an efficient, reliable and reasonably priced service; and with the improvements in service and the reduction in operating costs to be achieved by the proposed modernization and rehabilitation program, the Central Railway should be in a position to do so.

20. The Southern Railway links Bolivia and the populated Southern highlands of Peru, including Peru's second largest city, Arequipa, with the Port of Mollendo, and by a separate line, with the Port of Matarani. A link with land-locked Bolivia is provided by means of steamer service across Lake Titcaca and railservice from Guaqui (in Bolivia) to La Paz, the capital. The Southern Railway traffic consists largely of general merchandise moving in both directions for destinations in Peru. An important part of the traffic on the Southern Railway is the general merchandise carried to Bolivia, and minerals carried from Bolivia to Peruvian ports for export. Total railway freight traffic is expected to increase slowly but steadily. Road competition does not pose a serious threat to the Southern.

21. Both the Central and Southern Railways are, and will for some time be, important elements of Peru's transportation system and their efficient operation is essential to Peru's economic development. The Corporation is one of the few railways in Latin America that are still privately owned and managed and its operation is, on the whole, efficient. Its past financial performance has been unsatisfactory in large part because of its inability to re-equip and modernize itself. With the proposed loan, the Corporation has a reasonable chance to absorb further increases in wages and in the price of materials and supplies by increases in traffic volume, increases in efficiency, and adjustments in rates and, upon completion of the program to produce a steadily increasing net income. Nevertheless, it must be recognized that in this case there is considerable risk that the Corporation may have difficulty in meeting all of its financial obligations because it will always be in the squeeze between increasing operating costs on the one hand, and road competition on the other hand, both of which are in part beyond the control of the Corporation and the Government. The special conditions included in the loan documents and mentioned in paragraph 7 of this report are designed to minimize this risk.

Economic Situation

22. A report on the "Current Economic Postion and Prospects of Peru" (WH-121) dated September 28, 1962 was distributed to the Board on October 2 1962.

23. The economic position of Peru at the end of 1962 was better than in preceding years. The rate of growth of the Gross National Product was estimated at 6.5%, or about the same as that achieved in 1960 and 1961, following a recession in 1959. The main impetus came, as in previous years, from exports and from domestic manufacturing industry. An important contribution was made by agricultural export crops, especially cotton and sugar. The increase in public investments during 1962 and planned for 1963 should, together with continued favorable prospects for the export sector, and a generally favorable climate for private investment, provide the basis for further fairly rapid growth in the future.

24. Following several years of excessive public spending, the Peruvian Government took steps, in mid-1959, to restore order in the country's domestic finances. In 1959, the Central Government's cash deficit was reduced by 50% and a substantial surplus was achieved in 1960. In 1961, the surplus was, however, again smaller, and in 1962 there was another substantial deficit, largely due to a sharp increase in expenditures for public investments. This deficit was, however, covered by disbursement of foreign loans and credits and borrowings from domestic banks, with only moderate recourse to the Central Bank. The prospects for 1963 are for further substantial increases in investment expenditures, but much of this should be offset by increased drawings on foreign loans, so that no net domestic borrowing should be necessary.

25. The reduction in the budget deficit, in Government borrowing from the Central Bank and in overall credit expansion, achieved since 1959, together with a spectacular increase in export earnings, particularly from fish meal, have reversed the downward trend in the balance of payments and the foreign exchange reserves of the late 1950's. The value of exports jumped from US$292 million in 1958 to US$556 million in 1962, with the major impetus coming from fish meal and minerals. The deficit on current account, which amounted to US$117 million in 1958, was eliminated and a surplus of US$21 million was achieved in 1960. But a deficit was again recorded in 1962, due largely to a rapid increase in imports of capital goods covered by foreign private and official credits.

26. The improvement in the balance of payments has resulted in a rapid recovery of the gold and foreign exchange reserves. From the end of 1958 to the end of 1962 these reserves have increased by US$88 million to a level of US$108 million. A certain amount of capital fled

the country in mid-1962, as a result of political events, but firm policies by the monetary authorities led to a reversal of this situation and the country's position appeared to be stronger at the end of the year than at the beginning.

27. Peru's external public debt amounted to $443 million at the end of June 1962 of which $223 million is undisbursed. An additional $60 million are reported to have been contracted by January 29, 1963. The debt service in 1963, equivalent to $64 million or 10% of estimated gross foreign exchange earnings, cannot be regarded as excessive in view of Peru's present economic strength and balance of payments position. The service burden on existing external debt will diminish to 7% of expected gross earnings in 1967, and although the external position will in the next few years probably be tighter than in the past, there still remains, at the moment, a margin for incurring new debt on conventional terms. However, the recent rapid increase in debt on relatively short and conventional terms, together with the Government's plans for substantial public investments, financed partly by foreign borrowing is somewhat disturbing and the situation should be kept under close review by the Government and the Bank.

Prospects of Fulfilment of Obligations

28. The Corporation's rehabilitation and modernization program is well planned. The Corporation is well qualified to carry it out and to operate the railways in an efficient manner.

29. The arrangements for financing the project assure that adequate funds will be available to cover the total cost of the project. Prospective increases in traffic and the covenants that have been obtained regarding the Corporation's tariffs should enable the Corporation to service the proposed loan as well as its other debts.

30. The service of the loan, together with Peru's other foreign exchange obligations, should not impose an undue burden on the Peruvian economy.

PART V - COMPLIANCE WITH ARTICLES OF AGREEMENT

31. I am satisfied that the proposed loan will comply with the Articles of Agreement of the Bank.

32. I recommend that the Bank make a loan to the Peruvian Corporation Limited, with the guarantee of the Republic of Peru, in an amount in various currencies equivalent to $13.25 million for a term of 16 years, with interest (including commision) at 5-1/2% per annum and on such other terms as specified in the attached Loan and Guarantee Agreements, and that the Executive Directors adopt a Resolution to that effect in the form attached (No. 7).

George D.Woods
President

Washington, D.C.
March 4, 1963

1

CONFIDENTIAL DRAFT
(Subject to Change)
March 4, 1963

LOAN NUMBER 334 PE

LOAN AGREEMENT

(Railway Rehabilitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT

and

THE PERUVIAN CORPORATION LIMITED

Dated March 13, 1963

2/15/63

LOAN AGREEMENT

AGREEMENT, dated , 1963, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and THE PERUVIAN CORPORATION LIMITED, a company duly incorporated, registered and existing under the English Companies Act, 1890, domiciled in New York, New York, United States of America and resident in Lima, Peru (hereinafter called the Borrower).

ARTICLE I

Loan Regulations; Special Definitions

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, subject, however, to the modifications thereof set forth in Schedule 3 to this Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

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

(a) The term "PIF" means Peruvian Investment and Finance Limited, a corporation incorporated under the laws of Canada, being the beneficial owner of the entire issued share capital of the Borrower and shall include any company which is effectively controlled by PIF other than the Borrower.

(b) The term "Inter-Company Debenture" means the debenture dated March 1, 1956 evidencing the indebtedness of the Borrower to PIF in the principal sum of $10,000,000(of which $9,220,761 is outstanding at the date hereof), and shall include any instrument supplemental thereto or substituted therefor.

(c) The term "Central Railway" means the railway system which connects Lima and Callao with Oroya and Huancayo (including the Morococha Branch) and includes all the properties, movable and immovable, comprised in, or necessary or habitually employed in, the operation of such system.

(d) The term "Southern Railway" means the railway system which connects Mollendo, Arequipa, Juliaca, Puno and Cuzco and includes all the properties, movable and immovable, comprised in, or necessary or habitually employed in, the operation of such system.

(e) The term "Mortgage" means collectively any and all security instruments created pursuant to the provisions of Section 5.04 of this Agreement in favor of the Bank and of the holders from time to time of the Loan and the Notes and shall include all instruments supplemental or additional thereto or in substitution therefor.

(f) "Representative" means the agent appointed pursuant to Section 5.04(a) of this Agreement, and shall include any successor agent or agents.

(g) The term "Eximbank Lines of Credit" mean the agreements dated August 28, 1956 and January 11, 1962 between Export-Import Bank of Washington (hereinafter called Eximbank) and the Borrower, whereby Eximbank granted to the Borrower lines of credit in the amounts of $1,550,000 and $1,500,000 (of which $852,500 and $1,500,000 respectively are outstanding at the date hereof).

(h) The term "Subsidiary" means any company which is a subsidiary of the Borrower within the meaning of the Companies Act 1948 of the United Kingdom of Great Britain and Northern Ireland (hereinafter called the United Kingdom).

(i) The term "Notes" means notes executed and delivered by the Borrower pursuant to the provisions of this Agreement; and such term includes any such notes issued in exchange for, or on transfer of, Notes as herein defined.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to thirteen million two hundred fifty thousand dollars ($13,250,000).

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

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.04. The Borrower shall pay interest at the rate of five and one-half per cent (5 1/2%) per annum on the principal amount of the loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent (1/2 of 1%) per annum on the principal amount of any such special commitments outstanding from time to time.

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

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out Part A of the Project described in Schedule 2 to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the operation and maintenance of the Central and Southern Railways and its facilities.

ARTICLE IV

Notes

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

Section 4.02. Any one of the Directors of the Borrower, and the Secretary of the Borrower or such other person or persons (acting jointly or severally as may be specified) as may be authorized for the purpose by the Directors of the Borrower, are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Section 4.03. The Bank and the Borrower shall be at liberty to make such arrangements as they may from time to time mutually agree as to procedure for the issue, authentication and delivery of the Notes and such arrangements may be in addition to or in substitution for any of the provisions of this Agreement or of the Loan Regulations.

ARTICLE V

Particular Covenants

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

(b) Upon request from time to time by the Bank, the Borrower shall promptly furnish or cause to be furnished to the Bank, the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall reasonably request.

(c) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

(d) The Borrower shall enable the Bank's representatives to inspect the Project, the goods, all other plants, works, properties and equipment of the Borrower and any relevant records and documents.

(e) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods and the operations and financial condition of the Borrower.

(f) The Borrower shall have its annual financial statements (balance sheet and profit and loss statement) audited by an independent accountant or accounting firm acceptable to the Bank and shall promptly after their preparation and not later than four months after the close of the Borrower's fiscal year transmit to the Bank copies of such statements and a signed copy of the accountant's or accounting firm's report and certificate.

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

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

(c) The Borrower shall cause each of its Subsidiaries (if any) to observe and perform the obligations of the Borrower hereunder to the extent to which the same may be applicable thereto as though such obligations were binding upon each of such Subsidiaries.

Section 5.03. The Borrower undertakes that, except for the Mortgage and except as provided in Section 5.04(c) of this Agreement and except as the Bank shall otherwise agree, no lien shall be created on any assets of the Borrower or of any Subsidiary as security for any debt; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the whole or part of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

Section 5.04. The Borrower shall, as soon as practicable, take all such action and execute such instrument or instruments as shall be necessary or proper in order to constitute, in favor of the Bank and of the holders from time to time of the Loan and the Notes, a hipoteca civil y prenda mercantil of the first grade in accordance with the laws of Peru on the immovable and movable properties now or hereafter comprised in the Central Railway and in the Southern Railway, except as the Bank shall otherwise agree and except such movable properties as are subject to liens permitted by Section 5.03(i) and subparagraph (c) (i) (a) of this Section of this Agreement. The instrument or instruments constituting the Mortgage shall be in such form and of such substance as the Bank shall reasonably require and shall in any event contain provisions to the following effect:

(a) The Bank shall designate, and the Borrower shall join with the Bank in appointing, an agent who shall have the exclusive right, on the terms provided in the instrument of appointment, to represent the holders from time to time of the Loan and the Notes in all matters relating to or arising out of the Mortgage or the enforcement of any rights thereunder. The terms of appointment of the Representative shall include provisions entitling the Representative to take action under the Mortgage. The costs and fees of the Representative shall be paid by the Borrower.

(b) Notes which shall have been executed and delivered and the portion of the Loan not evidenced by Notes shall be secured by the liens of the Mortgage equally and ratably in proportion to the aggregate amount of the Notes and of the Loan not evidenced by Notes outstanding, without preference, priority or distinction in respect of any part of the Notes or of any portion of the Loan by reason of the date of execution, delivery, creation or maturity thereof, or otherwise.

(c) The Borrower shall agree that it will not dispose of, or create any further lien upon properties or assets subject to the liens of the Mortgage without the consent of the Bank and of the Representative; provided, however, that, without such consent, the Borrower may:

(i) execute such instrument or instruments as shall be necessary or proper in order to constitute (a) in favor of Eximbank an hipoteca civil y prenda mercantil of the same grade as that evidenced by the Mortgage and ranking pari passu in all respects therewith to secure indebtedness under the Eximbank Lines of Credit and under the agreement with Eximbank specified in Section 7.01(c) of this Agreement, and (b) in favor of the Banco Industrial del Peru as representing the Guarantor, an hipoteca civil y prenda mercantil of a grade junior to the Mortgage and to the security referred to in (a) of this sub-paragraph, by way of indemnity to the Guarantor in respect of any liabilities which it may pay or discharge under the Guarantee Agreement; and

(ii) sell or otherwise dispose of any property which shall have become worn-out or obsolete.

The Borrower shall further agree that it will pay all taxes which might, if unpaid, result in liens on, or preferential claims against, any of the properties subject to the liens of the Mortgage; that it will maintain and renew such properties; and that it will keep such properties insured in such amounts, against such risks and with such companies as shall be satisfactory to the Bank.

Section 5.05. The Borrower shall cause the Mortgage to be duly recorded, registered and filed in accordance with the requirements of the laws of Peru and of the United Kingdom, and shall take all such other action and execute, deliver, record, register and file all such other documents as the Bank or the Representative may from time to time reasonably request, or as may from time to time be necessary or proper, in order to implement the provisions of the Mortgage and to render and maintain the Mortgage fully effective in accordance with its terms; and shall, promptly after the taking of any such action or the execution and delivery of any such documents, furnish to the Bank and to the Representative evidence thereof satisfactory to the Bank and to the Representative.

Section 5.06. Without prejudice to any immunity enjoyed by the Borrower, the Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor, or laws in effect in the territories of the Guarantor or of the United Kingdom on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Notes or the Mortgage, or imposed under the laws of the Guarantor or laws in effect in the territory of the Guarantor on or in connection with the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Note to a holder thereof other than the Bank when such Note is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.07. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Notes are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement, the Notes or the Mortgage.

Section 5.08. (a) The Borrower shall insure or cause to be insured with responsible insurers all goods financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase, importation and delivery of the goods to the Borrower in the territory of the Guarantor and shall be for such amounts, as shall be consistent with sound commercial practices. Such insurance shall be payable in dollars or in the currency in which the cost of the goods insured thereunder shall be payable.

(b) In addition, the Borrower shall take out and maintain, with responsible insurers, insurance against such risks and in such amounts as shall be consistent with sound railway and business practices.

Section 5.09. (a) The Borrower shall at all times take all steps necessary to maintain its corporate existence and right to carry on operations and shall, except as the Bank shall otherwise agree, take all steps necessary to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

(b) The Borrower shall carry on its operations and conduct its affairs in accordance with sound business and financial practices and shall operate, maintain, renew and repair its equipment and property as required in accordance with sound engineering practices.

Section 5.10 Subject to the provisions of Section 5.04(c) of this Agreement and except as the Bank shall otherwise agree, neither the Borrower nor any Subsidiary shall, during any period of twelve months, sell, lease or otherwise dispose of any property having a value in excess of one hundred thousand dollars ($100,000), or the equivalent.

Section 5.11. Except as the Bank shall otherwise agree, (a) neither the Borrower nor any Subsidiary shall incur any indebtedness except in the ordinary course of business and (b) the aggregate amount remaining outstanding of indebtedness of the Borrower and of its Subsidiaries (exclusive of indebtedness under this Agreement, under the Eximbank Lines of Credit, under the agreement with Eximbank specified in Section 7.01(c) of this Agreement and under the Inter-Company Debenture and exclusive of monies owing by the Borrower to any Subsidiary or by any Subsidiary to another Subsidiary or to the Borrower) shall not at any time exceed the equivalent of one million dollars ($1,000,000).

Section 5.12(a). The Borrower shall cause the Inter-Company Debenture to be amended, in manner satisfactory to the Bank, so as to provide, _inter alia:_

(1) That, subject as hereinafter provided, or except as the Bank shall otherwise agree, no payment shall be made to PIF in respect of the principal and interest on the Inter-Company Debenture or otherwise, except from net earnings, and unless there shall remain after such payment net liquid assets equivalent to not less than two million dollars ($2,000,000).

(2) That, notwithstanding sub-section (1) of this Section (to the intent that PIF may receive, during the five year period ending June 30, 1967, sums aggregating the equivalent of two million two hundred five thousand dollars ($2,205,000) to enable it to service its own debentures), payments of interest under the Inter-Company Debenture shall, in any case, be made in each fiscal year ending on June 30, 1963, 1964, 1965, 1966 and 1967 in an amount equivalent to four hundred forty-one thousand dollars ($441,000).

(3) That after June 30, 1967 the Borrower shall make payments (including payments of interest) to PIF, only if the requirements of sub-section (a) (1) of this Section are met, and then only as follows:

- (i) first, payment of current interest on the Inter-Company Debenture; and then
- (ii) payment not exceeding 50% of any remaining net earnings to reduce arrears of debt service on the Inter-Company Debenture; and then
- (iii) payment for any other purpose and in any amount to the extent that Retained Earnings (as shown in the

audited balance sheet) after such payment would exceed the equivalent of one million dollars ($1,000,000).

(b) Except as the Bank shall otherwise agree, for the purpose of sub-section (a) of this Section: "net earnings" shall mean net income (but shall not include in net income proceeds of sale of land, buildings, locomotives or other capital assets) of the Borrower, as determined in accordance with sound accounting practices, in respect of the last preceding fiscal year, after paying or making proper provision in respect of such year for:

(i) operating expenses, including depreciation at the rate of at least 14% of gross revenues;

(ii) taxes, if any;

(iii) interest on the Loan and on loans made pursuant to the Eximbank Lines of Credit and on any other loans or credits which the Borrower shall hereafter contract with the consent of the Bank (but before paying or making provision for interest payable in accordance with the terms of the Inter-Company Debenture); and

"Net liquid assets" shall mean current assets, excluding stores and materials, less current liabilities including those accrued but not paid as of the date of computation, excluding accrued debt due PIF in respect of past fiscal years.

