Risk Management

Abengoa is keenly aware of the importance of **sound risk management** for appropriate strategy planning and in achieving proposed business objectives. Furthermore, having a solid risk management system in place is essential to value creation in decision making and constitutes a significant competitive advantage. Abengoa therefore applies risk management globally to the business, from developing and implementing strategy to performing day-to-day company activities.

In line with the viability plan presented by the company in March, Abengoa is wholly convinced that a **robust risk management system that is totally integrated into the business** is, more than ever given the current situation, a **key tool for accomplishing objectives** and ensuring long-term sustainability of the business model by attaining the quality standards demanded by customers, minimizing emerging risks and contributing to creating value for stakeholders.

Thus, risk management begins with **the identification and parameterization of the risks that may affect any business opportunity** prior to its commencement, establishing its tolerance to risk and likelihood of occurrence. Once these risks have been parameterized and identified, and in cases where the decision is made to move forward with the business opportunity, the Risk Management Department **defines the most appropriate mitigation measures** for each type of risk. *G4-14*

Abengoa's **Global Risk Management System** comprises three components[15]: the Common Management Systems, Procedures of Obligatory Compliance (SOX) and the Universal Risk Model. The system features an integral and dynamic focus enabling it to control and identify risks, create a common culture which facilitates fulfillment of objectives in this area, and have the capacity to both act and adapt.

The risk analysis performed for the company's most significant projects involves transversal coordination of company areas, as well as special communication and coordination among the Risk Management Department, Finance Department, Internal Auditing and Legal Advisory.

Note 15 More information can be found on page 222 of Volume II: Economic and Financial Information.

Business risks

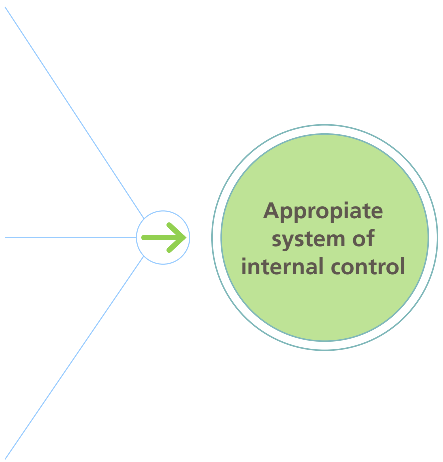
Common Management Systems
Mitigate the actual business risks of company activity through an internal communication and authorization system.

Risks associated with the reliability of financial information

SOX
Mitigate the risks associated with the reliability of financial information through a combined system of control procedures and activities in key areas of the company.

Risks of quantification

Universal Risk Model
Tool for quantifiying risk exposure througout the company.



The risk management process at Abengoa is a continuous cycle based on **five key phases: identification, evaluation, response, monitoring and reporting**.

In each one of these phases fluid and periodic two-way communication is essential, as well as ongoing feedback in order to be able to incorporate any improvements needed during the process.

In 2015, the main new features implemented in relation to risk management policies were the following:

- **Identification of risk by country in Abengoa's strategic plans**: in accordance with the methodology for classifying countries in place within the company, which defines risk level in terms of environment / security, political risk, sovereign rating[16], transparency practices and nature, the measures to be applied are determined for each one of the countries included under the strategic plan, depending on the resulting score.
- **A risk analysis methodology for specific R&D and innovation activity has been implemented** so that all activities carried out under this category ensure the preservation of acquired know-how and intellectual property, minimize the risk of information leaks and the impact of potential turnover of key personnel, as well as losses of or damage to samples and prototypes.

Note 16 S&P and Fitch credit ratings assigned to the sovereign debt of the country in question.

Universal Risk Model (URM)

The Universal Risk Model (URM)[17] is the Enterprise Risk Management (ERM) tool that helps to gauge, based on indicators of impact and probability, the level of the main risks affecting Abengoa in each one of the categories (strategic, financial, operational, legal and regulatory). This tool generates risk maps in real time through automated connection to the company's reporting systems.

Abengoa risk universe

Strategic

- Corporate governance
- Market dynamics
- Resource planning and allocation
- Strategic organizations
- R&D and innovation strategic projects
- Communication & investor relations
- Mergers acquisitions & disinvestments

Compliance

- Regulatory
- Legal
- Codes of ethics and conduct

Operations

- Tangible assets
- Supply chain
- Threats or disasters
- Information technologies
- Sales
- Human Resources

Financial

- Markets
- Liquidity & credit
- Accounting & reporting
- Taxation
- Capital structure

Note 17 More information can be found on page 223 of Volume II: Economic and Financial Information.

