

PROJECT ABSTRACT
PERU
LIMA METRO LINE 2 AND LINE 4 PPP
PE-L1160

- 1.1 The Lima Metro Line 2 and Line 4 Public-Private-Partnership or the *Concesión del Proyecto Línea 2 y Ramal Av. Faucett – Av. Gambetta de la Red Básica del Metro de Lima y Callao* (the “**Project**”), consists of the design, construction, operation, maintenance and supply of electromechanical equipment, systems and rolling stock of a greenfield underground metro line – the first of its kind in Lima. In addition to the entirety of Line 2, the Project will also include a portion of Line 4 (*Ramal Av. Faucett – Av. Gambetta*) connecting Jorge Chavez Airport with downtown Lima. The Project will have a total of 35 stations and is the country’s largest ever transportation infrastructure project as well as its largest ever infrastructure financing.
- 1.2 The Project represents an opportunity to impact hundreds of thousands of citizens daily connecting downtown Lima to suburban Callao, allowing users to save up to 1 hour and 40 minutes in travel time during peak hours over the entire route. By 2020, once all phases of the Project are fully-operational, demand is expected to reach 660,000 passengers/day. By 2030 demand is expected to grow to 803,000 passengers/day assuming full integration of the lines with the rest of the city’s public transport system.
- 1.3 The principal developmental results generated by the Project include: i) improved urban mobility for Lima’s inhabitants through the expansion of the public transport network and the provision of an efficient, safe, fast, reliable and financially accessible metro system; ii) increase in the access to economic and social opportunities for the residents of the city; (iii) reduction in operating cost of the public transport fleet; and (iv) reduction of negative environmental impacts through the replacement of existing highly polluting and high greenhouse gas producing transport options by clean electric trains.
- 1.4 The Project will be executed by Metro de Lima Línea 2 S.A., a special purpose vehicle (the “**Concessionaire**”) owned by the following entities: Iridium/ACS Group of Spain (25%); FCC of Spain (18.25%); Salini Impregilo of Italy (18.25%); Ansaldo STS of Italy (16.90%); Ansaldo Breda of Italy (11.60%); and COSAPI of Peru (10%). The Project has been awarded to the Concessionaire pursuant to a 35-year Public-Private-Partnership concession agreement between the Concessionaire and the *Ministerio de Transportes y Comunicaciones* (“**MTC**” or the “**Granting Authority**”) and under the supervision of the *Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público* (“**OSITRAN**”, or the “**Regulator**”).
- 1.5 The Project will be structured using an innovative framework that has proven to be highly successful for financing PPP projects in Peru. The key feature of the structure is that the Granting Authority will issue deferred payment certificates known as RPI-CAOs (*Retribución por Inversiones – Certificado de Avances de Obras*) to the Concessionaire as compensation for the works performed. RPI-CAOs are unconditional and irrevocable contractual payment obligations of the Granting Authority. Each issued certificate conveys the right to receive a stream of 60 quarterly payments for a period of

15 years commencing upon the earlier of the three months after the start of operation of Phase 2 of the Project and September 28 2019,, when construction is expected to conclude. Payment of the RPI-CAOs shall be made from the tariffs collected by the Concessionaire. If for any reason, tariff collections fall short of the RPI-CAO amounts due and payable, MTC is obligated to complement the deficiency. The Concessionaire will sell its RPI-CAOs to a bankruptcy-remote special purpose vehicle (SPV) that will simultaneously borrow money from the Bank (under a loan agreement), and use the loan proceeds to purchase RPI-CAOs from the Concessionaire (under a sale and purchase agreement). The repayment of the Bank's loan will be secured by the payment streams set forth in the RPI-CAO certificates.¹

- 1.6 The scale of the financing needs for the Project are unprecedented. While there have been six (6) other PPP financings in Peru based on RPI-CAO structures, the largest financing to date was one-sixth the size of the financing that will be raised for the Project. Indeed, these large amounts cannot be fully-financed locally and must be extended to the international long-term debt capital markets, which will represent a ground-breaking achievement for the GOP's infrastructure program.
- 1.7 The Bank will contribute to bridging the volume gap with a US\$400 million A Loan commitment as well as a US\$50 million funding from the China Co-Financing Fund for Latin America and the Caribbean, all of which will help the Concessionaire obtain financing commitments within the timeframe required by the Concession Agreement. To address market limitations, the Bank loan will also include a very long availability period to ensure that there is adequate funding available should there be delays in implementation, which will reduce financial stress on the Project.
- 1.8 The Bank also has a critical role in ensuring that the Project is built to the highest environmental and social standards. At the contractual level, the Bank's additionality is captured in the Concession Agreement which requires that the Concessionaire comply with the environmental and social requirements of the multilateral development banks that provide financing to the Project (i.e. the Bank), in addition to the environmental and social requirements applicable under Peruvian Law.
- 1.9 The Bank's financing documentation will also include obligations for the Concessionaire with respect to Bank policies (environmental, social, health, safety, prohibited practices, etc.) that otherwise would not be typically present in a securitization financing as is being contemplated for the Project.

¹ Parallel structures will be set up for other long-term lenders co-financing the Project together with the Bank.