(c) The Borrower covenants that it will not make payments to PIF, or to any other shareholder, except in accordance with the provisions of the Inter-Company Debenture as amended pursuant to this Section.

Section 5.13. The Borrower shall from time to time take all such action, and make such applications, as shall be necessary to obtain prompt adjustments of its rates to permit it to obtain gross revenues not less than those contemplated in Section 3.06 of the Guarantee Agreement.

6/12/62

ARTICLE VI

Remedies of the Bank

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any of the events specified in Section 6.02 of this Agreement shall occur or (iii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Notes then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Mortgage or the Notes to the contrary notwithstanding.

Section 6.02. For the purposes of Section 5.02(j) of the Loan Regulations, the following additional events are specified:

(a) If the Inter-Company Debenture shall, without the prior agreement of the Bank, have been amended (otherwise than as provided in this Agreement) or abrogated or any waiver shall have been granted in respect thereof.

(b) If there shall have occurred any event specified in the Mortgage as an event of default.

(c) If any creditor who has provided credit shall have made formal demand for repayment in advance of maturity by reason of any default specified in an agreement with such creditor.

(d) If, after the date of this Agreement, there shall have occurred any material change in the financial condition of the Borrower.

ARTICLE VII

Effective Date; Termination

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

(a) That the Mortgage shall have been duly executed and delivered and have become fully effective in accordance with its terms and with the laws of Peru and (except as the Bank may otherwise agree) shall have been registered, recorded or filed in accordance with the laws of Peru and of the United Kingdom.

(b) That the Inter-Company Debenture shall have been amended, to the satisfaction of the Bank, in accordance with the provisions of Section 5.12 of this Agreement and, as so amended, shall have been delivered to and accepted by PIF.

(c) That the Borrower shall have been granted pursuant to an agreement satisfactory to the Bank a credit from Eximbank in an amount in various currencies equivalent to about five million dollars ($5,000,000), said credit to be in addition to the existing Eximbank Lines of Credit.

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

(a) That the Borrower has an absolute and unencumbered title under applicable Peruvian law to the immovable and movable property comprised in the Mortgage, and is the absolute proprietor, free of encumbrances, of all the assets comprised in the Mortgage, and is the absolute proprietor, free of encumbrances, of all the assets comprised in the Central Railway and the Southern Railway.

(b) That the Mortgage has been duly authorized and executed , delivered, recorded, registered and filed on behalf of the Borrower and constitutes a valid and effective security enjoying priority in accordance with its terms and that no prior or pari passu lien (other than as mentioned in Section 5.04(c) hereof) then exists on any part of the properties comprised in the Mortgage.

(c) That the Inter-Company Debenture, with such amendments as are provided in Section 5.12 of this Agreement, has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and constitutes a valid and binding obligation of the Borrower in accordance with its terms.

(d) That the Borrower has full power and authority to operate its undertaking and to carry out the Project and has all necessary rights and powers in connection therewith and that all acts, consents and approvals necessary therefor have been duly and validly performed or given.

(e) That the agreement with Eximbank, specified in Section 7.01(c) hereof, has become effective and binding in all respects upon the parties thereto in accordance with the terms of such agreement and subject only to the effectiveness of this Agreement.

Section 7.03. A date 120 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

5/31/62

ARTICLE VIII

Miscellaneous

Section 8.01. The Closing Date shall be June 30, 1967, or such other date as shall be agreed by the Bank and the Borrower as the Closing Date.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Borrower:

Peruvian Corporation Limited
Apartado 1379
Lima
Peru

Alternative address for cablegrams and radiograms:

Impulsive
Lima, Peru.

For the Bank:

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

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D. C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

President

PERUVIAN CORPORATION LIMITED

By

Authorized Representative

SCHEDULE 1

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
Dec. 1, 1967	395,000
June 1, 1968	410,000
Dec. 1, 1968	420,000
June 1, 1969	430,000
Dec. 1, 1969	445,000
June 1, 1970	455,000
Dec. 1, 1970	465,000
June 1, 1971	480,000
Dec. 1, 1971	495,000
June 1, 1972	505,000
Dec. 1, 1972	520,000
June 1, 1973	535,000
Dec. 1, 1973	550,000
June 1, 1974	565,000
Dec. 1, 1974	580,000
June 1, 1975	595,000
Dec. 1, 1975	615,000
June 1, 1976	630,000
Dec. 1, 1976	645,000
June 1, 1977	665,000
Dec. 1, 1977	685,000
June 1, 1978	700,000
Dec. 1, 1978	720,000
June 1, 1979	745,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment and Redemption

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

Time of Prepayment or Redemption	Premiums
Not more than three years before maturity	1/2%
More than three years but not more than six years before maturity	2%
More than six years but not more than eleven years before maturity	3-1/2%
More than eleven years but not more than fourteen years before maturity	4-1/2%
More than fourteen years before maturity	5-1/2%

2/15/63

SCHEDULE 2

Description of the Project

The Project is the program of the Borrower for the modernization and rehabilitation of the Central and Southern Railways in Peru subsequent to July 1, 1961. It includes:

A. The acquisition, introduction into service and operation of 22 new diesel locomotives with spare parts; 171 freight cars of various types; purchase and installation of equipment and structural steel for workshop facilities located at Guadalupe, Chosica, Arequipa and Juliaca; purchase and laying of about 29,000 tons of 80 lb. rails with fittings for tracks of the Central and Southern Railways; and purchase and installation of miscellaneous railway equipment.

B. The acquisition, introduction into service and operation of 19 new 2000 hp diesel-electric locomotives for the Central Railway and 6 new 2000 hp diesel-electric locomotives for the Southern Railway.

SCHEDULE 3

Modifications of Loan Regulations No. 4

For the purposes of this Agreement the provisions of Loan Regulations No. 4 of the Bank, dated February 15, 1961, shall be deemed to be modified as follows:

(a) Wherever used in the Loan Regulations the term "Notes" shall be substituted for the term "Bonds" and the term "Note" shall be substituted for the term "Bond".

(b) By the deletion of subparagraph (f) of Section 5.02 and the substitution therefor of the following subparagraph, namely:

> "(f) The Guarantor or any governmental authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or for the suspension of its operations or for the acquisition or control of assets necessary for the effective and efficient operation of its undertaking."

(c) By the deletion of subparagraph (a) of Section 6.12 and the substitution therefor of the following new subparagraph, namely:

> "(a) The Notes shall be under the Common Seal of the Borrower and the affixation of such Seal shall be attested by the manual signatures of its authorized representatives designated in the Loan Agreement for the purposes of this Section. Coupons attached to Coupon Notes shall be authenticated by the facsimile signature of any one of the authorized representatives of the Borrower so designated. If any authorized representative of the Borrower whose manual or facsimile signature shall be affixed to any Note or Coupon shall

cease to be such authorized representative, such Note or Coupon may nevertheless be delivered, and shall be valid and binding on the Borrower, as though the person whose manual or facsimile signature shall have been affixed to such Note or Coupon had not ceased to be such authorized representative."

(d) By the deletion of Section 6.18

(e) By the deletion of subparagraphs (b) to (f) inclusive and (i) and (j) of Section 7.04 and the substitution therefor of the following subparagraphs, namely:

"(b) Except as the Bank, the Borrower and the Guarantor shall otherwise agree, the parties to such arbitration shall be the Bank, the Borrower and the Guarantor.

"(c) The Arbitral Tribunal shall consist of three arbitrators, each to be agreed upon by the parties or, if and to the extent to which they shall not agree, to be appointed by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. In case any arbitrator shall resign, die or become unable to act, a successor arbitrator shall be selected or appointed in the same manner as herein prescribed for the selection or appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

"(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other parties. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration and the nature of the relief sought.

"(e) If, within 60 days after the giving of such notice instituting the arbitration proceeding, the parties shall not have agreed upon the three arbitrators, any party may request such appointment as is provided for in paragraph (c) of this Section.

"(f) The Arbitral Tribunal shall determine where and when it shall convene and sit.

"(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each of the parties shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided and borne equally between the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

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

(f) By the deletion of paragraph 9 of Section 10.01.

(g) By the deletion of the second paragraph of each of the forms of Bond set forth respectively in Schedule 1 and Schedule 2 and the substitution therefor in each such form of the following paragraph, namely:

"This Note is one of an authorized issue of notes in various currencies equivalent to an aggregate principal amount of $ known as the Guaranteed Serial Mortgage Notes of [the Borrower] (hereinafter called the Notes) issued or to be issued under a Loan Agreement dated 1962, between International Bank for Reconstruction and Development (hereinafter called the Bank) and [the Borrower] and guaranteed by the Republic of Peru in accordance with the terms of a Guarantee Agreement dated 1962, between the Republic of Peru and the Bank. No reference herein to said Agreements shall confer upon the holder hereof any rights thereunder or impair the obligation of [the Borrower], which is absolute and unconditional, to pay the principal and interest on this Note at the times and place and in the amounts and in the currency herein prescribed.

"The Notes and the portion of the Loan not evidenced by

Notes are equally and ratably secured by means of an instrument constituting a hipoteca y prenda mercantil created by /the Borrower/ under the laws of the Republic of Peru (such instrument being hereinafter called the Mortgage). Pursuant to the Mortgage, the Bank and /the Borrower/ have conferred upon

as Representative the exclusive right on the terms therein provided to represent the Bank and the holders from time to time of the Notes in all matters relating to or arising out of the Mortgage or the enforcement of any rights thereunder. In accepting this Note, the holder hereof agrees to the appointment of such Representative pursuant to the terms and conditions of the Mortgage."

(h) By the addition, at the end of the seventh paragraph of the Form of Note set forth in Schedule 1 and at the end of the sixth paragraph of the Form of Note set forth in Schedule 2, of the sentence following, namely:

"In certain events provided in the Mortgage, the Representative may (subject to the conditions therein provided) declare the principal of all the Notes then outstanding (if not already due) to be due and payable immediately, and upon any such declaration such principal shall be due and payable immediately."

2

CONFIDENTIAL DRAFT
(subject to change)
March 4, 1963

LOAN NO PE

GUARANTEE AGREEMENT

(Railway Rehabilitation Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT

Dated , 1963

2/4/63

GUARANTEE AGREEMENT

AGREEMENT, dated 1963, between REPUBLIC OF PERU (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Peruvian Corporation Limited (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement, the Bank has agreed to make to the Borrower a loan in various currencies equivalent to thirteen million two hundred and fifty thousand dollars ($13,250,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, subject, however, to the modifications thereof set forth in Schedule 3 to the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

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

ARTICLE II

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

ARTICLE III

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

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including the Banco Central de Reserva del Peru.

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

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

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

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

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

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

Section 3.06. The Guarantor covenants that it will from time to time (a) grant and maintain, or allow to be granted and maintained, railway rates which will enable the Borrower to obtain gross revenues sufficient to cover, <u>inter alia</u>: (i) the costs of operation (including without limitation, wages, salaries, social benefits, supplies, maintenance and costs of administration); (ii) depreciation, and (iii) interest; and (b) cause the agency or agencies of the Guarantor responsible for the fixing, adjustment and administration of such rates to effect, when necessary, but in any case at least once a year, a review ofsuch rates in order to verify that such rates are adequate to meet these needs of the Borrower.

Section 3.07. The Guarantor covenants that it will not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrower of its obligations contained in the Loan Agreement or in the Mortgage, and will take or cause to be taken all action necessary or appropriate to enable the Borrower to perform such obligations.

ARTICLE IV

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

ARTICLE V

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

For the Guarantor:

Ministerio de Hacienda y Comercio
Lima, Peru

Alternative address for cablegrams and radiograms:

Minhacienda
Lima, Peru

For the Bank:

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

Alternative address for cablegrams and radiograms:

Intbafrad
Washington, D. C.

Section 5.02. The Ministro de Hacienda y Comercio of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PERU

By ________________________
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By ________________________

3

[THE PERUVIAN CORPORATION LIMITED]

[Letterhead]

, 1963

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

Re: Loan No. PE (Railway Rehabilitation Project)
Letter re Disbursements and Reimbursements

Gentlemen:

We refer to Article II of the Loan Agreement of even date between us and to Article II of the Bank's Loan Regulations No. 4 dated February 15, 1961 which provide for the opening of a Loan Account, the payment of commitment charges and interest on the Loan and to Article IV of said Loan Regulations which lays down the procedures for withdrawals from the Loan Account. We request your agreement to the further arrangements set forth herein.

To the maximum extent consistent with sound railway and financial practices, the Peruvian Corporation Limited (the "Corporation") will expend its own funds to complete its rehabilitation program and will endeavor to limit the amount of the Loan. Such practices require the maintenance of net quick assets, as defined below, equivalent to U.S.$1.5 million, the amount estimated to be needed under normal circumstances. Such practices may also require the maintenance of stores and materials, as defined below, at a maximum level equivalent to $3.0 million, the amount estimated to be needed under operational conditions until July 1, 1965. Furthermore, it is expected that the purchase of all goods for the rehabilitation program will be completed by June 30, 1965; and that the Loan Account will be closed on June 30, 1967.

In furtherance of these objectives under such circumstances, the Corporation undertakes to finance the purchase of goods and costs in the attached List of Goods from its own resources whenever, and to the extent that, its net quick assets exceed the equivalent of $1.5 million. From July 1, 1965 to June 30, 1967, inclusive, the Corporation further undertakes to reimburse the Loan Account as hereinbelow provided to the extent that the net quick assets of the Corporation exceed the equivalent of $1.5 million.

In order that these undertakings can be carried out, it is agreed that until July 1, 1967, no application for withdrawal will be accepted from the Corporation unless the Corporation certifies that as of the date of the application its net quick assets do not exceed the equivalent of $1.5 million, after taking into account the amount of the withdrawal applied for.

After June 30, 1965 the Corporation shall submit to the Bank each month a certificate, dated as of the end of the last preceding month, showing its net quick assets, accompanied, if such net quick assets exceed the equivalent of $1.5 million, by a payment to reimburse the Loan Account in the amount of such excess. The Loan Account shall be credited with the amount of any such reimbursement. Any amounts so credited to the Loan Account shall for the purposes of Section 2.03 of the Loan Agreement cease to be treated as withdrawn as of the date of such reimbursement.

For the purposes of these undertakings:

a) "Net quick assets" shall be defined as cash plus other current assets (except stores and materials) less current liabilities including those accrued but not paid as of the date of the pertinent certificate, and excluding: (i) interest accrued on the Bank Loan through June 30, 1965; and (ii) debt service accrued but not payable under the Inter-Company Debenture as amended pursuant to the provisions of Section 5.12 of the Loan Agreement.

b) Until July 1, 1965, "stores and materials" (except goods purchased for the rehabilitation program other than diesel locomotive spare parts) shall not be permitted to exceed a book or cost value, whichever is higher, equivalent to $3.0 million. On or about July 1, 1965 the Corporation will review its operating practices to determine the appropriate quantity and value of stores and materials.

It is understood that these dates and amounts may be adjusted if in the future there are significant changes in the Corporation's requirements for its operations.

Please confirm your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

THE PERUVIAN CORPORATION LIMITED

By____________________________
Authorized Representative

CONFIRMED:

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By____________________________

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[EMBASSY OF PERU]

[Letterhead]

, 1963

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

re: Loan No. PE(Railway Rehabilitation Project)
Letter re Railway Tariffs

Gentlemen:

During negotiations for the loan to modernize and rehabilitate the Central and Southern Railways of Peru, we have discussed the significance of recent Peruvian legislation regarding inland transportation, and have reached a consensus of opinion about it, as embodied in this letter.

This legislation particularly concerns the establishment of the independent Commission for the Economic Regulation of Transport which is charged with the fixing of rates for all enterprises providing public transport, and to study, and make recommendations for, the development of transport services, financing of such development, the establishment of safety measures, and other related subjects. The legislation includes: Laws No. 13658 of 1961, 13700 and 13850 of 1962, the latter two laws being amplified by the Reglamento approved and ordered to be promulgated by Supreme Resolution No. 20-DM of April 27, 1962. Certain Articles of said Reglamento form the bases for the covenant embodied in Section 3.06 of the Guarantee Agreement. Article 54 provides that maximum rates shall be based on the necessity of the transporter to cover the costs of operation and debt service and to obtain a reasonable return on the capital invested in the enterprise. Articles 72 - 76 set forth the procedure for valuation, for the purpose of fixing rates, of capital invested in the undertaking. Article 79 specifies the items of expense which are operating costs. Article 80 requires depreciation charges to be not less than 3% nor more than 15% of depreciable physical assets. These measures have been adopted by Peru to establish the standards for maximum rates. Furthermore, to encourage healthy competition among types of transportation, Peru enacted Law 13658 to permit charges below the maximum rate and this policy has been confirmed in Article 55 of said Reglamento. It is these enactments, and the Peruvian policy enunciated by them, that provide the substance for Section 3.06 of the Guarantee Agreement.

The Guarantor recognizes that it is vitally important that the Borrower be permitted to operate and to maintain its financial position in conformity with sound railway, engineering and financial practices. To this end we have agreed to the texts of the Loan and

Guarantee Agreements. The latter are consistent with the laws and decrees specified above, which, as the Guarantor recognizes, constitute one of the material bases upon which you have agreed to make the loan.

Please confirm your agreement with the foregoing by signing the form of confirmation on a copy of this letter.

Very truly yours,

REPUBLIC OF PERU

By____________________________
Authorized Representative

CONFIRMED:

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By__________________________________

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STATUTORY LOAN COMMITTEE REPORT

To: The President, International Bank for Reconstruction and Development

Report of Loan Committee under Section 4(iii) of Article III of the Articles of Agreement on the Proposed Loan (Railway Rehabilitation Project) to the Peruvian Corporation to be guaranteed by the Republic of Peru.

The undersigned Committee constituted under Section 7 of Article V of the Articles of Agreement of International Bank for Reconstruction and Development (the Bank) hereby submits its report pursuant to Section 4(iii) of Article III of said Articles in respect of the proposal that the Bank grant to The Peruvian Corporation a loan in an amount in various currencies equivalent to U.S.$13,250,000 which loan is to be guaranteed by the Republic of Peru. The purpose of said loan is for the modernization and rehabilitation of the Central and Southern Railways in Peru.

