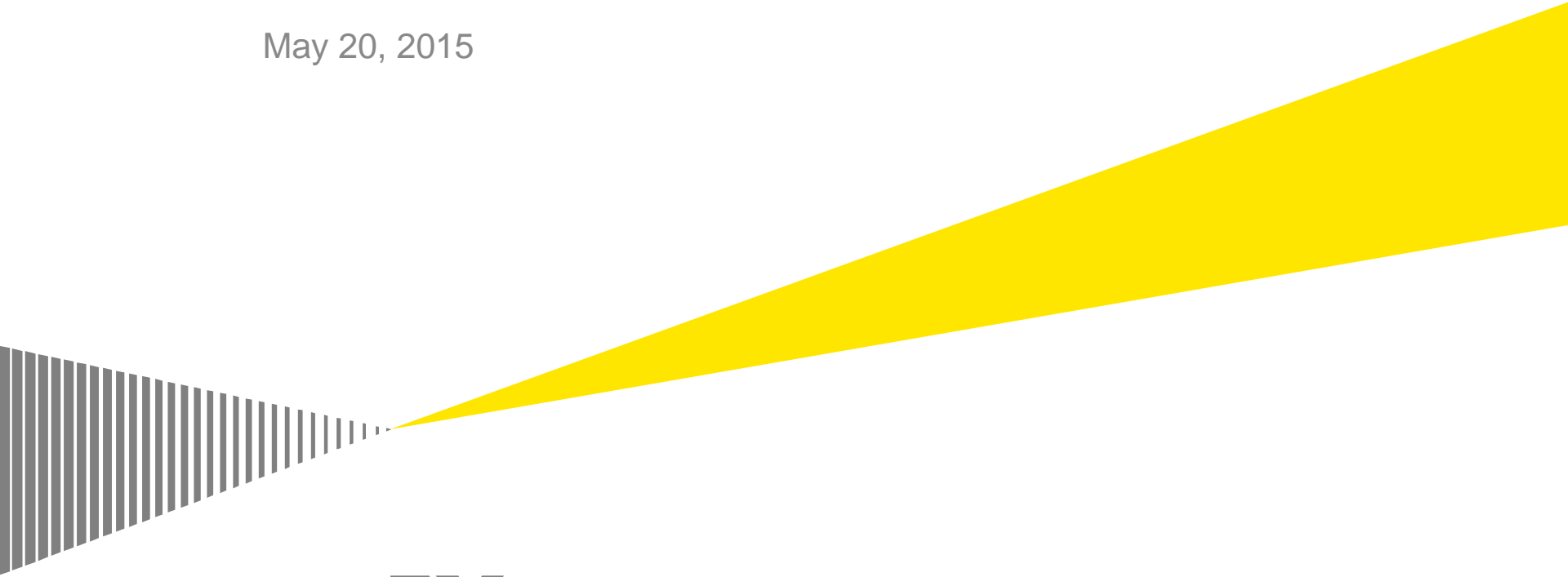


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ECONOMIC ANALYSIS OF THE “VIADUCTO BICENTENARIO” CONCESSION TITLE

May 20, 2015



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1. “Viaducto Bicentenario” Executive Summary

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- ▶ Our work consisted in preparing an Internal Use Report which analyzes the economic-financial development of the Concession Title for Mexico City's “Viaducto Elevado Bicentenario” signed in 2008 between OHL CONCESIONES MÉXICO, S.A. DE C.V., subsequently OHL México S.A.B. de C.V. (hereinafter OHLMEX), and the Government of the State of Mexico (hereinafter, GSM), as well as its compliance with common concession practices in Mexico.

Concession Title and stages of the Project

- ▶ By virtue of an agreement dated April 21, 2008, the GSM granted OHLMEX a Concession Title for the “*construction, exploitation, operation, conservation, and maintenance of the Viaducto Bicentenario*” (hereinafter Concession Title).
- ▶ The Concession Title was signed on May 7, 2008. At the time of its signature, the GSM was represented by the Secretary of Communications (hereinafter Secretary), and included the participation of the State of Mexico's Highways, Airports, Connection, and Subsidiary Services System (hereinafter SAASCAEM, its acronym in Spanish).
- ▶ The construction of the Viaducto Bicentenario consisted of three different stages: i) Section I - construction of the south-to-north section (22 km) commencing at Toreo de Cuatro Caminos and finishing at Tepalcapa; ii) Section II - construction of the section going north to south (22 km) in the opposite direction, from Tepalcapa to Toreo de Cuatro Caminos, which corresponds to the route covered by Section I; iii) Section III - 10 km sections from Tepalcapa to Tepozotlán in both directions. Currently, Section I is totally completed.

