

E. Risks Management and Monitoring Systems

E.1 Explain the scope of the company's Risks Management System.

Abengoa's risk management system is designed to mitigate all the risks to which the company may be exposed as a result of its activities. The structure of Abengoa's Risk Management is based on three pillars:

- › The Common Management Systems specifically designed to mitigate business risks.
- › Internal control procedures aimed at mitigating risks derived from the elaboration of the financial report and at improving the reliability of such report, designed in accordance with the SOX Act (Sarbanes-Oxley Act)
- › The universal risks model which is the methodology that Abengoa uses for the identification, compression and evaluation of the risks that affect the company. The purpose is to obtain an integral vision of them, designing an efficient system of response that is in line with the business goals and objectives.

These two elements form an integrated system that allows appropriate management of the risks and their mitigating controls at all the levels of the organization.

Abengoa's risks management system is a global and dynamic system. The scope of action of said system covers the entire organization and its whereabouts on a more permanent basis, and compliance with it is compulsory for all the company's employees, managers and board members.

In addition, the internal auditing unit is in charge of ensuring the compliance with and the good functioning of these systems.

E.2 Indicate the organs of the company in charge of elaborating and executing the Risks Management System.

The duty of elaborating and executing the risks management system is basically exercised by the audits Commission specifically through internal auditor and through the risks manager.

The risks manager is in charge of analysing projects and businesses in the efforts and in aspects regarding the identification and quantification of risks of any nature.

On the other hand, the internal audits department is in charge of supervising and ensuring the correct functioning of the risks management system.

E.3 Specify the main risks that could affect the attainment of business objectives.

In the process of identifying, compressing and evaluating the risks affecting the company, the following risks factors outlined in Form 20F, filed with the SEC on March 19, 2014, were considered:

General Risks

- › Abengoa operates in a sector of activity especially linked with the economic cycle.
- › Risk derived from depending on the regulations in support of activities relating to renewable energy, bioethanol production and also research- and development-related activities.
- › Solar power generation.
- › Biofuel consumption.
- › Risks derived from the sensitivity entailed in the supply of raw materials for biofuel production and the volatility of the price of the final product.
- › Risks derived from the sensitivity entailed in the supply of raw materials for recycling activities and the volatility of the price of the final product.
- › Risks derived from delays and cost overruns in activities of Engineering and construction due to the technical difficulties of the projects and the lengthy duration of their execution.
- › Risks linked to the activities of concession-type infrastructural projects operating under regulated tariffs or extremely long-term licences agreements.
- › Incomes derived from long-term agreements: risks derived from the existence of clauses and/or renewal of licence agreements processed by Abengoa, termination of pending engineering and construction projects and non-renewals of biofuel distribution agreements.
- › The variations in the cost of energy may bear negative impact on the company results.
- › Risks derived from the development, construction and exploitation of new projects.
- › Abengoa's activities may be negatively affected in the event that public support for such activities diminishes.

- › Construction projects regarding the engineering and construction activities and the facilities of concession-type infrastructural and industrial production activities are dangerous places of work.
- › Risks derived from joining hands with third parties for the execution of certain projects

Risks that are specific to Abengoa

- › Abengoa operates with enormous levels of indebtedness.
- › Risks derived from the demand for capital intensive investments in fixed assets (CAPEX), which increase the need for external finance for the execution of pending projects.
- › Risk entailed in obtaining reduced net profit derived from assets rotation
- › The company has a controlling shareholder.
- › The renewable energy sector products and services are part of a market subject to intensive conditions of competition.
- › The results of the engineering and construction activity depend significantly on the growth of the company in the concession-type infrastructural and industrial production activities.
- › Fluctuations in interest rates and their hedging may affect the results of the company
- › Fluctuations in the currency exchange rates and their hedging may affect the results of the company.

Risks derived from internationalization and from country risks

- › Abengoa's activities fall under multiple jurisdictions with various degrees of legal demands requiring the company to undertake significant efforts to ensure its compliance with them.
- › Insurance coverage underwritten by Abengoa may be insufficient to cover the risks entailed in the projects, and the costs of the insurance premiums may rise.
- › The activities of the company may be negatively affected by natural catastrophes, extreme climate conditions, unexpected geological conditions or other physical kinds of conditions, as well as by terrorist acts perpetrated in some of its locations.
- › The practices of tax evasion and product alteration on the Brazilian fuel distributions market may distort the market prices.

E.4 Indicate whether the company has a risk tolerance level.

The universal risks model is a tool used for identifying and evaluating all risks affecting Abengoa. All the risks contemplated therein are evaluated considering probability and impact indicators

Based on such parameters, the risks are classified as follows:

- › Minor risks: risks that occur frequently but bear little economic impact. These risks are managed to reduce their frequency only if managing them is economically viable.
- › Tolerable risks: risks that occur infrequently and bear little economic impact. These risks are monitored to ensure that they remain tolerable.
- › Severe risks: frequent risks that bear extremely high impact. These risks are managed immediately although, due to the risk management processes implemented by Abengoa, it is unlikely that Abengoa needs to tackle these types of risks.
- › Critical risks: risks that occur infrequently but bear extremely high economic impact. These risks have a contingency plan since, when they arise, their impact is extremely high. These risks are subject to their own contingency plan, given the severity of their impact when they occur

E.5 Identify the risks that materialized during the financial year

Abengoa endured certain risks during the 2014 financial year, the most significant of which is treated below, putting in place the pertinent multi-annual action plans to enable us to exercise control over all of them.

Energy and the environment are part of the activities in which Abengoa is engaged. This activity is performed in changing surroundings, with regulations, subsidies or tax incentives that can be changed or even legally challenged.

Some of our businesses depend on local and government regulations of industrial activities, including regulations that, among other things, enforce the reduction of carbon and other greenhouse gases and the content of biofuels in fossil fuels or the use of energy from renewable sources. Any amendment to such regulations will seriously undermine the profitability of our current and future projects, and it could also bear adverse material effects on our business, financial conditions and results.

Some subsidy regimens set up for renewable energy generation have been challenged in the past for constitutional and other types of reasons (including benefit schemes that constitute State subsidies from the European Union) in some jurisdictions.

In the event that all or part of our renewable energy generation subsidy systems and incentive schemes were to be declared illegal in any jurisdiction in which we are operating, we would have to be in conditions to efficiently compete with the non-conventional renewable and other kinds of energy or we would be unable to complete some ongoing projects. We are bound by excessive government regulations existing in a number of different jurisdictions, and our inability to comply with the existing regulations or requests or changes in the applicable regulations or requirements could bear negative impacts on our businesses, results of operations or on the financial situation and, among others, the Regulations - Spain -Solar Regulatory Framework - Royal Decree Law 413/2014, which develops the principles established by Royal Decree Law 9/2013.

Renewable energy production at our facilities is the object of various measures of tax reduction or tax incentives in the jurisdictions in which they operate. These tax incentives and reductions play important roles in the profitability of the projects that we execute. It is possible that in future part or all of said incentives may be suspended, shortened, or may not be renewed, or may even be completely cancelled. Such possibilities may negatively affect the profitability of the current plants and our ability to finance future projects, something that could bear adverse material effects on our businesses, financial conditions and results of operations.

E.6 Explain the response and supervision plan for the most threatening risks of the entity.

There is a specific action plan for each of the risks identified, which could encompass various departments of the company.

The following committees are in charge of the executive supervision of the company's main risks:

- › Risks Management Committees by Business Units.
- › Critical Projects Committees.
- › Risks Management Committees with the Executive.
- › Projects Committee
- › Special Situations Committees