1. The Committee has carefully studied the merits of the proposal to grant such a loan, and of the purposes to which the proceeds of the loan are to be applied.

2. The Committee is of the opinion that the project toward the financing of which the proceeds of such loan are to be applied comes within the purposes of the Bank as set forth in Article I of said Articles of Agreement, and that said project is designed to promote the development of the productive facilities and resources of the Republic of Peru and is

in the interests of the Republic of Peru and of the members of the Bank as a whole.

3. Accordingly, the Committee finds that said project merits financial assistance from the Bank, and hereby recommends said project for such assistance.

COMMITTEE G Wilson

/s/ J. Burke Knapp
Vice President

/s/ C. Gibson
Expert selected by Governor for Peru

/s/ Orvis A. Schmidt
Director, Department of Operations
Western Hemisphere

/s/ Ellsworth E. Clark
Assistant General Counsel

/s/ Simon Aldewereld
Director, Department of Technical Operations

/s/ Robert W. Cavanaugh
Treasurer

Dated at Washington, D.C.

March 4, 1963

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RESTRICTED

Report No. TO-313d

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

PERUVIAN CORPORATION LTD.

RAILWAY REHABILITATION PROJECT

PERU

March 4, 1963

Department of Technical Operations

CURRENCY EQUIVALENTS

1 U.S. Dollar	=	27.00 Soles
1 Sol	=	0.037 U.S. Dollars
1,000 U.S. Dollars	=	27,000 Soles
1,000 Soles	=	37.00 U.S. Dollars
1 £ Sterling	=	75.00 Soles

Corporation's Fiscal Year
July 1 - June 30

REPORT ON THE
PERUVIAN CORPORATION LTD.
RAILWAY REHABILITATION PROJECT

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REPORT ON THE PERUVIAN CORPORATION

RAILWAY REHABILITATION PROJECT

SUMMARY

i. The Peruvian Corporation Ltd. has asked the Bank for a loan of US$13.25 million equivalent to help finance a four-year program (1961/2 - 1964/5) of modernization and rehabilitation of the Central and Southern Railways in Peru. The total cost of this program is estimated at US$21.3 million equivalent or S/. 575 million.

ii. A previous Bank loan of US$15 million equivalent for a US$20 million program for the same purpose was made in April 1958, but as it became evident that the Corporation and the Government would not have been able successfully to carry out the project, the loan was terminated in August 1959 by agreement among the parties concerned.

iii. Since that time a firm of railway consultants employed by the Peruvian Corporation has made studies of its financial position and physical needs. It was not until March 1961, on the strength of improving economic conditions in Peru that the consultants could recommend the program for consideration by the Bank for financing; prior thereto - 1959 - they had recommended a smaller program for financing with equity capital. A Bank mission visited Peru in June 1961 to appraise the program.

iv. The program is well conceived and it meets the essential minimum requirements of the Central and Southern Railways. The managements of these Railways are competent, operations are reasonably efficient, and the properties are well maintained. There are, however, arrears of track renewals.

v. The financial record of the Peruvian Corporation Ltd. has been affected by great difficulties. A climax was reached in 1956 when a reorganization resulted in the Corporation becoming the wholly-owned subsidiary of the Peruvian Transport Corporation Ltd. (parent company), which was formed for this purpose, and part of the outstanding debt of the Corporation was cancelled. The balance of this debt was redeemed by issuing the parent company's debentures and making cash payments.

vi. Since 1956 the Corporation's operations have been unprofitable, substantial losses being suffered in the last five years. The reasons were the reduction in world demand for non-ferrous metals and the general trade recession in this period, labor strikes and rising wage costs, unregulated road transport competition, and in 1959 serious landslides that disrupted operations for several weeks on the Central Railway. Important elements in the Corporation's failure to cover its operating costs and fixed charges have been the inadequacy of rate increases authorized by the Government and the delays which attended the Government's approval of such increases.

vii. Resulting from a 34-day strike of workers on the Central Railway, the main shipper on the Railway, Cerro de Pasco, threatened to move all its freight by truck. Negotiations between the two corporations have produced an agreement that Cerro will continue to use the Railway exclusively, provided its rates in new tariff structures which Cerro have accepted, remain competitive with truck rates.

viii. Conditions should now become more favorable for the Corporation: a) the Government has established a Transport Commission to regulate all modes of transportation and to prescribe equitable rates for services; the effect of such regulation should enable the Corporation to increase its rates almost simultaneously with any substantial increase in costs, and make it possible for the Railways to compete on more equal terms with road transport; and b) economic activity in Peru justifies the conservative forecasts of increasing freight traffic for the Central and Southern Railways.

ix. The modernization and rehabilitation program (1961/62 - 1964/65) constitutes the project for which the proposed Bank loan of US$13.25 million (including an allowance for contingencies and interest during construction) would be made; it consists essentially of the completion of dieselization of the Central and Southern Railways, track rehabilitation and the acquisition of freight cars.

x. Substantial economies will result from execution of the program, the savings from dieselization alone would repay the purchase price of the locomotives in 8 years at 6% interest. There would also be savings in maintenance costs for way and equipment from the track improvements. The working costs of the Railways would be substantially reduced, their ability to compete with road transport would be enhanced, and the functions of the Railways would be more efficiently performed.

xi. Income account forecasts 1962/63 - 1969/70 indicate annual losses, after fixed charges, for the first two years and thereafter gradually increasing net earnings. On the basis of the financing plan for the program and the forecasts of traffic and of financial results from operations, the annual cash flow would be adequate to cover expenditure on capital works and debt service. Debt service coverage would not fall below 1.3 times, the ratio for 1967/68.

xii. The forecasts assume constant wage, price and exchange rate levels; if inflation of any of these factors were to occur without timely and adequate rate increases, or if there were to be a sustained traffic shortfall, the Corporation's financial capacity would be impaired. As previously mentioned, a Transport Commission has been established, among other things, to assure equitable rates, and timely rate adjustments when necessary, for transport services, and the forecasts of traffic increases have been moderately estimated. The prospects are therefore more promising than they were in the past, but the history of the Corporation clearly illustrates that while it efficiently manages its railway operations, its financial viability is largely dependent on circumstances beyond its control.

xiii. The Corporation's financial position at the outset of the program is weak and it would be unrealistic to ignore the risks for the Corporation in assuming substantial long-term debt and for the Bank in providing the major part of the financing. There are however compelling reasons for financing the program:- a) the vital importance of the Central and Southern Railways to the economy of Peru, and b) the essentiality of dieselizing and rehabilitating these Railways so that they may economically and effectively perform their functions.

xiv. The program would be financed by a line of credit from the Eximbank US$1.5 million (S/. 41 million) obtained in 1961 and already used, the proposed Bank loan of US$13.25 million (S/. 358 million) and a credit of US$4.75 million (S/. 128 million) now under negotiations with Eximbank, for which a term of seven years at 6% has been assumed in this report; the sum of these amounts represents 92% of total program requirements. The juxtaposition of Bank loan and a credit from another source was determined to be the most practical solution for this financing when exhaustive discussions with the Corporation and its parent company revealed that additional equity capital and other forms of finance were not available. The Corporation's cash needs for the program, for other minor capital works and for debt service would be US$26.2 million (S/. 706 million) of which 25% would be provided from the Corporation's own resources. Financing as indicated would assure the availability of funds to guarantee execution of the program, and also relieve pressure on the Corporation's cash position during the critical program period.

xv. To provide protection for the Bank and the Corporation against the risks inherent in this loan operation, the following terms and conditions have been agreed with the Corporation:-

a) The term of the Bank loan would include a $4\frac{1}{2}$ years period of grace to June 30, 1967. This is approximately two years after completion of the program, by which date the full benefits of dieselization are expected to be realized.

b) During the period to June 30, 1965, by which date all program goods are scheduled to be delivered and the dieselization would be complete, the Corporation would use funds generated by it in excess of working needs (US$1.5 million equivalent net quick assets) to purchase goods provided for in the Bank loan, and thereafter to June 30, 1967 would apply such excess to reimbursing the proceeds of the loan. Thus to the extent practicable the amount of the loan would be reduced, possibly by as much as US$5 million, but during the whole period the Corporation's cash position would be assured by its drawing rights on the loan.

c) Prohibition on payments from the Corporation to the parent company except:

i) for the equivalent of the annual service payments on the publicly held debentures of the parent company to June 30, 1967, and

ii) after June 30, 1967, under specific conditions of earnings and quick assets tests.

xvi. The project is suitable for a Bank loan of US$13.25 million equivalent, with a 16-year term, including a $4\frac{1}{2}$ years period of grace.

REPORT ON THE PERUVIAN CORPORATION'S
RAILWAY REHABILITATION PROJECT

I. INTRODUCTION

1. The Peruvian Corporation Limited, owner and operator of the major railways in Peru, has asked the Bank for a loan of US$13.25 million equivalent to finance part of the modernization and rehabilitation program of the Central and Southern Railways in Peru. This is a four-year program which started July 1, 1961, and which is estimated to cost about US$21.3 million equivalent (S/575 million). The proceeds of a Bank loan would be spent during the two-and-a-half year period beginning January 1, 1963. Financing of the first year of the program was assisted by a loan of US$1.5 million from the Eximbank.

2. This is the Corporation's second request for financial assistance to be considered by the Bank. The first resulted in the Loan and Guarantee Agreements (190-PE) of April 3, 1958, for US$15 million out of a total of a US$20 million equivalent program to rehabilitate the same Railways. Shortly after the agreements were signed, the Corporation's ability to make the agreement effective was adversely affected by a combination of circumstances. Although the Government authorized an increase in rates, it was less than half that sought by the Corporation and, therefore, was inadequate to give the Corporation a sound financial footing for the program. By the terms of the Guarantee Agreement the Government was to assure the Corporation a satisfactory level of gross revenue, and as part of the machinery for this purpose a Supreme Resolution established a railway tariff commission, but the Resolution was later revoked by the Government.

3. As conditions had turned against the successful execution of the project, the Bank, in agreement with the other parties, terminated the Loan Agreement in August 1959. Because of the importance of the Central and Southern Railways to the economic well-being of Peru, the Bank expressed its continuing interest in them, and further studies for their rehabilitation have been carried out by the Corporation.

4. In October 1959, Coverdale & Colpitts, a firm of railway consultants which had studied the Corporation's financial position and railway rehabilitation needs, recommended a smaller program and concluded that this would have to be financed with equity capital if the Corporation were to operate on a sound financial basis. On evidence of improving economic conditions in Peru, the same consultants in March 1961 recommended a program of rehabilitation and dieselization for the Central and Southern Railways, for which it thought financing might be considered by the Bank.

5. A Bank mission visited Peru in June 1961, to study the technical and financial aspects of the Corporation and to appraise the program. In June 1962 the Bank conducted negotiations with the Peruvian Corporation for a loan to rehabilitate the Central and Southern Railways, but it was agreed with the Peruvian Corporation that submission to the Bank's Board of Executive Directors would be deferred until after the June 1962 election and the new Government taking office. When the Junta took office the loan proposal was again deferred.

6. In September 1962, Cerro de Pasco, the main shipper of goods by the Central Railway, announced its intention to ship exclusively by truck. The loss of this traffic, about 68% of the total, would so seriously have affected the Railway's finances and the earnings of the Corporation that the loan could not have been made. Negotiations between the Corporation and Cerro de Pasco resulted in an agreement which provides for the continued use of the Railway for Cerro's total traffic as long as the railway rates are competitive with trucking rates.

7. This report is based on the information contained in the two consultants' reports, on the Bank Mission's findings during its visit to Peru, and on subsequent further information obtained from the Peruvian Corporation.

II. BACKGROUND

8. The Peruvian Corporation Limited is an English limited liability company dating back to 1890. It operates in Peru and is domiciled in the U.S.A. As a consequence of the March 1, 1956 reorganization its entire share capital, £ 16,500,000, and US$9,220,761, 6% sinking fund debenture debt due December 31, 1980, are owned by a new parent company incorporated in 1956 under the laws of Canada. The original name of the parent company was Peruvian Transport Corporation Limited; this was changed in 1958 to Peruvian Investment and Finance Limited.

9. A summary corporate history of the Peruvian Corporation, with details of the 1956 reorganization, is given in Appendix A.

10. At the time of this reorganization the publicly-held debentures of the Peruvian Corporation amounted to £ 3,946,900 (equivalent to US$11,051,320), exclusive of the interest arrears which were cancelled. The old debenture holders received some US$6,710,000 in 6% and 5% debentures of the new holding company and cash equivalent to US$4,420,000, a total package of US$11,130,000, or approximately the full face amount of their holdings.

11. The cash portion of this settlement was provided by the sale at par of US$4,000,000 of the Class A shares of the new holding company; the treasury resources of the Peruvian Corporation provided the balance.

12. The new 6% sinking fund debenture due 1980 of the Peruvian Corporation to the extent of some US$10,000,000 was received by the holding company. After the subsequent transfer of the Perene Colony from the Peruvian Corporation to the holding company and some other minor adjustments this debenture was reduced to US$9,220,761.

13. Under the terms of the reorganization the holders of the £9,000,000 ordinary shares and £7,500,000, 5% preference shares of the Peruvian Corporation turned in their shares and in exchange received US$3,720,000 new Class B shares of the holding company. This was in exchange for an aggregate of £16,500,000 or US$46,200,000 equivalent par value of old share holdings.

14. As of June 30, 1961, the outstanding Class A shares of the holding company have been reduced from US$4,000,000 to US$3,756,235 and the outstanding Class B shares have been increased from US$3,720,000 to US$3,978,140.

15. In 1956 the Eximbank of Washington, D.C., made a first loan of US$1,550,000 to the Peruvian Corporation for the purchase of seven diesel locomotives. This loan carries an interest rate of $5\frac{1}{4}$% and is repayable in semi-annual installments between 1958 and 1965; its debt service has been met, the amount outstanding is $620,000. A second loan was made by the Eximbank in 1961, in the amount of US$1,500,000, for six more diesel locomotives. Amortization of this loan will also be semi-annually, payments beginning in 1965 and ending in 1972.

III. THE RAILWAYS

A. Organization and Management

16. The Peruvian Corporation, which owns and administers four railway systems and a truck service in Peru, is headed by a Board of ten Directors, of whom seven are of Peruvian and three of British nationality. The latter are the Chairman, the Deputy Chairman, and the ex-Managing Director, all residing in London. Annex 1 shows the names, positions and nationalities of the Board members. The Board has wide authority in operating the Corporation's railways and truck service. Only in matters of considerable financial importance does the parent company formulate the policy to be adopted.

17. Each railway system has its own Manager reporting to a General Manager in Lima. As may be seen from the attached map, the two largest and most important systems are the Central and the Southern Railways. The other two railways, Trujillo and Pacasmayo, are short lines and carry only an insignificant amount of traffic. The Piura Truck Service is a modest enterprise.

18. Management is on the whole competent and efficient. In February 1963 the incumbent Managing Director, who had been with the Corporation for many years, retired, and was replaced by a Peruvian of considerable business experience, who has been designated the Corporation's Representative and General Manager.

for the position. Recently some Peruvian engineers have been recruited, who are now being trained in England, but at present practically all higher level staff is British.

B. Manpower, Wages and Labor Relations

19. Total manpower of the Peruvian Corporation in Peru was 5,600 men on June 30, 1962, of which about 5,325 were employed by the Central and Southern Railways. Since 1957 the labor force has decreased by approximately 16% through attrition. During the same period (1957 to 1962) wages have been raised by 74.0% on the Central and by 119.0% on the Southern Railway, but on the latter are still about 19% lower than on the Central Railway. In September 1962 the Railways granted a further wage increase of 17% on the Central and 18½% on the Southern Railways, retroactive to July 1, 1962.

20. Labor relations are unsettled, both Railways having recently experienced strikes. An 8-day strike late in 1961 and a 34-day strike in August-September 1962 on the Central, a 17-day strike in January 1962 and a 2½-day strike in September 1962 on the Southern, were all related to demands for wages and benefits increases. A pattern appears to have evolved, the railway unions presenting each year exaggerated wage demands which it would not be possible to meet - for example, the last demand on the Southern Railway was for a wage increase of about 500%; rejection of the demands is followed by a strike; and settlement of the dispute usually involves government intervention in the negotiations between the Corporation and the Unions, and an agreement on better terms for the workers than the Corporation had offered.

C. Peruvian Corporation's Properties

21. A description of the Corporation's properties is given in some detail in Appendix B. In summary the railway property includes: 1,620 route-kilometers of track, 149 locomotives, 200 passenger cars and 2,439 freight cars. The two major railways are the Central and the Southern (see map).

Central Railway

22. The standard gauge main line extends a distance of 346 km between the Port of Callao and Huancayo. A branch line of 37 km runs from Lima to Ancon on the coast. As there is little traffic on this branch, the Corporation has requested Government's approval to dismantle this line. Notable features of the main line are its many curves, severe gradients, several switch-backs, and that it rises from sea level to an altitude of almost 16,000 feet.

Southern Railway

23. The standard gauge main line has a route length of 862 km extending from Mollendo to Cuzco, with a branch from Juliaca to Puno. It also owns and operates the steamship service on Lake Titicaca from Puno to Guaqui and

the connecting meter gauge railway to La Paz in Bolivia. In addition the Railway operates the Government-owned railway line from Matarani to La Joya. The total route length operated is 1,020 km. This Railway also attains a high altitude, about 14,000 feet, but it does not have such steep gradients as the Central Railway.

24. On both Railways the motive power and rolling stock, the workshops, bridges, buildings etc. are all well maintained, but there are arrears of track renewals.

Other Properties

25. The Trujillo and Pacasmayo Railways have a total route length of 245 km, mostly on level alignment. The Piura Truck Service owns and operates 15 trucks and five trailers.

D. Operating Efficiency

Central Railway

26. Passenger trains are operated on fixed schedules while practically all freight train movements are regulated by train dispatching. The heaviest freight movement is on the 222 km of line between Callao and Oroya, the mining center. Practically no trains are operated between 10:00 pm and 4:00 am because of dangerous conditions caused by frequent rockfalls and restricted visibility in the curves on the upper mountain stretches. This is a limiting factor for line capacity.

