

# **CCR S.A.**

## **Corporate Governance: Contracting of Related Parties**

### **Information on the contracting by**

#### **Companhia do Metrô da Bahia**

#### **I. Introduction:**

Grupo CCR excels in transparency, corporate security and good corporate governance practices.

Any contracting by CCR S.A. ("CCR") or its subsidiaries of any Related Parties are governed by clear rules, including those contained in the Shareholders' Agreement, which meet the legal provisions on the matter and the best market prices. Accordingly, they establish that the following practices be adopted:

- (i) Contracting exclusively at market prices and conditions;
- (ii) The contracting must be subject to analysis by the Board of Directors;
- (iii) Amount submitted to the Board of Directors significantly lower, corresponding to 10% (R\$1 million) of the amount permitted in contracts with non-related parties (R\$10 million);
- (iv) The Board member appointed by a shareholder is abstained from voting;
- (v) Possibility of any Board member, including Independent members, to request that an independent consulting firm assess whether the proposal meets market practices and conditions; and
- (vi) Approval by a qualified quorum, equal to or higher than seventy-five percent (75%) of the members of the Board of Directors.

In addition:

1. Under the terms of the Novo Mercado Regulation, information on transactions with related parties will be disclosed in the Notes to the Interim Financial Information.
2. As per the provisions of Normative Instruction 480/09 issued by the Brazilian Securities and Exchange Commission ("CVM"), this information will also be disclosed on item 16.2 of the Reference Form.

## **II. Bidding Process of the Bahia Subway**

### **Requirements of the Bid Notice regarding the technical qualification of Bidders**

This information refers to the largest investments to be made by the subsidiary COMPANHIA DO METRÔ DA BAHIA (“Metrol Bahia”), winner of the international bidding process for the sponsored concession of the Salvador and Lauro de Freitas Subway System (“Bahia Subway System”), which includes the implementation of construction works; implementation of systems; supply of rolling stock; operation, maintenance and expansion, under Bid Notice 01/2013 (“Bid Notice”), published by SEDUR – Urban Development Department (“SEDUR”) on May 24, 2013 (“Bidding Process”) (“Concession”).

Regarding the large construction works – consisting of the conclusion of Branch 01 of Line 01, implementation of Branch 02 of Line 01, and implementation of Branch 01 of Line 02 – Item 11.5.3 of the Bid Notice required technical qualification and experience in similar works, admitting, in Item 11.5.3.2, that such qualification be proven by certificates in name of the bidder, issued by affiliate or previously appointed subcontracted company. Grupo CCR participated in the Bidding Process by means of its subsidiary Companhia de Participações em Concessões (“CPC”), presenting qualification statements from two companies that are not shareholders of CCR, but that are part of two of its Controlling Groups: (i) Construções e Comércio Camargo Corrêa S.A. (“CCCC”) and (ii) Construtora Andrade Gutierrez S.A. (“AG”) (“Construction Companies”), which gives them, under the Bid Notice, the status of affiliates.

On August 21, 2013, CPC was declared winner of the Bidding Process with the lowest offer, of R\$127.6 million, with subsequent execution of the Concession Agreement by its subsidiary Metrol Bahia, on October 15, 2013.

## **III. Contracting of the works.**

### **Use of Alliance Management Contract**

In order to allow CPC to participate in the Bidding Process, using the permission in the Bid Notice regarding the proof of technical qualification by affiliates, on August 15, 2013 CPC and the Construction Companies executed a Memorandum of Understanding defining (i) the permission for CPC to prove the technical condition

to qualify for the Bidding Process by presenting statements issued by the Construction Companies; and (ii) if CPC won the Bidding Process, the future Concessionaire to be created would contract the Construction Companies, in a consortium ("Construction Consortium"), to execute the construction works for the implementation of the Subway, by means of an Alliance Contract.

The Alliance Management Contract ("Alliance Contract") was chosen for being a contractual relationship that creates a risk control and shared gain structure between the signatories, with the aim to minimize the total cost of the project.

The Alliance Contract has the following structure:

- a. During the bidding phase, the parties start from a jointly defined price (Construction Consortium and CPC), based on the best information available then, defining, in addition to direct and indirect costs and taxes ("Ceiling Price"), the remuneration to be paid to the Construction Consortium composed of Profit and Overhead;
- b. After executing the Concession Agreement and based on the assumptions of the Ceiling Price, the specification of the executive projects and more detailed studies, they jointly define a target price ("Target Price"), which will be the price to be reached (except in exceptional circumstances, it tends to be lower than the Ceiling Price).
- c. In the studies to define the Target Price, the parties have the possibility to identify, together, alternative projects and engineering solutions that enable reaching a Target Price lower than the Ceiling Price. Together, the parties manage the performance of the contract, always aiming to reach the Target Price or a lower value;
- d. They share the risks, affording any cost increases (in case of the Construction Companies, it could include all Profit received); and
- e. They share, in the end, any gains above the Ceiling Price.