Risk measurement is carried out in each of the company's business units by **relevant geographic region** and is **reviewed every six months**. This allows for **specific action plans to be drawn up** for those risks whose assessment exceeds the threshold defined in each case as being "tolerable".

In 2015, this tool was adapted to also enable the company to obtain and monitor parameters and indicators from the most significant business areas for daily business management, which increases system efficiency and improves the decision-making process.

With respect to risks related to CSR and sustainability, the URM strategy area includes **specific CSR-related risk and the risks directly associated with climate change**, including potential natural disasters.

In addition, **specific CSR risk analysis** is conducted annually for relevant Abengoa operation sites in order to identify, oversee and control the potential risks of each one in CSR matters. This information serves as input for preparing CSR risk in the URM and helps to identify, not only the CSR risks inherent to each operation site, but third-party perception of these risks in order to subsequently carry out a plan for mitigating, controlling and monitoring these risks.

The analysis is performed based on a **closed questionnaire** containing a total of **27 risks** selected from relevant CSR-related issues, which are identified in the company's Strategic CSR Plan and encompass six areas: labor practices; occupational health and safety; supply chain, social commitment and local impact; environmental management and climate change; and ethics, integrity and compliance.

Risk mitigation

Abengoa applies the controls needed to maintain the different identified risks within the established limits, determining the strategy to be followed for each one of them.

The risk mitigation systems are applied at different levels:

- **Business-level**: each and every procedure (legal, financial, procurement, quality, operational, corporate social responsibility, etc.) is grounded in the identification and design of measures for mitigating inherent risks, and application of such measures is obligatory. Therefore, all activities carried out at Abengoa implicitly mitigate the risks that affect these activities.
- **Project-level**: the commencement of every project is preceded by risk analysis and quantification which extends to all project phases (development, execution and operation), with updating taking place during the various stages of the project. No project is undertaken without conducting this risk analysis, in addition to verifying that potential risks have been taken into account and approval has been received from those in charge at all decision-making levels. *G4-14*
- **Strategic-level**: measuring risks through the URM enables global action plans to be defined for maintaining risks at the level of tolerance established for each of them. Additionally, Abengoa's strategic plan includes consideration of the measurement of country-related risk of the geographic territories in which the plan is implemented. Mitigation measures are established based on this measurement to ensure viability of the plan.

It should be pointed out that Abengoa has a common system for managing improvements, which enables feedback and the application of new corrective measures for new projects or businesses according to past experience.

Committees on risk management

Holding regular committee meetings ensures that Abengoa's senior management has accurate knowledge of the main risks affecting the company as a whole and, in particular, each of its projects and lines of business. This helps to ensure that **strategic decisions** are undertaken with **maximum assurance of success**. *G4- 46, G4-47*

Risk management committee meetings	
Committee meeting with the Risk Management director and the CEO	Weekly
Committee meeting with the director of Risk Management and the chairman of the Safety Committee	Monthly
Committee on significant projects/businesses monitoring meeting with the CEO	Variable, depending on the number of projects/businesses
Committee meeting with the director of Risk Management and the risk managers from each business unit	Monthly
Annual committee meeting of "sponsors/risk owners"	Annual

Integration of risk management in the organization's strategy

Abengoa integrates risk management into company strategy, which enables it to identify and evaluate twenty risks categorized as strategic. Included is the analysis of the risk of inadequate strategy planning and/or execution, errors in budget preparation and monitoring, deficiency in the distribution of R&D and innovation expenditure, significant changes in demand and inadequate consideration of socio-political changes, among others.

From the international perspective of its operations, Abengoa is aware of the potential impacts on the company's business of the materialization of any of the country-risk types in the geographical areas where it operates. For this reason, a methodology was introduced in 2014 for classifying the countries of company operation according to the risk they pose in terms of environment/security, political violence, sovereign rating, national transparency index and inherent risks of greater exposure. Measures to be applied were also devised according to country ratings and these are to be implemented imperatively in order to do business with them.

In keeping with the principle of caution and anticipation in this area, 2015 saw the incorporation of the obligatory nature of including country-risk classification in the strategic plan, which envisages implementation in accordance with said plan so that requirements and specific measures to be applied are taken into account according to the aforementioned classification of the country in question in each case.

G4-14