27. Another restricting factor for operations is the steepness of grades up to 4.37%. This limits the maximum gross train-weight for the largest steam locomotive in use to 180 tons and results in very short trains of about 4 to 5 loaded cars. As each train requires a full crew the operating costs are high. Furthermore the dead-end tracks in the various switchbacks are short and this, too, limits train length. To extend these switchbacks would be very costly.

28. Utilization of motive power and passenger stock is satisfactory, but with the number of freight cars in its fleet the Railway could move more tonnage than is at present being offered. On the whole the Central Railway is being operated efficiently.

Southern Railway

29. As on the Central Railway train control is by means of timetable and dispatcher's train orders. Most of the freight moves between the ports of Matarani/Mollendo and Puno. Gradients on this Railway also are very severe (up to 4.1%) and the line reaches an altitude of about 14,000 feet, but there are no switchbacks. Operations on the Southern Railway are efficient but there is a shortage of certain types of freight cars, mainly cattle cars.

Other Operations

30. Operations on the two small railways are very simple, varying from one to three trains and some railcar runs a week over route lengths of 131 and 113 km respectively. The Government agreed in 1962 to the Corporation closing a 60 km railway line between Sullana and Paita as it was not viable, and part of the real estate property has been sold to the Peruvian Government. The Piura trucking service seems to operate reasonably well although its profitability is questionable.

IV. FINANCIAL POSITION AND RECENT OPERATING RESULTS

31. The accounts of the Peruvian Corporation are and for many years have been audited by Price Waterhouse Peat & Co., or the predecessor firm, Price Waterhouse & Co. These annual reports are in sterling. Comparative summary balance sheets based on these reports at the close of each of the past six fiscal years ending June 30 and summary income statements for the corresponding fiscal years are given in Annex 2 and Annex 3, respectively. The financial history of the Corporation, as indicated earlier in this report, is a long record of inadequate earnings and resultant moratoriums and/or reorganizations. The latest reorganization was in 1956 and has been described in Appendix A.

32. Following this reorganization the Corporation in fiscal year 1957 showed a net income of £ 200,000 after interest charges of £ 240,000, and paid a modest dividend of £ 82,500 (one half of one percent on the share capital). In each of the succeeding five years, including 1962, the Corporation failed to earn its interest charges, the aggregate five-year deficit after interest being £ 1,820,000.

33. Before discussing this current adverse earnings trend, reference is made to the June 30, 1962 balance sheet a summary of which is shown below:

Assets	£ 000,000
Property, concessions, etc.	25.48
Less accumulated depreciation	2.35
Net fixed assets	23.13
Bolivian funds 1/	.32
Cash	.42
Receivables	.62
Stores and materials	1.03
Total current assets	2.07
Total Assets	25.52

1/ Cash assets of the Corporation that are held in Bolivia but which by agreement with the Bolivian Government should be released in US dollars in monthly instalments through Nov.30, 1968.

Liabilities	£ 000,000
Capital stock - ordinary shares	16.50
Deficit since July 1, 1955	-.90
Capital surplus as of June 30, 1955 1/	1.43
	17.03
Debentures 6%, due 1980 (payable to parent)	3.29
Eximbank loan	.78
	4.07
Provision for social legislation	1.60
Reserve for foreign exchange difference	.34
Renewal reserve	1.54
Other reserves	.07
	3.55
Due parent, including 6% interest on debentures	.42
Other accrued liabilities and current items	.45
Total current liabilities	.87
Total Liabilities	25.52

1/ Entitled "Property Reserve" in the auditors' report.

34. The Auditor's report says that the capital assets, consisting of properties, concessions, lake steamers, rolling stock, furniture, transport, plant etc. are stated at book amount at June 30, 1948, treated as a valuation, less proceeds of sales plus additions at cost. Fixed assets of subsidiaries which reverted to the Corporation on termination of leases are included at book amounts. Prior to April 1, 1958 it had not been the practice of the Corporation to provide for depreciation of its assets, except for furniture, road transport units and certain rolling stock. However, the cost of replacements was charged against income. From April 1, 1958, except for the Guaqui-La Paz Railway, provisions at the rate of 14% of gross revenues were made to cover both depreciation and the cost of renewals and replacements.

35. As regards taxation, the United Kingdom claims for past tax liabilities were settled in 1957. As a foreign corporation, domiciled in the U.S. since 1959/60 but operating in Peru, the Corporation is exempt from U.S. income taxes. The profits of the Corporation under the terms of its concessions are exempt from Peruvian income tax up to March 1, 1973, except for a withholding tax of 8% on amounts distributed as dividends on its shares. No provision has been made in respect of a disputed claim in the amount of £ [illegible] for prior years' Peruvian tax on debenture interest. The Auditor's report of October 1962 for the fiscal year ended June 30, 1962 refers to these

other claims against the Corporation:- 1) by the Bolivian Government for £ 114,000 in respect of the rental charge for operation of a mole; 2) by ex-employees and others, largely for social law benefits (S/.9.3 million); and 3) for restitution of monies received from the sale of land to related companies in the event that an action by the Government of Peru contesting title is upheld (£ 223,914). Legal Counsel of the Corporation are of the opinion that the Bolivian Government's claim is without merit and that all other suits and claims will be closed without material loss to the Corporation. As a result of its claim, the Bolivian Government suspended allotments as of March 1962 of dollar amounts withdrawable (about $9,900 monthly) under the Agreement dated January 7, 1961 with the Corporation, but allowed a withdrawal of $45,000 in December 1962.

36. Except for some fire and marine risks the Corporation carries no insurance, and losses incurred for accidents, etc., are charged to current revenue. It is also the Corporation's practice to charge the operating accounts with all liabilities accruing for social legislation benefits prescribed by the laws of Peru and Bolivia but to make payments from current resources as obligations fall due.

37. Following is a summary of the income account for the last six fiscal years:

Year Ended June 30	Operating Revenues	Operating Expenses Including Deprec.	Other Income	Gross Income	Interest	Net Income or Loss
			(£ 000,000)			
1957	4.64	4.28	.08	.44	.24	.20
1958	3.70	3.84	.12	-.02	.24	-.26
1959	2.86	3.24	.01	-.37	.23	-.60
1960	3.54	3.53	.02	.03	.22	-.19
1961	4.11	4.16	.01	-.04	.22	-.26
1962	4.23	4.54	.03	-.28	.23	-.51

38. Operating revenues dropped sharply in 1958 and 1959, the two-year drop being 38% compared with 1957. From 1960 and 1962 there was a partial recovery, but the 1962 earnings were still 8% below the 1957 level. Gross income (the balance available for interest) showed deficits in 1958, 1959, 1961 and 1962. As mentioned in paragraph 32, net income (after interest) was a deficit for each of the years 1958 to 1962 inclusive.

39. In the foregoing table operating revenues are given in sterling which was converted, in accordance with the average annual rates of exchange stated in the auditors' annual reports. The corresponding figures of operating revenues expressed in soles are as follows:

Year Ended June 30	Operating Revenues (Soles 000,000)	Avg. Rate of Exchange (Per £)
1957	245.	52.78
1958	213.	57.50
1959	207.	72.35
1960	278.	78.41
1961	310.	75.49
1962	319.	75.41

The soles operating revenues for 1962 are 30% above the 1957 figures.

40. The record shows that in the past twelve years gross income before fixed charges was negative in five years and that net income was negative in eight years. In 1959, the worst year in the period, the loss was more than 20% of gross revenue. The last five years have been consistently bad for several reasons: i) the reduction of world market demand for non-ferrous metals in 1957 and the general trade recession in 1958 caused considerable decline of railway traffic; ii) numerous strikes and other labor trouble affected the railways both directly and indirectly and, in most cases, resulted in considerable wage increases; iii) a time lag of several months between wage increases and rate increases intended to cover them; iv) serious washouts and land slides in 1959 on the Central Railway.

V. TRAFFIC AND RATES

A. Traffic Composition and Traffic Development

Central Railway, Freight

41. Freight traffic in terms of tons on the Central Railway consists of slightly more than 60% of mineral movement (ores, concentrates and refined metals) and is mainly between the several mines and concentrators, smelters or refineries and the Port of Callao. The minerals are generally exported in the form of concentrates and refined metals. The share of refined metals in total export traffic has been increasing. Average length of haul for all traffic is 150 to 160 km.

42. The largest individual shipper of the Central Railway is Cerro de Pasco Corporation which accounts for about four-fifths of the mineral traffic and for some two-thirds of the total traffic on the Central Railway, moving mainly between the Port of Callao and La Oroya. Cerro de Pasco owns and operates a railway about 140 km long, 450 freight cars and several locomotives for transportation between its mines and the smelter at La Oroya. Freight cars are interchanged between the two railways rent free.

43. There is a marked imbalance in the flow of freight; only about 40% of the total is up-traffic (eastbound moving traffic). This consists mostly of general merchandise and manufactured goods of which petroleum products are the main part.

44. From 1950 to 1962 fluctuations around the average level of traffic have been large amounting to ± 20% (Annex 4). No clear trend of traffic growth or decline is discernable although up-traffic in general appears to have been decreasing since 1953. Despite the generally improving economic conditions during the past financial year, the actual figures for 1961/62 show a slight drop in ton-km of freight traffic when compared with the previous year.

<u>Southern Railway, Freight</u>

45. An important part of the Southern Railway's freight traffic is the Bolivian transit traffic. Until the middle of 1961, about 28% of all freight traffic in ton/km consisted of transit traffic between the ports of Matarani/Mollendo and Bolivia of which approximately 85% was up-traffic of imports to that country, mainly sugar, wheat and flour. The 28% remained remarkably firm during the previous five years in which period total traffic on the Southern Railway showed large fluctuations. The rail route in Peru of the Bolivian traffic is the main line Matarani/Mollendo-Arequipa-Juliaca-Puno. Very little of the Juliaca-Cuzco line traffic is related to Bolivian trade.

46. As of the middle of 1961 the sugar import to Bolivia ceased to move over the Southern Railway because Bolivia had become largely self-sufficient and in case of need drew supplies from the Argentine. The loss of the sugar traffic caused a temporary reduction of Bolivian traffic to 24% of the Southern Railway's total. Since mid-1962 the Bolivian traffic has regained the level of 28%, but of a higher total traffic, which is 20% above the corresponding period of the previous year.

47. About two-thirds of total freight is up-traffic and includes wheat and other foodstuffs, petroleum products and other commodities for the highlands. Down-traffic includes about 40% mineral movement and the second largest item is cattle.

48. The Southern Railway was also greatly affected by the general economic recession in Peru from 1958 through 1959 and specially by droughts which occurred in Southern Peru in those years. If the annual fluctuations are eliminated the resulting trend line shows a total growth of 72% over 12 years. This implies an average annual growth rate of about 5% during the period. An analysis by traffic categories shows increases in the movement of minerals (partly Bolivian export), timber and petroleum products. The share of Peruvian ports in total Bolivian foreign trade tonnage has been increasing. Total freight traffic in the financial year ended June 30, 1962, exceeded the results of the previous year by about 2.5% (Annex 4).

Central and Southern Railways, Passengers

49. Passenger traffic on both railways (Annex 5) has been declining since 1955-57, revenues however have increased. The Peruvian Corporation at present earns about 10% of its total revenues from passenger traffic.

B. Tariff Structure and Rate Level

50. Until April 1962 railway rates had to be submitted to the Ministry of Development and Public Works for approval. In most cases there was a considerable time lag between the submission and the approval of rate increase proposals, and in some cases the proposals were reduced or vetoed. During the last ten years there have been numerous (7 to 8) freight rate increases on both railways, the purpose of which has been to compensate for wage increases granted. Average revenue per ton-km shows an increase of 186% for the Central Railway and 124% for the Southern Railway from 1950 to 1962, and the wage increases during the period were 332% and 375% respectively. In effect the rate increases during the period were not sufficient to compensate for wage and other cost increases. Rate increases on the Central exceeded those on the Southern Railway; the average level of revenue per ton mile is at present 30% lower on the Southern Railway than on the Central.

51. The law requires that basic railway rates be published. Early in 1961 the Government authorized the railways to grant concessions, discounts or reductions to the various shippers on the basis of traffic volume. The so-called "Variable Charges Law" pertaining to this authorization was made effective in June 1961. Under this law similar benefits must be extended to all shippers under similar conditions. The law implies that the published rates are to be regarded as maximum rates, and the Railways' Management, therefore, has flexibility in competing with road transport.

52. The railway tariff commission established under the agreements of Loan 190-PE, existed for only five months. Traffic co-ordination and regulation in Peru have since been studied by consultants hired jointly by the Government and the Bank. On July 13, 1961, the Peruvian Congress passed a law establishing a Commission for Economic Regulation of Transport, which on the whole is satisfactory except that it would have been desirable to have the Ministry of Labor represented on the Commission. The principal authority given to the Commission is to "regulate technically and economically co-ordinated rates and fares of inter-departmental and inter-provincial public transport services"; thus, it covers not only the railways but all modes of transportation.

53. Regulations defining the scope of the law have been established by the Government. They prescribe that the tariffs should enable the carrier to cover working costs, depreciation charges on a replacement basis, other fixed charges, and to give a reasonable return on the equity. The decision of the Commission in fixing rates would be final. The Bank considers that the Regulations are satisfactory. The Commission, which has been appointed, has approved the Regulations, and they have been made effective by Supreme Resolution in April 1962.

54. In connection with the recent wage increase, and in order to improve its competitive position vis-a-vis road transport, the Corporation in October 1962 submitted to the Commission a proposal to change the basis of the Central Railway's freight tariff structure from commodity value to cost of transport; the most important features of this change are a) a reduction of classes from 28 to 6, b) diminishing rates per ton for increasing tonnage per car, c) a coefficient for gradient and direction of traffic and d) a narrowing of the spread between the highest and lowest rates. The proposed new rates are therefore better suited to meet road competition, and would yield additional freight revenue of S/.4.2 million per annum on the basis of the 1962 traffic volume. Cerro de Pasco has accepted the new rates. Cerro has in the past received a discount of 15% on the published rates in return for moving all its freight by rail; under the new agreement Cerro will receive a 15% discount on general goods, ores and concentrates, and a sliding scale discount for metals starting at 17.5% for a minimum of 140,000 tons and increasing thereafter. The Commission has approved the new tariff structure, to become effective March 1, 1963.

55. The Southern Railway's freight tariff structure is based on the value of the commodity, but it is the Corporation's purpose to revise this structure to base it principally on costs of transportation, as in the case of the Central Railway.

56. The Corporation has submitted a proposal to the Commission for freight rate increases for the Southern Railway, which it is estimated will yield additional revenue of S/.4 million per annum on the basis of the 1962 traffic volume.

57. The expected revenue increases indicated would only partly compensate for the cash cost of the recent wage awards estimated at S/.10.6 million per annum for the Central, and at S/.12.1 million for the Southern, which excludes a one-time non-cash liability of S/.16 million for social benefits. The Corporation considers that it cannot ask for higher rates as long as road transport remains virtually unregulated, that to do so would result in substantial losses of present and potential traffic.

58. As indidated above, the Commission for Economic Regulation of Transport is responsible for the coordination of rates and fares which should be at a level that would assure financial viability of the carrier, and as an important part of road transport regulation arrangements are being made to enforce vehicle load control using for this purpose a highway police force and special weighing scales.

59. Passenger fares on both railways vary according to the gradient of the line sections but no distinction is made between up and down traffic. The rates per passenger-km have been increased by 202% (Central Railway) and 125% (Southern Railway) from 1950 to 1962.

C. Highway Competition

60. The Central Railway is closely paralleled over its entire length by the Central Highway. The highway is paved and in good condition, except for some short sections, which are being improved. The consultants estimate that in 1959 the Central Railway carried 60% of the total freight moved. According to their estimate only about one-third of freight other than the Cerro de Pasco's was carried by rail. No data on passenger movement by bus on the Central Highway are available but there is reason to believe that it is substantial.

61. The Southern Railway is paralleled by a highway between the coast and Arequipa and between Puno and Cuzco. There also exists a road from Arequipa to Puno, not closely paralleling the railway line. The standards and conditions of the first-mentioned road are good, the other two roads are for the greater part in poor condition. The Consultants estimate that the Southern Railway moves about 80% of all freight in its territory, including Bolivian traffic, and 70% of all passengers between Arequipa and Juliaca, but only 20% to 40% of the total number between terminal points of the other line sections.

62. The number of trucks registered in Peru has more than doubled in seven years, indicating an average growth rate of more than 10% a year. The number of buses has been increasing at a somewhat lower rate. Gasoline consumption for motor fuel shows a similar pattern of growth. The gasoline price is about two-thirds of the price in the United States. Practically all trucking business in Peru is on an owner-driver basis. The degree of organization of the industry is low, and freight rates vary greatly. Government regulation of the industry is restricted to the prescription of maximum loads, rates and fares, but over-loading of both trucks and buses and non-observance of authorized tariffs are prevalent. There are practically no established technical standards for the condition of motor vehicles, and there is no control of their condition. A greater degree of control of highway traffic must be exercised if both railway and highway transport are to make their full and effective contributions to the Peruvian economy. The recently established Transport Commission is expected, inter alia, to issue and enforce regulations for road transport, and to establish equitable rates and fares for all modes of transportation. Enforcement of regulations for road transport, for example of truck and bus maintenance standards and road control, would cause higher unit costs. However, it seems reasonable to assume that the wage level in trucking will continue to be lower than on the railways for as long as trucks are mainly owner-driver operated.

63. Late in 1962, Cerro de Pasco engaged a consulting firm to advise it on the economic feasibility of moving all its freight by road, a report to be submitted by mid-December. The results of the consultant's study are not available to the Bank, but on December 7, 1962 Cerro agreed to continue using exclusively the Central Railway and declared that the proposed rates of the new tariff structure were competitive with truck rates.

64. Competition is restricted to only a minor part of the total traffic within the area served by the Southern Railway where average rail revenue per ton-kilometer was 56 centavos in 1962, which, as mentioned earlier, is 30% lower than on the Central, and would indicate that the Southern's rates are more competitive with truck rates. The policy of the Corporation is to keep the Southern Railway's freight rates at about the present level to hold its traffic and to be in the best possible competitive position to realize the potential traffic when the carrying capacity of the Southern has been enlarged and its cost-efficiency improved by dieselization.