This type of contract suits large construction works because, by providing for the sharing of risks, it avoids the inclusion of risk-related amounts in the contractual budgets, which is a natural procedure necessary in global construction contracts.

#### **IV. The Ceiling Price and preliminary contracting**

Based on the analysis of projects and existing documents related to the Bahia Subway System provided in the Bidding Process, the Construction Companies prepared a budget proposal, which was analyzed by the Concessionaire and compared with its internal budget. Based on these studies, the parties agreed on a previous common budget value, defined as the Ceiling Price of the Alliance Contract.

In view of the complexness of the contracting and urgency to begin the works, due to the Concession schedule, the parties executed a Preliminary Contract, and such value was deemed as the maximum ceiling, subject to the adjustments of the Alliance Contract and a final comparison that would analyze its alignment with the market.

The Preliminary Contract was essential to ensure the prompt start of the works and compliance with the contractual deadlines, which are essential for the constancy of the Concession.

#### **V. Independent evaluation of the defined value.**

##### **Adequacy to market conditions and prices**

In order to ensure compliance with internal governance rules and normative provisions, Metrô Bahia started a private bidding process to choose an advisory company to assess the compliance of the Ceiling Price with the market and the contracting conditions, a procedure duly accompanied by CCR's Board of Directors.

The company chosen to provide consulting services was Ductor Implantação de Projetos Ltda. ("DUCTOR"), which was contracted by Metrô Bahia on October 18, 2013.

After analyzing the budgets and comparing them to market prices, Metrô Bahia's decision for DUCTOR, which is duly detailed in a specific report, considered that the proposed conditions and Ceiling Price met those of the market.

Such work was presented to CCR's Board of Directors that, after proper analysis, considered it sufficient in terms of methodology and execution, and accepted DUCTOR, considering that the construction budget, which composed the Ceiling Price of the Alliance Contract, is aligned with market values.

Said decision was made under the terms of Internal Governance, with abstention of votes from the Board members appointed by the Controlling Groups whose companies comprise the Construction Consortium.

## **VI. Monitoring the performance of the Alliance Contract**

### **Independent specialized advisory firm**

With respect to the effectiveness of internal governance rules and normative provisions, CCR Metrô Bahia Concessionaire started a second private bidding process to choose another advisory firm, with the specific objective of monitoring the performance of the Alliance Contract, in terms of physical and financial performance, to ensure that the construction work values continue complying with market prices.

Promon Engenharia Ltda. ("PROMON") was chosen to provide the above-mentioned consulting services to monitor the physical and financial performance of the Alliance Contract, and was contracted by Metrô Bahia on June 27, 2014.

PROMON has been monitoring the Alliance Contract, which, considering all the data, ongoing measures and progress of the work until October 2015, of 47.7%, estimates that by the contract it will be necessary to invest an additional 4.0% to the original value, already taking into consideration additional investments to the initial scope required by the Granting Authority and, therefore, possible to being balanced under the Concession Agreement, or demands from the Concessionaire aiming at operational improvements.

The Parties to the Alliance Contract also had access to PROMON's works and undertook to make the necessary efforts so that the work and cost schedule fully complies with the originally defined parameters.

Below is the evolution of the monitoring of the performance of the Alliance Contract, and the respective forecasts until now:

Report	Reference	Progress	Projected Deviation
Jan/15	Dec/14	19.1%	0.8%
May/15	Apr/15	31.1%	0.7%
Aug/15	Jul/15	39.4%	4.5%
Sept/15	Aug/15	42.7%	4.5%
Oct/15	Sept/15	45.2%	4.4%
Nov/15	Oct/15	47.7%	4.0%

Periodic reports will be prepared and presented to CCR's Board of Directors, in spite of any extraordinary reports, if necessary.

## **VII. Compliance with Grupo CCR' Internal Governance**

The aforementioned measures, related to:

- (i) the feasibility of the participation in the Bidding Process, under the Bid Notice, resulting in the award of the contract and execution of the Concession Agreement;
- (ii) the contracting of the works with renowned engineering companies, under a type of contract that prioritizes the lowest price possible;
- (iii) the verification, by an independent advisory firm, of the adequacy of the values contracted to market prices; and
- (iv) the monitoring, also by an independent advisory firm, of the physical and financial performance of the Alliance Contract;

arise from Grupo CCR's compliance with internal governance rules and the applicable normative provisions.

These measures aim to ensure that the works of the Bahia Subway System are carried out by companies with technical qualification and appropriate experience, in order to achieve the desired and necessary level of excellence for the population, combined with a strict monitoring of the Alliance Contract that guarantees to all CCR shareholders that the physical and financial performance will occur under the Concession Agreement and under quite regular conditions and prices, fully consistent with those practiced in the market.

The subsequent stages for monitoring the Alliance Contract will be disclosed as they occur, by means of amendments to this Information.