Financial imbalance of the Concession in 2011 and increased tariffs

- ▶ A total of 2,765,936,008 pesos of the additional investment was made in the construction of Section I. The total investment made in Section I was accepted by SAASCAEM's Construction and Operations Projects and Control Directors; who issued the corresponding favorable technical reports on April 1 and 7 of 2011. Subsequently, on May 25, 2011, the GSM authorized the modification of Appendices 4 and 10 of the Concession Title to include the referred additional investment, and agreed to reestablish the Concession's balance. This is reflected in the equilibrium restoration document dated May 25, 2011, which was recognized, reviewed, and approved by the GSM and the SAASCAEM.

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- ▶ The additional investment on Section I led to an economic imbalance of the concession for OHLMEX. Notwithstanding the foregoing, the **Title guarantees OHLMEX that the project's economic regime must maintain the conditions of economic-financial balance**, in the following terms:
 - ▶ ***"Throughout the duration of the Concession, and throughout its financial model outlined in the Economic Financial Plan included in Appendix 4 of this Title, the CONCESSIONAIRE is entitled to recover its total investment, including returns on risk capital contributed for the construction of "THE VIADUCT," with a fixed annual internal rate of real return of 7.0% (seven percent)."***
 - ▶ Based on the above paragraph, the **Concessionaire's shareholders are guaranteed** a 7% real return, and when this has been reached, the GSM may terminate or extend the Title to include any new conditions considered appropriate.
 - ▶ In this regard, the abovementioned guaranteed return on investment is a common practice in this market, rather than a specific term agreed upon by the GSM and SAASCAEM exclusively with OHLMEX. We were able to determine that there are a number of Concession Titles in Mexico, granted by both Mexican government and federal entities, which ensure their concessionaires a guaranteed rate of return. The existence of concession titles guaranteeing a real rate of return to concessionaires is therefore a common practice.
 - ▶ Based on our analysis of Appendix 4: Financial Model and Economic-Financial Plan, OHLMEX, the GSM, and SAASCAEM agreed on May 25, 2011, to restore the Concession's economic balance, which represented a tariff increase commencing 2013, thereby leading to the modification of Appendix 10 of the Concession Title, as well as Appendix 4; keeping the remaining text of the Concession Title is unchanged.
 - ▶ The only restoration of the economic imbalance of the Concession approved by the GSM until the date of this report took place in 2011.

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Conclusions obtained from the analyzed information

- ▶ **We determined that the conditions leading to the restoration of the Concession balance during 2011 were shared, reviewed, and approved by both the GSM and SAASCAEM in April and May of 2011, with Appendices 4 and 10 of the Concession Title modified:** *"THE SECRETARY authorizes the modification of the Economic-Financial Plan established in Appendix IV of the Concession Title resulting from the adjustment made to the Financial Model agreed upon by "THE SECRETARY" and "THE CONCESSIONAIRE," so that as of the date of this Agreement, the accompanying Appendix IV is applicable, signed by the parties and substituting Appendix IV of the "Title of the Concession" for all legal intents and purposes".*
- ▶ **We verified that the 2011 equilibrium reestablishment process of the Concession took place in accordance with the terms of the "Concession Title," and that, before its approval, all the necessary financial information was shared with SAASCAEM, which evaluated its needs and magnitude.**
- ▶ **We checked that the figures included in Appendices 4 and 10 to the document signed by the parties coincide with the information included in the Economic-Financial Model which was the basis upon which the reestablishment of financial equilibrium was reached.** In this regard, the information was shared, agreed upon, and approved by the involved parties.
- ▶ It is also necessary to highlight that **the concessionaire's financial statements reflecting its accounting and financial information, including investments, expenses, and income, were audited by an independent audit firm, with the 2010-2014 audit reports issuing favorable and unqualified opinions.**
- ▶ **Based on the work carried out which is explained in the scope section of this report, we did not detect any irregularities committed or economic damages to the Government of the State of Mexico as a result of the economic-financial aspects of the Concession.**
- ▶ **In our opinion, the restoration of financial balance which took place in 2011 (and the only one taking place until the date of this report) was necessary in accordance with the Concession Title, and was performed in accordance with the terms outlined therein.**

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- ▶ Notwithstanding the foregoing, as a result of the anticipated execution of part of the work during Section II of the Concession Title, the necessary conditions for requesting a new reestablishment of financial equilibrium have been met. Based on the above, on December 22, 2014, a letter of commitment was signed which states that “...the financial equilibrium was affected, and in order to determine the possible recovery of its investment within the period set forth in the Concession Title, to obtain the returns guaranteed in the Title, the Mexican government performs the corresponding financial analysis.” This process is still ongoing, and therefore we have not carried out a review thus far. However, we are able to conclude that based on the advance of the work included in STAGE II of the Concession Title, the conditions outlined therein for requesting and obtaining new financial equilibrium have been met.