65. The Government's road program includes improvement of some parts of the Cuzco-Puno and the Arequipa-Puno roads within the next five years which is expected to increase road competition for the Southern Railway system. Increased road competition has been taken into account in the Peruvian Corporation's forecast of traffic and revenue.

VI. FUTURE TRAFFIC PROSPECTS

A. Central Railway

66. The key problem with regard to traffic prospects of the Central Railway is whether it will retain the Cerro de Pasco Corporation's traffic. In past years when the Railway's rates had to be raised to meet increased operating costs, Cerro has threatened to transfer all its freight business to the roads. This threat was made in a more positive form after Cerro had been obliged to use trucks during the 34-day (August - September 1962) strike of workers on the Central Railway. Reference has been made earlier to the agreement of December 7, 1962 between the two Corporations, which:

1) assures the Central Railway all of Cerro's freight traffic as long as railway rates are competitive with truck rates. Cerro has declared that the railway rates of the new tariff structure proposal are competitive and that it will continue to use exclusively the Railway while these rates are in force;

2) assures Cerro discounts on the published rates.

67. The Central Railway is at a competitive disadvantage because i) there is lack of enforcement of road vehicle regulations and road-user charges are inadequate and ii) the economies to be obtained from dieselization are still one year at least away. The Bank will continue to pursue with the Government the matters under (i) in reference to the coordination of transport in Peru under the Commission for Economic Regulation of Transport and the Bank's Highway Loan No. 300-PE. The Bank has received an assurance from the Government that it plans to enforce road regulations beginning October 1963.

68. Even under the present conditions the Railway has proved itself competitive, and it is therefore reasonable to assume that in the better circumstances to be expected, its position competitively would improve and it would have no difficulty in holding the Cerro traffic.

69. The Corporation has based its freight traffic forecast on an increase of 1% per annum in accordance with their consultants' views. The development of traffic over the past decade does not clearly indicate a trend. However, since world copper production is expected to rise moderately during this decade, and that of lead and zinc production to remain firm, it is acceptable to forecast some increase in Cerro de Pasco's traffic. Movement of these commodities is slightly more than 50% in ton/km of the Railway's total freight traffic. In these circumstances a 1% annual increment appears to be acceptable. This is consistent with the assumptions in the Bank's Economic Report on Peru. Passenger revenue has been increasing, but is expected to stay at the same level as in 1962.

B. Southern Railway

70. In view of the importance of the Bolivian transit freight traffic in the total traffic carried by the Southern Railway, careful consideration has been given to the possibility of the loss of this traffic. Discussions were recently held with the Corporation's management on this subject. The conclusion is that a substantial part of the total Bolivian traffic moving through Pacific ports will continue to use the Southern Railway.

71. In particular the competitive standing of the Arica route has been reviewed. At present total transport charges to Bolivian importers in La Paz are lowest by the Southern Railway route although the distance from Matarani to La Paz (815 kms) is almost twice as long as Arica-La Paz (450 kms) and movement over the Southern Railway includes two transshipments: rail-steamer-rail. Rail freight rates to La Paz by both routes are about equal, despite the longer and more complicated haul over the Southern Railway across Lake Titicaca, but shipping rates to Matarani from U.S. and European ports are US$2.80 per ton lower than to Arica, which is equivalent to about 15% of the rail transport cost to La Paz.

72. The Arica-La Paz Railway which has a rack section with an 8% grade, 45 kms long, operates at considerable losses mainly because of its very low traffic density and inefficient operation. It would need major improvements if it were to carry substantially more traffic than at present.

73. The Southern Railway's management is confident that it will continue to be able to compete successfully with the Arica-La Paz Railway for the Bolivian traffic, but no increase in its volume has been assumed in the traffic and revenue forecasts for the Southern Railway.

74. Considering the rate of overall traffic increase in the past on the Southern Railway, the future traffic increase has been conservatively taken at 2% per annum till 1965, and at only 1% thereafter in view of possible greater road competition. This forecast is in accord with the consultants' report. It should be noted that it does not take fully into consideration a possible further increase in traffic resulting from the coming into production of a new cement mill at Juliaca late in 1962. The initial annual capacity of this plant is 72,000 tons of cement, and 30,000 tons of clinker

which would be shipped to the existing cement mill at Arequipa. The traffic that the Railway expects to obtain therefrom is fuel oil, clinker and some cement, which would mean about S/ 12 million in freight revenue. As on the Central Railway, no increase in passenger revenue has been assumed.

75. The following table shows the freight traffic forecast in millions of net ton-kms on both railway systems:

Year ending June 30	Central Railway Freight net t-km	Southern Railway Freight net t-km	Year ending June 30	Central Railway Freight net t-km	Southern Railway Freight net t-km
1961 Actual	153	208	1966	170	271
1962 Actual	150	213	1967	172	273
1963	150 1/	258 2/	1968	174	276
1964	166	263	1969	176	278
1965	168	268	1970	178	281

1/ Low estimate because of 34-day strike August-September 1962.

2/ Based on 4-month period July/October 1962.

VII. MODERNIZATION AND REHABILITATION PROGRAM FOR THE CENTRAL AND SOUTHERN RAILWAYS

A. The Project

76. The project is the Peruvian Corporation's four-year (1961/62 - 1964/65) program of modernization and rehabilitation for the Central and Southern Railways, which is estimated to cost US$21.3 million equivalent (S/ 575 million) including an amount for contingencies and interest during construction on the proposed Bank loan. The program which was prepared by the consultants is well conceived and contains the minimum requirements to meet the essential needs of these Railways.

77. The main objectives are i) to dieselize motive power in order to reduce transportation costs, ii) to make up arrears in rail renewals, and iii) to extend the carrying capacity of the Southern Railway to meet traffic demands by providing additional freight cars.

78. The components of the project which are given in detail in Annex 6 are summarized below:

	$ m.	Equivalent in S/ m.
44 diesel electric locomotives and spare parts (main line)	10.2	275
3 diesel hydraulic locomotives and spare parts (shunters)	0.2	5
29,000 tons of rails	4.6	123
171 freight cars	2.5	67
Workshop facilities	0.8 1/	22
Tie renewals and rail laying	1.4 2/	40
	19.7	532
Contingency	0.4	11
Interest during construction	1.2	32
	21.3	575

1/ Includes $0.3 million (S/ 9 million) of local currency expenditure;
2/ All local currency expenditure. Part of this expenditure would be in 1965/66 as rail laying would continue into that year.

79. The immediate need for motive power on the Southern Railway to replace steam locomotives, for which the repair costs would have been prohibitive, induced the Peruvian Corporation in 1961 to borrow $1.5 million from the Eximbank for the purchase of 6 diesel locomotives, which have recently been put into service.

80. Bank assistance has been requested in the amount of $13.25 million equivalent, to finance part of the foreign exchange required during the last three years of the project (See Annex 6). Actual expenditure of the proposed loan would be made in the years 1962/63 to 1964/65, for the following items:

		(US$000)
Central Railway:	11,300 tons of 80-lb rail	1,810
	3 diesel locomotives and spare parts	645
	Workshop equipment	250
		2,705
Southern Railway:	17,700 tons of 80-lb rail	2,800
	19 diesel locomotives and spare parts	3,455
	171 freight cars	2,470
	Workshop equipment	250
		8,975
	Total of Goods	11,680
	Contingency	350
	Interest during Construction	1,220
	Total	13,250

81. The above figures are based on prices received by the Corporation in international competitive bidding for diesel locomotives, for rolling stock and for part of the workshop equipment. For rails, the base is an order placed by the Corporation with a regular supplier in 1962. Orders will be placed as soon as possible after the loan is made. The contingency amount is therefore mainly intended to cover possible price increases for that part of the rail which would not be ordered until late in 1964, the estimated cost of which is $1.8 million.

82. To meet the most immediate needs orders had to be placed by the Corporation for 1,500 tons rail ($215,000) which would be financed by the Bank loan. Apart from this rail and 5 diesel-electric locomotives of 2,000 h.p. for the Southern Railway, the purchase of all goods would be subject to international competitive bidding. The 5 diesel-electric locomotives will be purchased from ALCO to be used in an existing pool of 12 locomotives of the same make and type; standardization for this pool is technically essential. An order for 3 of these locomotives has been placed in February 1963, for delivery in mid 1963, to avoid a shortfall of motive power on the Southern Railway.

B. Savings from Dieselization

83. As a result of implementing the above program the Peruvian Corporation expects to become more competitive with road transportation and to attain profitability in the long run. This expectation is based to a large extent on reduction of operating costs to be derived from using diesel instead of steam motive power on the Central and the Southern Railways. Using its Consultant's Study, the Corporation has estimated the reduction about S/. 9 million in 1963/64, S/. 34 million in 1964/65, S/. 45 million in 1965/66, and S/. 47 million in 1966/67, with slight annual increases thereafter as traffic grows.

84. The estimate of the reduction of operating expenses from dieselization is based on the total workload to be performed by the locomotives, that is to say, on the gross ton-kilometers, not net ton-kilometers which pertain to the net weight of freight moved. For the Central Railway the estimate is based on a workload of 370 million gross ton-kilometers per year (1962: 350 million). For the Southern Railway a similar estimate was made based on an annual workload of 531 million gross ton-kilometers (1962: 519 million). Full savings are expected to be attained two years after completion of dieselization, in 1966/67. The estimate of savings, which has been derived from the consultants' report, is considered to be realistic.

85. About 45% of the total savings from dieselization are due to reduced fuel consumption. Actual performance of diesels in operation on the Southern Railway shows a saving of 65% in fuel costs, which percentage has been applied to the calculations for both Railways.

86. About 30% of the estimated annual savings would come from reduced payrolls for maintenance and servicing of locomotives. The reduction in these forces has been spread over two years after full dieselization, which is reasonable in view of the difficulties experienced in making any drastic reductions in force in these crafts. If any labor agreements or governmental

policies were to interfere with reductions of labor force the resulting savings would be reduced accordingly. Furthermore, if instead of reduction by normal attrition, labor had to be cut mostly by lay-offs, the Corporation would be required to make severance payments which might amount to as much as S/ 8 million in each of the two years. Such possible payments have not been taken into account in the financial forecasts. On the other hand no credit has been allowed for scrap sales of the steam locomotives and rails.

VIII. FINANCIAL ASPECTS

A. Financial Plan

87. Financing of the program has been the subject of detailed discussions between the Bank and the Corporation during the past several months. The background thereof was the need for the program to be carried out, the expectation of substantial financial savings from operations that would expand in accordance with reasonable traffic forecasts, and the promise of more equitable competitive conditions for transportation under Transport Commission's regulations. Given the right business climate the program would bring the Corporation success, perhaps in greater measure than anticipated, but the Corporation's weak starting position required the Bank, if it were to participate in the financing, to obtain assurance that sufficient funds would be made available to execute the program during the period 1962/63 to 1964/65 without itself alone providing all the foreign exchange.

88. The possibility of the parent company providing additional equity capital, establishing a line of credit to bolster the Corporation's cash position, or to be a participant in a Bank loan for the total foreign exchange requirements, were explored and found to be impracticable. In concluding the discussions an agreement was reached on a possible Bank loan of up to $13.25 million equivalent which would provide for i) interest during construction (to June 30, 1965) on the loan and ii) all imported equipment which originally was to be procured by the Corporation with self-generated funds, subject to the Corporation being able to obtain a credit from another source of $4.75 million equivalent to finance 19 diesel locomotives for the Central Railway, on terms that would not impose too great a financial burden during the financially critical years. It was also agreed that the Corporation would use its own funds to the fullest extent possible to purchase goods provided for in the Bank loan, so that drawings thereon would be reduced in proportion to the Corporation's capacity to pay its own way.

89. The Corporation has been informed by the Eximbank that it is willing to negotiate a loan of $4.75 million for the diesel locomotives, which, subject to confirmation, would be for 7 years at 5-3/4%.

90. The estimated cost of the program in the four-year period 1961/62 - 1964/65 is S/ 565 million, US$20.9 million equivalent, (excluding the throw forward of S/ 10 million to 1965/66 for rail laying), and in addition the Corporation will have to finance some minor capital works and to service the publicly held debentures of the parent company, the existing and the proposed additional Eximbank loan. The application and sources of funds are shown below:

	1961/62 - 1964/65		
	S/.	US$ Equivalent (millions)	Percent of total
Application			
Project	565	20.9	80
Other capital works	25	1.0	4
Debt Service			
Amortization:			
Eximbank (including new credit)	46	1.7	7
Debentures held by Public (Sinking Fund)	12	.4	1
Interest:			
Eximbank	22	.8	3
Debentures held by Public	36	1.4	5
Total	706	26.2	100
Sources			
Eximbank	169	6.3	24
IBRD	358	13.2	51
Corporation	179	6.7	25
Total	706	26.2	100

The generation of cash funds by the Corporation during this period would be from:

a) its Railway operations, including cash (S/ 35 million) at the start	S/ 283 m
b) proceeds of the sale of Paita line	7
c) release of funds in Bolivia	13
	S/ 303 m

91. The expected result from this financing plan is that the cash position of the Corporation will be substantially strengthened during the carrying out of the program. It will be noted from Annex 7 that the estimated accumulated cash in mid 1965, the end of the program is S/ 124 million, US$4.6 million equivalent.

B. Earnings and Liquidity

92. The projections of the Peruvian Corporation's income account through 1969/70, which are given in detail in Annex 8, can be summarized as follows:

Income Account Forecast

Year	Operating Revenue 1/	Operating Expenses 2/ (excluding depreciation)	Net Revenue before Depreciation	Gross Income (after depreciation)	Total Interest Charges	Net Income
	Soles millions					
1960/61 (actual)	294	256	38	-3	17	-20
1961/62 (actual)	305	284 3/	21	-22	17	-39
1962/63	332	299 4/	33	-14	21	-35
1963/64	357	288	69	19	33	-14
1964/65	362	264	98	47	44	3
1965/66	365	256	109	58	44	14
1966/67	368	258	110	58	42	16
1967/68	372	260	112	60	41	19
1968/69	375	262	113	60	37	23
1969/70	379	264	115	60	35	27

1/ Does not include revenue from the Guaqui-La Paz line and from the Piura trucking service.

2/ The annual net loss of the Guaqui-La Paz line of S/ 10 million in 1961/62 and S/ 8 million thereafter is included in operating expenses, the Piura trucking service's operating expenditure is practically balanced by its operating revenue.

3/ Includes S/ 11 million one-time charge (non-cash) for accumulated social benefits arising from the 1961 Labor Agreement.

4/ Includes S/ 16 million one-time charge (non-cash) for accumulated social benefits arising from the 1962 Labor Agreement.

93. The projections of 1962/63 are based on the revenue and expenditure trends for the first four months of fiscal 1962/63, and the projections for subsequent years on the assumptions discussed earlier in this report in regard to traffic development and revenues. The revenue figures include the tariff increases on the Central Railway as of March 1 and on the Southern Railway as of April 1, 1963.

94. Working costs take into account the added expense incidental to the increasing traffic volume and the benefits that would result from dieselization, and are computed on the basis of existing price and wage levels; inherently it is assumed that any increases in wages and other costs would be off-set by rate increases.

95. Depreciation charges have been calculated at 14% of gross revenue and are generally adequate to cover sound renewals. Beginning at the level of S/. 43 million in 1961/62, annual depreciation charges will increase to S/. 53 million by 1969/70.

96. Interest charges on external loans have been calculated on the existing agreements with the Eximbank, the proposed IBRD loan of US$13.25 million (including $1.2 million for interest during construction) at $5\frac{1}{2}$% interest and a term of 16 years including $4\frac{1}{2}$ of grace. The prospective new Eximbank loan has been taken as 7 years at 6% interest. Interest on the inter-company debt is charged in full and amounts to S/. 15 million yearly.

97. The projections indicate that the Railways would operate at a loss for the first three years and not until 1964/65 could they expect a modest profit. The operating ratio would improve from 1.07 to 0.84 in 1964/65, and remain constant for the rest of the projection period.

98. Interest charges would not be covered during the first three years but thereafter the coverage would rise from 1.1 in 1964/65 to 1.7 in 1969/70. Although net revenue after depreciation is not sufficient to cover interest through 1964/65, cash generated would enable the Corporation to make the payments.

99. Debt service coverage on the basis of net operating revenue before depreciation would be 2.0 times in 1961/62. This factor would decline to 1.3 in 1967/68, and would rise thereafter (Annex 7).

100. However, any appraisal of the Corporation's prospective long-range earning power cannot ignore the events of history which show that while the Corporation is effectively the manager of its operations, its financial viability is largely dependent on circumstances beyond its control. It is subject to fluctuations of traffic, the frequent and unpredictable demands of labor, the Government's policies in regard to social and economic matters which determine the ultimate result of the Corporation's negotiations with its own labor force and the level of rail rates. Increases of wages and currency rate deterioration seriously affected the Corporation's finances over the

past 10 years, tariffs were not promptly adjusted or always fully compensatory of wage increases, and labor strikes were numerous. Although a Transport Commission has been established which should considerably improve many of these conditions in the future, including the competitive position of the Railway vis-a-vis trucks, the Corporation's starting position is weak.

101. The implementation of the program and the attainment of its objectives depend primarily on the availability of borrowed funds and the materialization of the traffic and financial operating results forecast. It will be noted from the figures of the financing plan given above that borrowed funds represent 92% of the programs' estimated cost and 75% of total plan. These percentages are very high but by external financing at this level the means to execute the program are assured. The Corporation however incurs a heavy burden of debt and, in view of its relatively low opening cash resources and its marginal earnings, any substantial decrease in cash generated from operations as forecast would seriously jeopardize the service of debt. Nevertheless there are compelling reasons for financing the program:- a) the vital importance of the Railways to the economy of Peru and b) the essentiality of dieselizing and rehabilitating these Railways so that they may economically and effectively perform their functions.

Special Features of the Proposed Bank Loan

102. In view of the importance of executing the program and at the same time to lessen the financial risk for the Corporation and the Bank, the terms of the proposed loan would include a 4½ years' period of grace to June 30, 1967, by which date the full benefits of the dieselization are expected to be realized.

103. In accordance with the agreement on a possible Bank loan, as previously mentioned (para 88), the Corporation would to the greatest extent possible expend its own funds for goods in the program and would thereby endeavor to reduce the amount of the Bank loan. The Corporation will undertake to use for this purpose funds available to it in excess of US$1.5 million equivalent net quick assets, the amount considered by the Corporation and the Bank to be an adequate working balance to take care of the Corporation's operational needs. Since all purchases are scheduled to be completed by June 30, 1965, payments by the Corporation would in effect be in place of the use of the Bank loan proceeds. Subsequent to that date and to June 30, 1967, the suggested closing date of the loan, payments by the Corporation would be in reimbursement of the loan proceeds. Throughout the period to June 30, 1967 the Corporation would be entitled to draw on the loan for payments for goods indicated for financing by the Bank whenever the Corporation's net quick assets were at or below the level of US$1.5 million equivalent; thus its liquidity position would be assured.

104. If the figures in the cash-flow forecast (Annex 7) were to be realized, the Corporation would have S/ 169 million accumulated cash by mid-1967, which indicates, as a rough measure, a surplus of S/ 128 million over the prescribed level of S/ 41 million net quick assets to be applied in

reduction of the Bank loan. Since the agreement (para 103) would apply on a current basis till June 30, 1967, the annual accumulations would provide a higher total amount in reduction of the loan: S/ 141 million or US$5.2 million (Annex 7a). The increase results from lower interest charges (Annex 8a).

105. To further safeguard the Bank's position, it has obtained from the Corporation an undertaking that would place restraints on payments by the Corporation to the parent company, as follows:-

> <u>During the grace period of the loan to June 30, 1967</u>: No payments would be made to the parent company except for a maximum sum of US$441,000 annually, part of the service due under the inter-company debenture, to meet the interest and sinking fund payments of the parent company to the public holders of its debentures.
>
> <u>After July 1, 1967</u>: No payments would be made to the parent company unless there are:
>
> i) net earnings (gross operating revenue less working costs, depreciation at not less than 14% of gross revenue and interest payments on the Eximbank and IBRD loans) and then only to the extent that such net earnings exceed the current service (US$554,000 per annum) of the inter-company debenture; and further provided that there are
>
> ii) net liquid assets of US$2 million equivalent (current assets, excluding stores and materials, less current liabilities excluding the accrued debt to the parent company in respect of past fiscal years) after any payments based on net earnings.

106. Subject to the foregoing and in the event that net earnings were to be greater than S/ 15 million (US$554,000), the annual amount of debt service on the inter-company debenture, only 50% of the excess could be paid to the parent company, which would have to be applied to reducing the accrued back service (now US$1.2 million) on the inter-company debenture. Only when Retained Earnings as shown in the Corporation's audited balance sheet attain a positive minimum amount of US$1 million equivalent would the payment to the parent company of net earnings for the subsequent years be unrestricted.

IX. ECONOMIC JUSTIFICATION

107. It is in the interest of the Peruvian economy that both Central and Southern Railways continue operating and that each be re-equipped to operate more efficiently. The project covers the minimum requirements to attain this goal.

108. The Central Railway is primarily a means for carrying minerals down-line and supplies up-line between Cerro de Pasco and Callao. This traffic approximates 700,000 tons a year carried an average distance of about 140 kms over the central line. The entire movement both ways is mainly through haulage of carload traffic; the great bulk of the movement is down-line.

109. These are favorable circumstances, generally, for a railway operation. In the specific circumstances of the commodities involved, the tonnages moved, the length of haul, and the return loads available, the carriage of Cerro de Pasco's traffic by rail is more economic to Peru than carriage by truck would be even on improved roads. There are no good reasons for the Peruvian economy to incur large foreign exchange costs for trucks, parts, tires, etc., in order to perform a transport function that can be performed at less real cost by an existing railway.

110. The Southern Railway is likely to retain a large share of the export-import traffic of Bolivia. As regards its Peruvian traffic, the Southern Railway interconnects the productive districts and commercial towns of a region with good developmental potentialities. It renders essential service for the economic growth of this area, which is evident from the continuing increase of traffic.

111. Although the Government is now considering a Ten-Year program of road construction and improvement which would create competitive difficulties for the Central and the Southern Railways, these lines would remain essential; their discontinuation or curtailment would be detrimental to the Peruvian production and trade. The competitive impact of better roads will be cushioned materially by:

1) the existence of the Transport Commission empowered to control rates, services and operations in the interest of sound competition and orderly development;

2) the phasing of the road program which schedules for 1965 or later, improvement of some of the road sections that directly parallel the railways.

112. There will be large operational economies from the new equipment and facilities which constitute the Corporation's program. The savings in the form of reduced expenditure for fuel, maintenance and repairs from the new diesel locomotives approximate S/47 million a year,

when total economies are realized in 1966/67, enough to repay their purchase price of S/280 million in eight years at say 6% interest. The savings for only one year are almost equal to the full unamortized book value of the steam locomotives which would be retired.

113. There would also be savings in maintenance costs for way and equipment from track improvements made with the new rail. The new cars would allow the Southern Railway to carry additional freight now being offered and take care of further growth, thereby increasing the Corporation's earning capacity.

114. The modernization and rehabilitation program is economically justified.

X. CONCLUSIONS AND RECOMMENDATIONS

115. Execution of the modernization and rehabilitation project is necessary for the Central and Southern Railways, whose continued efficient operation is essential to the Peruvian economy. The program contains the minimum equipment needed to provide economic transportation to the central and southern parts of the country.

116. The Transport Commission and its effective functioning are essential to enable the Railways to compete with road transportation in an economic manner, and to allow the Railways to attain a sound financial position, which is dependent on equitable rates.

117. The financial record of the Peruvian Corporation has been unsatisfactory, the reasons for the reorganization of 1956 were the lack of profitability, and since 1956 there has been no fundamental improvement.

118. Despite the chequered financial history of the Corporation, there are circumstances which merit consideration of a loan. Among these circumstances are the Government's actions to establish a Transport Commission, the effects that this would have are referred to above; economic prospects in Peru are good which would tend to enhance the Railways' earning power; the Railways are essential to the economy of Peru; and completion of the project would enable the Railways to perform their functions economically and more efficiently.

119. The proposed loan by the Bank, which would be coupled with and subject to the obtainment by the Corporation of a credit of about $4.75 million equivalent (for 19 diesel locomotives), which is to be negotiated with the Eximbank, provides assurance that adequate financial resources would be available to execute the program.

120. The conditions of the proposed Bank loan, which are acceptable to the Corporation, provide, among other things, that a) the cash resources of the Corporation above \$1.5 million equivalent (net quick assets) would be used to reduce the amount of the loan either i) by not drawing down funds during the period to June 30, 1965, or ii) reimbursement of loan proceeds thereafter to June 30, 1967, and b) prohibition of payments from the Corporation to the parent company; except i) for the annual service (\$441,000) of the publicly held debentures of the parent company to June 30, 1967, and ii) under specific conditions of earnings and liquid assets tests designed to protect the Corporation's financial position. The Guarantee Agreement contains a rate covenant.

121. The project is suitable for a Bank loan of \$13.25 million equivalent with a 16-year term, including a $4\frac{1}{2}$ years period of grace.

Annex 1

THE PERUVIAN CORPORATION LTD.

LIST OF DIRECTORS
(Name, Position and Nationality)

W. H. White	: Chairman - Solicitor SMILES & CO. (U.K.)
M. R. Lubbock	: Deputy Chairman - Director Bank of London and South America (U.K.)
A. Brazzini	: Ex-President Mining Society, Prominent Mining Representative (P.)
M. Elguera	: Ex-President NAT Business Assoc. Iron, Large Interests Fisheries Industry (P.)
R. Gardiner	: Ex-Managing Director P.C. (U.K.)
G. Landazuri	: Well-known lawyer (many interests) Arequipa (P.)
A. Montero	: Ex-President Industrial Society, connected with many industrial (Chemical) companies (P.)
A. Roberts	: President Roberts Co., Ex-President Chamber of Commerce, Arequipa (P.)
M. Ulloa	: President Deltec Ltd., New York (P.)
C. Vidal	: Retired Chief Executive of I.B.M., S. America (P.)

Annex 2

THE PERUVIAN CORPORATION LTD.

Comparative Summary Balance Sheets

ASSETS	June 30 1957	June 30 1958	June 30 1959	June 30 1960	June 30 1961	June 30 1962
	₤ Millions					
Fixed Assets						
Property, concessions, etc.	23.64	23.97	24.69	24.81	24.94	25.48
Less Reserves for Depreciation	.28	.45	.81	1.23	1.78	2.35
Net Fixed Assets	23.36	23.52	23.88	23.58	23.16	23.13
Bolivian Funds	.49	.41	.34	.35	.34	.32
Current Assets						
Cash & Short Term Investments	.97	.28	.16	.23	.25	.42
Receivables	.65	.50	.43	.51	.63	.62
Stores and Materials	1.15	1.32	1.22	1.05	1.01	1.03
Total Current Assets	2.77	2.10	1.81	1.79	1.89	2.07
Total Assets	26.62	26.03	26.03	25.72	25.39	25.52
LIABILITIES						
Capital Stock - ordinary shares	16.50	16.50	16.50	16.50	16.50	16.50
Earned surplus since July 1, 1955 (Retained earnings)	.67	.42	-	-.19	-.40	-.90
*Capital surplus-as of June 30, 1955	1.43	1.43	1.43	1.43	1.43	1.43
Total capital stock and surplus	18.60	18.35	17.93	17.74	17.53	17.03
Long Term Debt						
6% Debenture due 1980 (owned by parent)	3.59	3.29	3.29	3.29	3.29	3.29
Eximbank Loan	.56	.50	.44	.39	.33	.78
Total	4.15	3.79	3.73	3.68	3.62	4.07
Provision for social legislation	1.25	1.18	1.13	1.23	1.43	1.60
Reserve for Renewals	1.77	1.73	1.69	1.64	1.64	1.54
Reserve for Foreign Exchange difference	.23	.38	.34	.40	.34	.34
Other Reserves	.02	.04	.05	.06	.06	.07
	3.27	3.33	3.21	3.33	3.47	3.55
CURRENT LIABILITIES						
Due parent company re 6% debentures	.16	.18	.27	.33	.39	.42
Other accrued & sundry items	.44	.38	.89	.64	.38	.45
Total current liabilities	.60	.56	1.16	.97	.77	.87
Total Liabilities	26.62	26.03	26.03	25.72	25.39	25.52

* Entitled "Property Reserve" in auditor's reports.

THE PERUVIAN CORPORATION LTD.

INCOME STATEMENT

	1957	1958	1959	1960	1961	1962
			- - - £ 000,000 - - -			
Operating Revenues						
Railway and Steamers	4.48	3.70	2.86	3.48	4.04	4.17
Road Transport	-	-	-	.06	.07	.06
Perene Colony & others	.16	-	-	-	-	.03
Total	4.64	3.70	2.86	3.54	4.11	4.26
Operating Expenses						
Railways and Steamers	3.05	2.84	2.32	2.72	2.98	3.23
Road Transport	-	-	.02	.04	.05	.05
Perene Colony	.15	-	-	-	-	-
Provision for Renewals	.39	.31	.02	-	-	-
Provision for Depreciation	.12	.16	.37	.42	.57	.59
Provision for Social Benefits	.48	.53	.51	.35	.54	.67
Exchange	.09	-	-	-	.02	-
Total	4.28	3.84	3.24	3.53	4.16	4.54
Net Earnings Before Interest	.36	-.14	-.38	.01	-.05	-.28
Other Income	.08	.12	.01	.02	.01	-
Gross Income	.44	-.02	-.37	.03	-.04	-.28
Interest on 6% Debentures	.22	.21	.20	.20	.20	.20
Interest on Exim Bank Loan	.02	.03	.03	.02	.02	.03
Total Interest	.24	.24	.23	.22	.22	.23
Net Income	.20	-.26	-.60	-.19	-.26	-.51
Adjustments: additional provision for past service pensions	-.14	-	-	-	-	-
U.K. Tax adjustment credit and other items	.28	.01	-	-	-	-
Net Profit for Year	.34	-.25	-.60	-.19	-.26	-.51
Less Dividends Paid	.08	-	-	-	-	-
Balance after Dividends	.26	-.25	-.60	-.19	-.26	-.51

Annex 4

THE PERUVIAN CORPORATION LTD.

FREIGHT TRAFFIC OF THE CENTRAL RAILWAY AND SOUTHERN RAILWAY

Year ended June 30	Central Railway: Revenue tons handled millions tons	Central Railway: Cerro de Pasco traffic % of total	Central Railway: Revenue net-ton kilo-meters million	Central Railway: Up-traffic % of total	Central Railway: Revenues S/000,000	Central Railway: Average Revenue per tkm centavos	Southern Railway: Revenue tons handled million tons	Southern Railway: Bolivian traffic % of total based on tons handled	Southern Railway: Revenue net-ton kilometers million nt km	Southern Railway: Up-traffic % of total	Southern Railway: Revenues S/000,000	Southern Railway: Average Revenue per tkm centavos
1950	1.07	44	129	44	35.7	28	0.358	23	124	74	30.8	25
1951	1.13	50	139	40	49.5	36	0.398	30	149	78	41.1	28
1952	1.19	51	158	43	55.0	35	0.419	31	158	78	46.7	30
1953	1.16	52	159	48	56.5	36	0.443	28	167	77	51.1	31
1954	1.05	57	146	45	56.4	39	0.446	27	170	77	57.6	34
1955	1.17	59	154	40	69.2	45	0.456	25	175	75	59.2	34
1956	1.38	61	173	40	96.5	56	0.513	26	192	77	73.2	38
1957	1.33	65	164	40	92.0	56	0.566	22	223	74	80.1	36
1958	1.01	77	133	39	76.5	58	0.485	22	192	71	77.1	40
1059	0.83	73	115	33	75.8	66	0.389	23	158	69	72.8	46
1960	1.02	70	152	34	108.0	71	0.488	22	191	67	94.9	50
1961	1.08	71	153	35	117.0	76	0.523	22	208	68	112.5	54
1962	1.10	68	150	39	120.3	80	0.521	20 1/	213	69	118.1	56

1/ Based on ton-kilometers

THE PERUVIAN CORPORATION LTD.

PASSENGER TRAFFIC OF THE CENTRAL RAILWAY AND SOUTHERN RAILWAY

Year Ended June 30	Central Railway: Passengers Handled million	Central Railway: Passenger Kilometers million	Central Railway: Revenues S/000,000	Central Railway: Average Revenue c/pkm	Southern Railway: Passengers Handled million	Southern Railway: Passenger Kilometers million	Southern Railway: Revenues S/000,000	Southern Railway: Average Revenue c/pkm
1950	1.07	75.0	5.36	7.15	0.62	49.9	4.91	9.84
1951	1.09	77.8	6.30	8.10	0.59	49.6	5.39	10.9
1952	1.17	94.4	8.01	8.49	0.56	48.7	5.47	11.2
1953	1.24	108.2	9.89	9.14	0.60	55.0	6.14	11.2
1954	1.48	113.3	10.90	9.62	0.74	71.0	8.31	11.7
1955	1.55	121.7	12.88	10.6	0.91	81.4	9.36	11.5
1956	1.36	111.0	14.19	12.8	0.96	82.9	10.16	12.3
1957	1.41	115.0	15.25	13.3	0.96	85.6	10.66	12.5
1958	1.01	85.0	13.20	15.5	0.80	70.3	10.56	15.0
1959	0.80	69.2	10.86	15.7	0.62	56.4	10.24	18.2
1960	0.74	79.7	15.9	18.2	0.71	64.1	12.9	20.1
1961	0.68	74.1	16.4	20.0	0.71	64.4	13.8	21.4
1962	0.57	70.2	16.5	21.6	0.72	69.7	15.4	22.1

Annex 5

THE PERUVIAN CORPORATION LTD.
Modernization and Rehabilitation Program of the Central and Southern Railways

Items	No.	Estimated Cost: Soles 000	Estimated Cost: Eximbank loan	Estimated Cost: IBRD loan	Phasing (Soles 000): 1962/63	Phasing (Soles 000): 1963/64	Phasing (Soles 000): 1964/65	Phasing (Soles 000): 1965/66	Phasing ($ 000): 1961/62	Phasing ($ 000): 1962/63	Phasing ($ 000): 1963/64	Phasing ($ 000): 1964/65
Central Railway												
Rails	11,300 tons			1,810						320	640	850
2,000 HP diesel locomotives	19		4,750							1,000	3,750	
1,200 " " "	3			545							545	
Spare parts for diesels				100							100	
Workshop facilities 1/		1,000		250	750	250					250	
Tie renewals & rail laying		17,000			3,200	5,000	4,400	4,400				
Sub-total		18,000	4,750	2,705	3,950	5,250	4,400	4,400		1,320	5,285	850
Southern Railway												
Rails	17,700 tons			2,800						530	1,280	990
2,000 HP diesel locomotives	11		1,500	1,170					1,500	700	470	
1,200 HP " "	11			2,090							2,090	
350 HP " "	3			195							195	
Workshop facilities 2/		8,120		250	4,000	4,120					250	
Cattle cars	135)											
Tank cars	10)											
Gondola cars	20)			2,470							2,255	215
Bulk grain cars	6)											
Tie renewals & rail laying		22,600			4,500	6,900	5,600	5,600				
Sub-total		30,720	1,500	8,975	8,500	11,020	5,600	5,600	1,500	1,230	6,540	1,205
Grand Total		48,720	6,250	11,680	12,450	16,270	10,000	10,000	1,500	2,550	11,825	2,055
Contingencies				350								
Interest during Construction on IBRD loan				1,220								
				13,250								

1/ Guadalupe and Chosica; 2/ Arequipa and Juliaca.

Annex 6

THE PERUVIAN CORPORATION LTD.
Cash Flow Forecast

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	Soles Millions							
1. Operating Revenues	332	357	362	365	368	372	375	379
2. Working Costs 1/	283	288	264	256	258	260	262	264
3. Cash generated from Operations	49	69	98	109	110	112	113	115
4. Withdrawals from Eximbank loan	27	101						
5. Withdrawals from IBRD loan	44	230	84					
6. Bolivian Quotas	3	4	4	4	4	4	4	
7. Total	123	404	186	113	114	116	117	115
Capital Expenditure:								
8. Dieselization & Modernization	63 2/	319	65					
9. Sleeper Renewals & rail-laying	8	12	10	10				
10. Workshops	5	4						
11. Rails from company's own resources				16	9	13	13	13
12. Tank Wagons	1							
13. Annual capital expenditure gang-houses, etc.	8	6	6	6	6	6	6	6
14. Sub-total	85	341	81	32	15	19	19	19
Debt Service:								
15. Eximbank loans interest and amortization	10	14	38	36	35	33	27	25
16. IBRD loan ($13.25 million) interest and amortization	2	12	19	20	20	44	44	44
17. Interest & sinking fund on publicly-held debentures of parent company	12	12	12	12	12	12	12	12
18 Sub-total	24	38	69	68	67	89	83	81
19. Total	109	379	150	100	82	108	102	100
20. Cash Surplus (7-19)	14	25	36	13	32	8	15	15
21. Opening Cash 3/	49	63	88	124	137	169	177	192
22. Cash at end of the period	63	88	124	137	169	177	192	207
23. Debt service coverage (3)/(18)	2.0	1.8	1.4	1.6	1.6	1.3	1.4	1.4

1/ Includes annual net losses of S/ 8 million on the Guaqui-La Paz line;
2/ Excludes S/ 6 million for rails purchased from Corporation's own resources in 1962 and reimbursable from IBRD loan funds;
3/ Based on cash plus net receivables.

Annex 7

PERUVIAN CORPORATION LTD.

Modification of Cash Flow Forecast based on payment to IBRD by Peruvian Corporation of amounts which it would have in excess of S/ 41 million net quick assets (US$1.5 million equivalent) by the end of each fiscal year till June 30, 1967

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	Soles Millions							
Debt Service:								
15. Eximbank loans interest & amortization	10	14	38	36	35	33	27	25
16. IBRD loan (diminishing from $13.25 million to $8.03 million) interest & amortization	2	12	17	15	14	27	27	27
17. Interest and sinking fund on publicly-held debentures of the parent company	12	12	12	12	12	12	12	12
18. Sub-total	24	38	67	63	61	72	66	64
19. Total	109	379	148	95	76	91	85	83
20. Cash Surplus	14	25	38	18	38	25	32	32
21. Opening Cash	49	41	41	41	41	41	66	98
22. Cash at end of the period	63	66	79	59	79	66	98	130
23. Reduction of IBRD loan amount at end of period	22	25	38	18	38			
24. Cumulative reductions	22	47	85	103	141			
25. Debt service coverage	2.0	1.8	1.5	1.7	1.8	1.6	1.7	1.8

Note: Aggregate repayment of S/ 141 million is equivalent to US$5.22 million so that the outstanding amount of the loan on July 1, 1967 would be of the order of US$8 million equivalent.

Annex 7a

THE PERUVIAN CORPORATION LTD.
Income Account Forecast

	1961/62 Actual	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	- - - - - - - -	- - - -	- - - -	- - Soles	Millions - -	- - - -	- - - -	- - - -	- - - -
1. Operating Revenues 1/	305	332	357	362	365	368	372	375	379
2. Operating Expenditure 2/	284	299	288	264	256	258	260	262	264
3. Surplus	21	33	69	98	109	110	112	113	115
4. Depreciation 3/	43	47	50	51	51	52	52	53	53
5. Net Operating Revenues	-22	-14	19	47	58	58	60	60	62
6. Full Debenture Interest	15	15	15	15	15	15	15	15	15
7. Interest on Eximbank loan	2	4	6	10	9	7	6	4	3
8. Interest and Commitment Charges on IBRD loan ($13.25 m)		2	12	19	20	20	20	18	17
9. Total Interest Charges	17	21	33	44	44	42	41	37	35
10. Net Income	-39	-35	-14	3	14	16	19	23	27
11. Operating Ratio $\left(\frac{2+4}{1}\right)$	1.07	1.04	0.95	0.87	0.84	0.84	0.84	0.84	0.84

1/ Does not include revenue from the Guaqui-La Paz line and the Piura Trucking Service;
2/ Includes annual losses, of S/ 10 million for 1961/62 and of S/ 8 million for the years thereafter on the Guaqui-La Paz line, a non cash item of S/ 11 million in 1961/62 and of S/ 16 million in 1962/63 for social legislation benefits. Excludes the Piura Trucking Service which has operating revenues and expenditure that balance.
3/ At 14% of Operating Revenues.

Annex 8

Modification of Income Account Forecast based on payment to IBRD by Peruvian Corporation of amounts which it would have in excess of S/ 41 million net quick assets (US$1.5 million equivalent) by the end of each fiscal year till June 30, 1967

	1961/62 Actual	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	Soles Millions								
Interest & Commitment charges on IBRD loan		2	12	17	15	14	12	11	10
Total interest charges		21	33	42	39	36	33	30	28
Net income	-39	-35	-14	5	19	22	27	30	34

SUMMARY CORPORATE HISTORY

The Central and Southern Railways, the first sections of which were built in the 1870s, were originally owned by the Peruvian Government, which financed their construction by issues of government bonds to foreign investors. In 1878, not long after the inital sections of the Railway had been completed, Peru became engaged in a war with Chile which lasted until 1883, and resulted in the rich nitrate region of South Peru being ceded to Chile under the peace treaty. The revenues from nitrates which were part of the general security for the bonds floated for railway construction ceased to flow to the Peruvian Government and Peru became unable to meet the interest charges.

A settlement with foreign bondholders was arranged in 1889 releasing Peru from all further liabilities in exchange for the cession to the bondholders for a period of 66 years of the railways, the transfer to them of other assets and the payment of an annuity. To implement this settlement, the Peruvian Corporation, an English limited liability company, was incorporated March 20, 1890 to hold these concessions. The bondholders received shares in the Corporation in exchange for their holdings of Peruvian Government Bonds, which were cancelled.

Several subsidiary companies (notably the Central Railway of Peru Limited and the Southern Railway of Peru Limited) were set up by the Peruvian Corporation to operate the Railways under the terms of the original concession upon a rental basis. The subsidiaries assumed liability for specified portions of the Corporation's debenture indebtedness incurred for extensions built after 1890.

The original railways concessions were to expire in 1956 but were modified by later contracts in 1907 and 1928. The 1907 contract extended the original concession to 1973 on modified terms. The 1928 contract gave the Peruvian Corporation perpetual ownership of the railways and stipulated (1) that taxes on the Corporation from 1937 to 1973 were to be limited to a tax of 8% on dividend distributions and (2) the price payable by the Government (£16.8 million) for the railways in the event of expropriation.

The construction of the extensions mentioned above was financed by the issuance by the Peruvian Corporation of £5,700,000 of debentures, interest on which was defaulted by 1896. Variable interest payments at a minimum of 4% were made annually from 1896 to 1926. Between 1927 and 1931 about 30% of the outstanding debentures were retired, but the world depression of the 1930s brought about another default in 1932; a moratorium was arranged in 1933, with the sanction of British courts. From 1932 to 1956 some interest payments were made but substantial arrears accumulated.

The Corporation's share capital, prior to the 1956 reorganization (discussed below), comprised £9,000,000 ordinary stock and £7,500,000 5% preference stock. Dividends had never been paid on the ordinary stock and only occasionally on the preference. The amount of debentures outstanding was £3,946,000, and arrears of interest amounted to about £2,800,000, making a total due to the debenture holders of some £6,700,000.

Under the terms of the moratorium, arranged in 1933 and renewed on a number of occasions between 1935 and 1952, no new debt could be contracted. Renewals or expansion could be financed only out of cash generated from operations, which was insufficient to meet the requirements. In consequence, physical equipment became increasingly inadequate to meet the traffic requirements. A new financial scheme, described in detail in the following section, was effected in February 1956 with the sanction of British courts making it possible for Peruvian Corporation again to borrow to make up some of the investment deficiencies which have accumulated over the years and to keep pace with the expected future traffic growth.

The objectives of the 1956 financial reorganization were: (i) to clear up the problem of arrears of interest and of interest on interest, which had accumulated since 1932; (ii) to alter the financial structure in such a way as to make possible the raising of new funds, a prerequisite for any rehabilitation program; and (iii) to permit the Corporation to change its legal domicile to Canada, later on changed to the U.S.A., with the saving of subsequent U.K. taxation.

A British court sanction was secured for any arrangement whereby as of March 1, 1956:

1) A new company was formed in Canada with the name of Peruvian Transport Corporation Limited with an authorized capital of US$14,500,000 divided into 800,000 Class A shares of US$5 each and 10,500,000 Class B shares of US$1 each.

   The A shares have equal rights for voting new capital subscription and dividend participation per dollar of par value with the B shares; however, the A shares have a preference over B shares as to capital repayment in the event of the winding up of the business.

2) All the existing preference and ordinary stock of the Peruvian Corporation was acquired by Peruvian Transport, in consideration of which Peruvian Transport issued shares of its own capital in the ratio of 34 Class B shares per £100 preference stock of the Corporation, and 13 Class B shares per £100 of ordinary stock of the Corporation. Thus, 2,550,000 shares of B stock were issued in exchange for preference stock and 1,170,000 B shares for ordinary stock of the Corporation making a total of 3,720,000 shares issued of B stock. The unissued balance of the B shares were retained in Peruvian Transport's treasury to meet the rights given to the new Peruvian Transport bondholders (referred to below) and holders of A shares to subscribe to B shares at par and the rights given to the new Peruvian Transport 5% convertible debenture holders (see below) to convert into B shares.

3) The Class A shares were sold to investors at par, raising US$4 million in new money.

4) The holders of Peruvian Corporation debentures received for each £100 of their holdings:

US$100 - 6% debentures of Peruvian Transport
US$ 70 - 5% convertible debentures of Peruvian Transport
£ 40 - Cash

while all arrears of interest (including interest on interest) were cancelled. As a result, Peruvian Transport created and issued US$3,946,900 6% debentures and US$2,762,830 5% convertible debentures.

5) It was provided in the scheme that Peruvian Corporation should become debtor to Peruvian Transport in the amount of US$6,709,730 and £1,381,415 sterling (both being payable in New York), being the amounts of debentures and cash provided by Peruvian Transport for the purposes of paragraph (4) above. In addition the Peruvian Corporation provided £197,345 of cash out of its own resources to meet the balance of the cash due to old debenture holders.

As a result of this reorganization, Peruvian Corporation became a wholly-owned subsidiary of Peruvian Transport. Its debts had been reduced from £6.7 million to £3.8 million, all in the form of a single 6% debenture held by Transport, mainly because of the cancellation of interest arrears. The title to properties of all subsidiaries has been revested with Peruvian Corporation. The subsidiary companies still retain their legal existence, presumably pending final liquidation of claims.

Between mid-1956 and mid-1957, Peruvian Transport exchanged the preference shares of the Peruvian Corporation (the total issue) for ordinary shares of the same par value so that the total share capital of Peruvian Corporation is represented by 16,500,000 ordinary shares of £1 par value. In 1958 the name of the holding company was changed to Peruvian Investment and Finance Limited.

Appendix B

PERUVIAN CORPORATION LTD

The Corporation's Properties

The railway property includes: 1,620 route-km of track, and the following motive power and rolling stock:

	Locomotives	Freight cars	Passenger cars
Central Railway	58	1,244	96
Southern Railway	63	719	73
Trujillo and Pacasmayo Railways	15	335	15
Guaqui-La Paz Railway	13	141	16
Total	149	2,439	200

Central Railway

The main line of standard gauge extends a distance of 346 km between the port of Callao and Huancayo (see map). A branch line of 37 km runs from Lima to Ancon on the coast. As this branch has practically no traffic a request for approval to dismantle it has been made to the Government. There is an alternate section of main line 33 km long from Ticlio to Cut-off, which is used when the main line is blocked by rock falls or other natural phenomena. Total route length is 416 km and the track length is 533 km. On the 346 km of main line there are 148 km (42.8%) of curves with a minimum radius of 100 meters; most of the line has severe gradients to slightly over 4% and rises to an altitude of about 16,000 feet. Another feature is $9\frac{1}{2}$ so-called "zigzags" or switch-backs, where trains have to back up to get a new start. There are 8.9 km of tunnels and 61 bridges.

Motive power on the Central Railway consists of 43 main-line steam locomotives, of which 8 are overage, and 15 switching locomotives including 4 electric and 4 diesel units. All steam switching units are overage. The Peruvian Corporation regards 30 years of service life for steam locomotives reasonable on their lines. The types of rolling stock available on March 31, 1961, were:

Freight cars	1,157
Freight cars, special service	87
Self-propelled passenger units	14
Passenger cars	82

There is one main repair shop for locomotives and rolling stock (at Lima) and two maintenance-of-way shops with concrete tie plants. The Central Railway maintains a number of employees' houses, schools, playgrounds, sports fields, etc. The Railway's property is well maintained in general but there are arrears of track renewals.

Southern Railway

The standard gauge main line has a route length of 862 km; the Southern Railway also manages and operates the Government-owned section Matarani-La Joya, 62 km long. In addition the Railway owns and operates five steamships on Lake Titicaca from Puno to Guaqui to connect with its meter gauge railway Guagui-La Paz (96 km) in Bolivia. Total rail route length operated by the Southern Railway is 1,020 km and the total track length is 1,100 km, including the Guaqui-La Paz line.

Motive power for the standard gauge comprises 63 locomotives including 49 main line locomotives, of which 7 are diesel electric and 42 are steam units, and 14 steam switching locomotives; 27 main line steam units and 12 switching units are overage. On March 31, 1961 the standard gauge rolling stock consisted of:

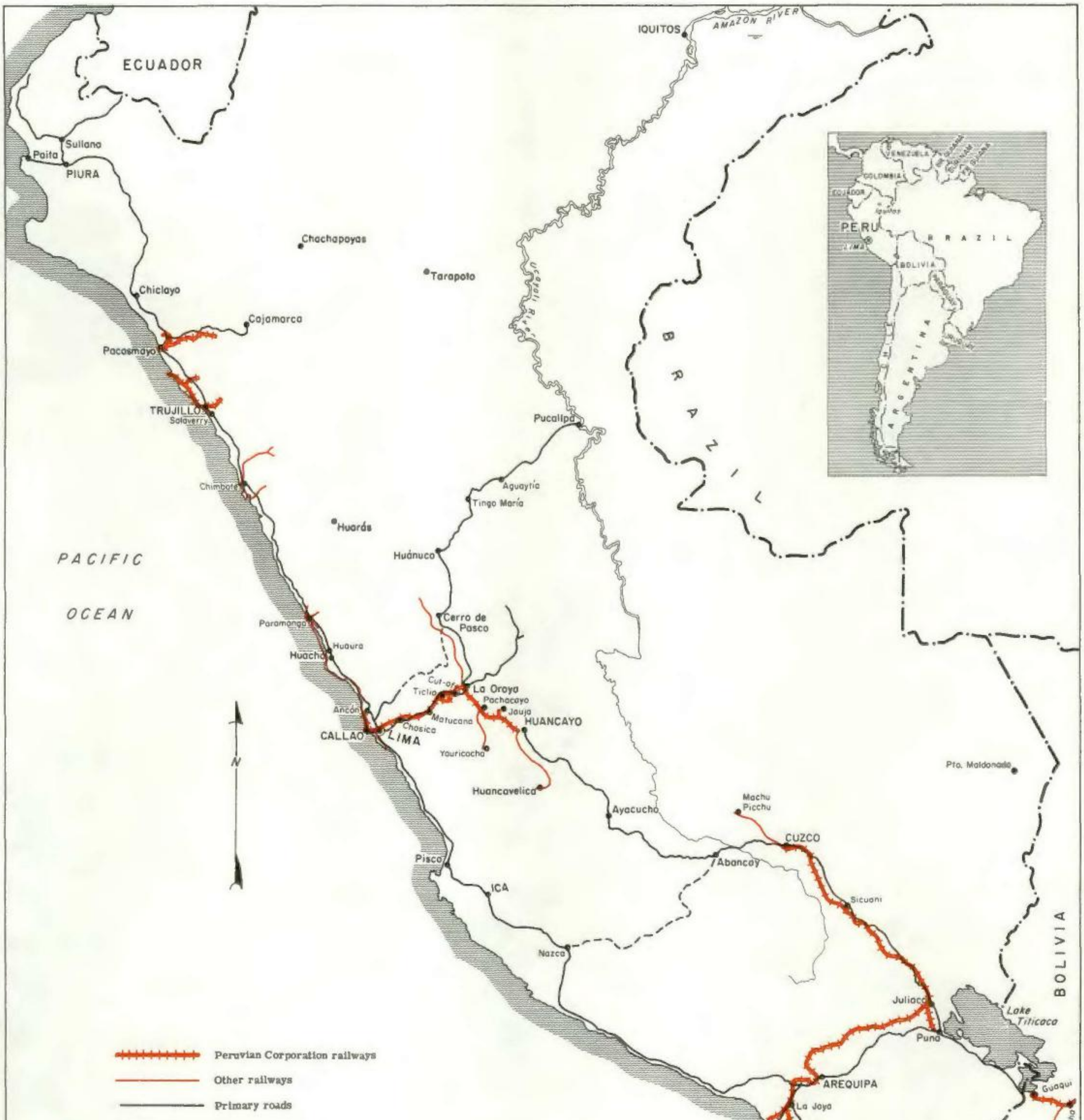
Freight cars	641
Freight cars, special service	78
Passenger cars	73

The meter gauge stock on the Guaqui-La Paz line consists of 7 steam and 6 electric locomotives. There are also 16 coaching vehicles and 141 freight cars.

The main repair shop for locomotives and rolling stock is in Arequipa; there are roundhouses in five other places, and one small locomotive repair shop,which will be dismantled after dieselization, is located in Juliaca. There are two workshops for the engineering department, and the Railway operates and maintains the docks at Puno and Guaqui, a repair shop at La Paz, and a number of houses for employees, etc. The property of this Railway is also well maintained, but, as on the Central Railway, there is a back-log of rail renewals.

Other Property

The Trujillo and Pacasmayo Railways have a total length of 245 km. There are 15 locomotives, 15 passenger cars and 335 freight cars on these lines. The Piura Truck Service operates 15 trucks and 5 trailers.



SEPTEMBER 1961

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Subject / Title
Draft Resolution No. - Approval of Loan to The Peruvian Corporation (Railway Rehabilitation Project) in the amount of $13,250,000 to be guaranteed by the Republic of Peru

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR EXECUTIVE DIRECTORS' MEETING

CONFIDENTIAL

R 63-13

(For consideration on March 12, 1963)

FROM: The Secretary

March 4, 1963

PROPOSED LOAN - PERU

The attached President's Report and Recommendations on a proposed loan to the Peruvian Corporation Ltd. for the modernization and rehabilitation of the Central and Southern Railways in Peru will be considered by the Executive Directors at their Regular Meeting to be held at 10:00 a.m., Tuesday, March 12, 1963.

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

1. Draft Loan Agreement;
2. Draft Guarantee Agreement;
3. Draft letter re list of goods, disbursements and reimbursements;
4. Draft letter re railway tariffs;
5. Statutory Loan Committee Report;
6. Report entitled "Peruvian Corporation Ltd. - Railway Rehabilitation Project - Peru";
7. Draft resolution authorizing the loan.

A report entitled "Current Economic Position and Prospects of Peru" (SecM62-192) was circulated on October 2, 1962.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

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Shiri Alon	September 10, 2018

MASTER

Mr. Doucet. O.K. GMW

File

REPORT AND RECOMMENDATIONS OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE PERUVIAN CORPORATION LIMITED (PERU)

1. I submit herewith the following report and recommendations on a proposed loan in various currencies equivalent to US$13.25 million to the Peruvian Corporation Limited (the Corporation) to finance a part of the foreign exchange cost of modernization and rehabilitation of its railway system serving Central and Southern Peru.

PART I - HISTORICAL

2. In April 1958, the Bank made a loan of $15.0 million to the Corporation to finance a rehabilitation project similar to the present one. The loan was predicated on a number of conditions being complied with before it could become effective, the most important being a further increase in tariffs. However, shortly after the loan was signed, Peru's economic situation began to worsen, and with it the financial situation of the Corporation. The following devaluation of the sol caused a sharp increase in the Corporation's operating cost, requiring in turn a larger tariff increase than originally anticipated. This increase the Corporation was not able to obtain by the time the loan was to be made effective. Furthermore, the Tariff Commission which had been established by the Executive Power was abolished. There was then no prospect of the Corporation being able to fulfill the conditions of effectiveness in the foreseeable future, and in August 1959 the Bank terminated the loan agreement. However, it agreed at that time that the Bank would consider a new loan request, provided that the Corporation's financial prospects improved and that a satisfactory basis could be worked out for a new project.

3. By 1961, conditions had in fact improved to the point where the Bank could again consider financing the modernization and rehabilitation of the railroads. A Commission for Economic Regulation of Transport had been established by Act of Congress which gave reasonable assurance of the Corporation obtaining tariff adjustments in the future; the Corporation engaged the firm of Coverdale and Colpitts to study its operations and its prospects for growth of traffic and to prepare a new project of further modernization and rehabilitation; and finally, the Corporation established a Board of Directors in Lima. These improvements and the consultants' report were the basis for the Corporation's request for a new loan. In June 1961, a Bank mission visited Peru to appraise the project.

4. Formal negotiations began in Washington on May 24, 1962. Mr. W.H. White, Chairman and Mr. Michael R. Lubbock, Deputy Chairman, represented the Borrower, assisted on different occasions by Mr. Richard Gardiner, who at that time was Managing Director of the Corporation. The Government of Peru was represented by Mr. Carlos Gibson, Commercial Minister at the Peruvian Embassy in Washington. Presentation to the Board, however, had to be delayed until the Military Junta, which took over after the inconclusive general elections of June 10, 1962, confirmed the previous Government's intention to guarantee the proposed loan. A further delay was caused by the Cerro de Pasco Corporation, the principal user of the Central Railway, threatening to move all its freight by road. This threat has now been removed, as explained in more detail in this report and its attachments. Negotiations were, therefore, resumed in January 1963.

5. The proposed loan would increase the Bank's lending to Peru, net of cancellations and refundings, as of January 31, 1963, from $92 million to $105 million. The Bank has made the following loans to Peru:

Year	Borrower	Purpose		Amount (in $ million equivalents)
1952	Republic of Peru	Port development (Callao)		$ 2,410,528
1952	Republic of Peru	Agricultural development		1,300,000
1954	Republic of Peru	Agricultural development		1,700,000
1954	Banco de Fomento Agropecuario	Agricultural development		4,999,771
1955	Republic of Peru	Irrigation project		17,999,464
1955	Cemento Pacasmayo	Construction of cement plant		2,497,082
1955	Republic of Peru	Highway maintenance		4,994,887
1957	Banco de Fomento Agropecuario	Agricultural development		5,000,000
1958 1960	Autoridad Portuaria del Callao	Port development		6,575,000
1960	Banco de Fomento Agropecuario	Agricultural development		5,000,000
1960	Lima Light and Power Company	Power development		24,000,000
1960	Republic of Peru	Highway project (Aguaytia-Pucallpa)		5,500,000
1961	Republic of Peru	Highway maintenance and improvement		10,000,000
	Total (net of cancellations and refundings)			$91,976,732
	of which has been repaid			17,779,381
	Total now outstanding			$74,197,351*
	Amount sold		$8,311,482	
	of which has been repaid		5,240,482	3,071,000
	Net amount now held by Bank			$71,126,351

* Includes $25,947,053 undisbursed balance as of 1-31-63.

PART II - DESCRIPTION OF THE PROPOSED LOAN

6. Purpose:	To finance a part of the foreign exchange cost of modernizing the Central and Southern Railways, the two principal railways of Peru owned by the Corporation.
Borrower:	The Peruvian Corporation Limited.
Guarantor:	Republic of Peru.
Amount:	The equivalent in various currencies of $13.25 million.
Amortization:	24 semi-annual instalments from December1, 1967 to June 1, 1979.
Interest rate:	
Commitment charge:	3/4 of 1% per annum.
Payment dates:	June 1 and December 1.

PART III - LEGAL INSTRUMENTS SECURITY AND LEGAL AUTHORITY

7. Drafts of a Loan Agreement (No. 1) and Guarantee Agreement (No.2) are attached. The following provisions are of special interest.

(a) Loan Agreement

(i) The Bank is to receive, as security for the loan, a first mortgage upon the immovable and movable properties of the Central and Southern Railways. The Corporation is permitted, however, to give **pari passu security** for the Export-Import Bank's lines of credits (Section 5.04);

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(ii) The Corporation would be allowed to make payments to its parent company, the Peruvian Investment and Finance Limited, pursuant to the Inter-Company Debenture, only after June 30, 1967 and only from net earnings provided certain financial requirements are met, except for $2,205,000 payable during the five-year period ending June 30, 1967 that the parent company needs to service debentures issued by it to the public (Section 5.12);

(iii) Conditions of effectiveness include: granting of a mortgage to the Bank; a revision of the Inter-Company Debenture to restrict payments by the Corporation to its parent company; and the conclusion of a loan agreement for about $5,000,000 with the Export-Import Bank (Section 7.01).

(b) Guarantee Agreement

(i) The Guarantor undertakes to make, or allows to be made, timely adjustments in railway rates (Section 3.06).

(c) Collateral Documents

(i) The Corporation would use its own resources to finance the purchase of goods and costs for the program whenever, and to the extent that, its net quick assets, as defined, exceed the equivalent of $1.5 million, and it would reimburse the Loan Account periodically from June 30, 1965 to July 1, 1967 in the amount that net quick assets exceed $1.5 million (No. 3);

(ii) The Guarantor recognizes the importance of the regulation of inland transportation and confirms that its undertaking with respect to rates is consistent with the relevant legislation and acknowledges the importance of permitting the Corporation to maintain its financial position in conformity with sound financial practices (No. 4).

8. The Government of Peru is authorized by Law 12960 of 1958 to guarantee payment of principal, interest and other charges.

9. The Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement of the Bank is attached (No. 5).

PART IV - APPRAISAL OF THE PROPOSED LOAN

10. A detailed appraisal of the project (Report TO-313d) is attached (No. 6).

The Project

11. The Project is the four-year program of the Borrower for the modernization and rehabilitation of its Central and Southern Railways. The program calls for the purchase of 47 new diesel locomotives and related spare parts; 171 freight cars of various types, structural steel and equipment for certain workshops; about 29,000 tons of 80-pound rails with fittings for relaying a part of the tracks of the Southern and Central Railways; and miscellaneous railway equipment.

The Borrower

12. The Corporation, incorporated in the United Kingdom in 1890, and at present domiciled in the U.S., is a wholly-owned subsidiary of the Peruvian Investment and Finace Limited. The parent Company's only other assets are two small real estate holdings. The Corporation's affairs are directed by a ten-member Board which meets regularly in Lima. The Chairman, Deputy Chairman and the former Managing Director are members of the Board and reside in London, and the other seven are prominent Peruvian businessmen. The Central and Southern Railways are each managed by a Manager who reports to the General Manager in

Execution of the Project

13. The project would be carried out entirely by the Corporation, which is well organized and managed, and is able to discharge its responsibilities efficiently. The consulting firm of Livsey and Henderson of London has been engaged by the Corporation to prepare the tender invitations for international competitive bidding, to analyse bids and make recommendations for awards. The Corporation plans to engage other consultants to study and make recommendations for increasing the efficiency of its operations.

Financing of the Project

14. The total cost of the four-year program is estimated to cost about US$21.3 million. The foreign exchange cost equivalent to about US$19.5 million would be financed as follows:

Proposed IBRD loan	US$ 13.25 million
Proposed new Eximbank loan	4.75 "
Funds from existing Eximbank loan (disbursed in 1962)	1.50 "
	US$ 19.50 million

The proposed Bank loan includes a reserve which is not expected to be fully drawn down. According to present estimates, the Corporation would generate by June 30, 1967, the Closing Date of the proposed loan, up to $5 million in excess of what it requires for working capital. Any such excesses would, as agreed in the loan documents, be used to finance a part of the foreign exchange cost of the project otherwise covered by the proposed loan. Actual disbursements from the proposed loan are therefore, likely to fall anywhere between US$8 million and US$13.25 million.

15. The proposed Eximbank loan of US$4.75 million to finance 19 locomotives for the Central, has been approved by the Eximbank's Board of Directors and a firm commitment is expected to be made shortly. The loan is expected to carry an interest rate of 5-3/4% with a repayment period of 7 years, starting in October 1964.

16. The local currency cost of the project, equivalent to about US$1.8 million, would be financed by the Corporation from funds generated by its own operations.

Method of Procurement

17. Contracts for all imported goods to be financed out of the proposed loan would be awarded on the basis of international competition, except for 5 diesel locomotives ($1,170,000) that had to be purchased from a previous supplier to achieve standardization of motive power on the Southern Railway, and for 1500 tons of rails and fittings (($215,000) that have already been ordered from the Corporation's regular supplier, on suitable terms, to meet an immediate need. The award for 19 locomotives for the Central Railway was also made on the basis of international competition in which a U.S. supplier was the lowest qualified bidder; the Corporation then sought and obtained Eximbank financing.

Justification of the Project

18. The project is needed to enable the Central and Southern Railway systems to provide reliable and efficient transportation service. The new investment will bring about large operational economies and represents the most economic means of providing needed transportation service to the areas served by the two railway systems.

19. The Central Railway links the capital, Lima, and the nearby Port of Callao, Peru's chief port, with the Sierra (the plateau of the Andes). Its most important function is carrying refined metals, ores and concentrates, from the Sierra to the Port of Callao for export, and bringing back supplies for the mining companies, such as fuel and cement. About half of Peru's foreign exchange earnings are derived from the export of minerals. The major part of such exports are carried by this railway. The remainder of the Central's traffic consists of

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agricultural produce brought from the Sierra to Lima, and petroleum products, manufactured goods and foodstuffs destined for the Sierra. The estimated annual increase in mineral exports for the next few years is only 2% and, therefore, the growth in the Central's traffic demand would be rather slow. Furthermore, road competition is a threat to the railway. Recently the Cerro de Pasco Corporation, the most important mining operation in the area and the Central's main shipper, threatened to shift its freight to the road. Subsequently, the Cerro de Pasco Corporation reached an agreement with the Corporation to ship all its freight over the Central Railway as long as the present tariffs remain in effect, and thereafter, as long as the Central remains competitive. Because costs of road transportation are likely to increase at least at the rate of those of the railway, it seems unlikely that road transportation can displace rail transportation for such commodities as refined metals, concentrates, ores and bulk merchandise, as long as the railway can furnish an efficient, reliable and reasonably priced service; and with the improvements in service and the reduction in operating costs to be achieved by the proposed modernization and rehabilitation program, the Central Railway should be in a position to do so.

20. The Southern Railway links Bolivia and the populated Southern highlands of Peru, including Peru's second largest city, Arequipa, with the Port of Mollendo, and by a separate line, with the Port of Matarani. A link with land-locked Bolivia is provided by means of steamer service across Lake Titcaca and railservice from Guaqui (in Bolivia) to La Paz, the capital. The Southern Railway traffic consists largely of general merchandise moving in both directions for destinations in Peru. An important part of the traffic on the Southern Railway is the general merchandise carried to Bolivia, and minerals carried from Bolivia to Peruvian ports for export. Total railway freight traffic is expected to increase slowly but steadily. Road competition does not pose a serious threat to the Southern.

be, important elements of Peru's transportation system and their efficient operation is essential to Peru's economic development. The Corporation is one of the few railways in Latin America that are still privately owned and managed and its operation is, on the whole, efficient. Its past financial performance has been unsatisfactory in large part because of its inability to re-equip and modernize itself. With the proposed loan, the Corporation has a reasonable chance to absorb further increases in wages and in the price of materials and supplies by increases in traffic volume, increases in efficiency, and adjustments in rates and, upon completion of the program to produce a steadily increasing net income. Nevertheless, it must be recognized that in this case there is considerable risk that the Corporation may have difficulty in meeting all of its financial obligations because it will always be in the squeeze between increasing operating costs on the one hand, and road competition on the other hand, both of which are in part beyond the control of the Corporation and the Government. The special conditions included in the loan documents and mentioned in paragraph 7 of this report are designed to minimize this risk.

Economic Situation

22. A report on the "Current Economic Postion and Prospects of Peru" (WH-121) dated September 28, 1962 was ~~circulated~~ distributed to the Board on October 2 1962.

23. The economic position of Peru at the end of 1962 was better than in ~~any~~ preceding year. The rate of growth of the Gross National Product was estimated at 6.5%, or about the same as that achieved in 1960 and 1961, following a recession in 1959. The main impetus came, as in previous years, from exports and from domestic manufacturing industry. An important contribution was ~~also~~ made by agricultural export crops, especially cotton and sugar. The increase in public investments during 1962 and planned for 1963 should, together with continued favorable prospects for the export sector, and a generally favorable climate for private investment, provide the basis for further fairly rapid growth in the future.

24. Following several years of excessive public spending, the Peruvian Government took steps, in mid-1959, to restore order in the country's domestic finances. In 1959, the Central Government's cash deficit was reduced by 50% and a substantial surplus was achieved in 1960. In 1961, the surplus was, however, again smaller, and in 1962 there was another substantial deficit, largely due to a sharp increase in expenditures for public investments. This deficit was, however, covered by disbursement of foreign loans and credits and borrowings from domestic banks, with only moderate recourse to the Central Bank. The prospects for 1963 are for further substantial increases in investment expenditures, but much of this should be offset by increased drawings on foreign loans, so that no net domestic borrowing should be necessary.

25. The reduction in the budget deficit, in Government borrowing from the Central Bank and in overall credit expansion, achieved since 1959, together with a spectacular increase in export earnings, particularly from fish meal, have reversed the downward trend in the balance of payments and the foreign exchange reserves of the late 1950's. The value of exports jumped from US$292 million in 1958 to US$556 million in 1962, with the major impetus coming from fish meal and minerals. The deficit on current account, which amounted to US$117 million in 1958, was eliminated and a surplus of US$21 million was achieved in 1960. But a deficit was again recorded in 1962, due largely to a rapid increase in imports of capital goods covered by foreign private and official credits.

26. The improvement in the balance of payments has resulted in a rapid recovery of the gold and foreign exchange reserves. From the end of 1958 to the end of 1962 these reserves have increased by US$88 million to a level of US$103 million. A certain amount of capital fled

the country in mid-1962, as a result of political events, but firm policies by the monetary authorities led to a reversal of this situation and the country's position appeared to be stronger at the end of the year than at the beginning.

27. Peru's external public debt amounted to $443 million at the end of June 1962 of which $223 million is undisbursed. An additional $60 million are reported to have been contracted by January 29, 1963. The debt service in 1963, equivalent to $64 million or 10% of estimated gross foreign exchange earnings, cannot be regarded as excessive in view of Peru's present economic strength and balance of payments position. The service burden on existing external debt will diminish to 7% of expected gross earnings in 1967, and although the external position will in the next few years probably be tighter than in the past, there still remains, at the moment, a margin for incurring new debt on conventional terms. However, the recent rapid increase in debt on relatively short and conventional terms, together with the Government's plans for substantial public investments, financed partly by foreign borrowing is somewhat disturbing and the situation should be kept under close review by the Government and the Bank.

Prospects of Fulfilment of Obligations

28. The Corporation's rehabilitation and modernization program is well planned. The Corporation is well qualified to carry it out and to operate the railways in an efficient manner.

29. The arrangements for financing the project assure that adequate funds will be available to cover the total cost of the project. Prospective increases in traffic and the covenants that have been obtained regarding the Corporation's tariffs should enable the Corporation to service the proposed loan as well as its other debts.

30. The service of the loan, together with Peru's other foreign exchange obligations, should not impose an undue burden on the Peruvian economy.

PART V - COMPLIANCE WITH ARTICLES OF AGREEMENT

31. I am satisfied that the proposed loan will comply with the Articles of Agreement of the Bank.

32. I recommend that the Bank make a loan to the Peruvian Corporation Limited, with the guarantee of the Republic of Peru, in an amount in various currencies equivalent to $13.25 million for a term of 16 years, with interest (including commision) at ___% per annum and on such other terms as specified in the attached Loan and Guarantee Agreements, and that the Executive Directors adopt a Resolution to that effect in the form attached (No. 7).

George D.Woods