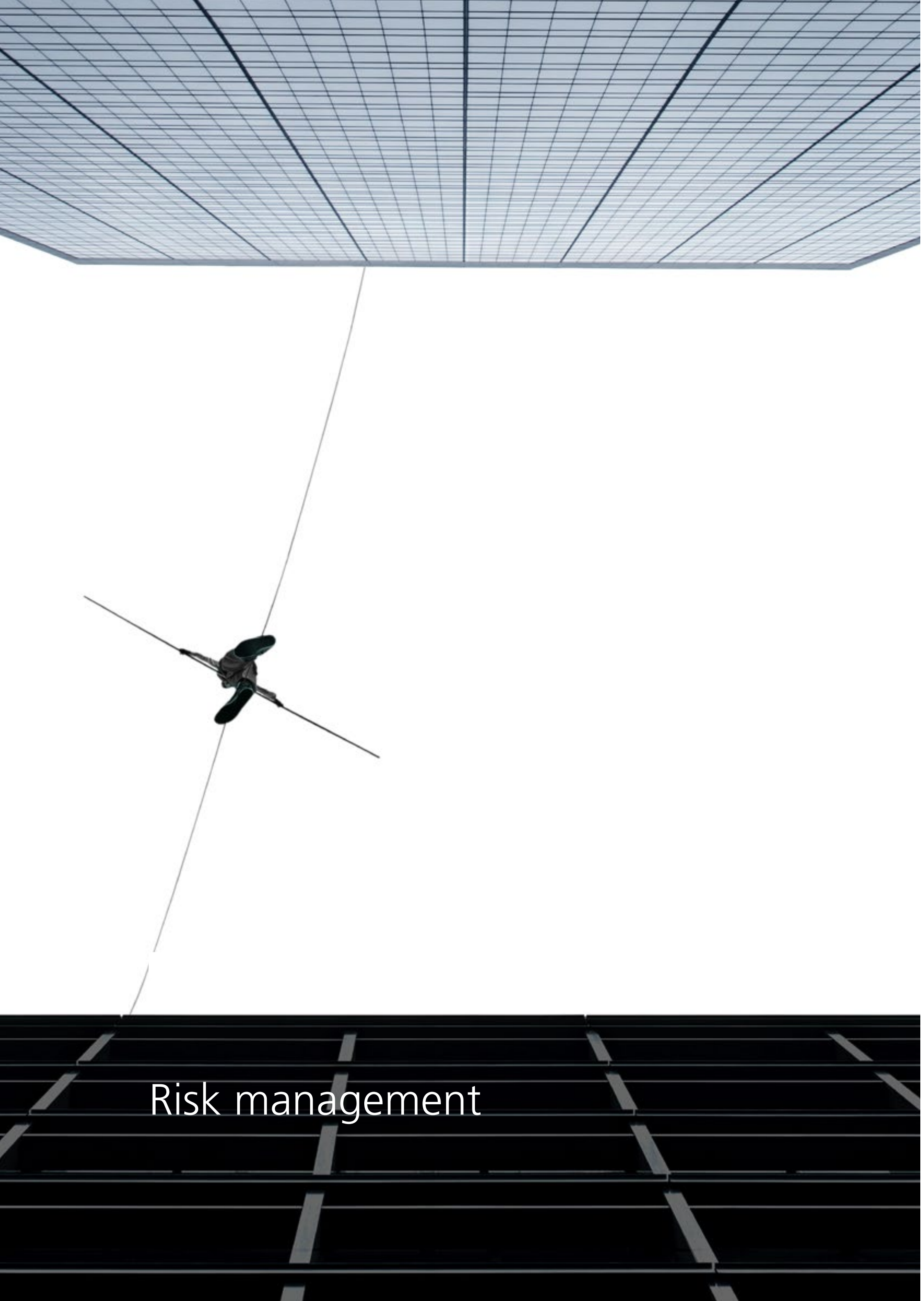


# Risk management

Abengoa is firmly committed to a **Risk Management System** that is fully integrated into the business, which is a fundamental part of decision-making as well as a source of competitive advantage in achieving objectives.

As a key element of the Risk Management policy, there is a need to make staff aware that **risks** must be **managed** at all levels of the organisation, **in a cross-cutting way** and for these to **form part of a common culture**.

The main objective of Abengoa's Risk policy is for **risk management** to be fully **integrated into the company's strategic planning**, in the definition of business objectives and in day-to-day operations to achieve these objectives. Moreover, we need to have all the risk solutions adapted to business conditions and to the economic environment.

The Risk Management System features three fundamental pillars:

## Global system of risk management

**Business risk**

**Common Management Systems**
Mitigates the own business risks of the company's activity and controls them through an internal system of communications and authorisations.

**Risks related to the reliability of financial information**

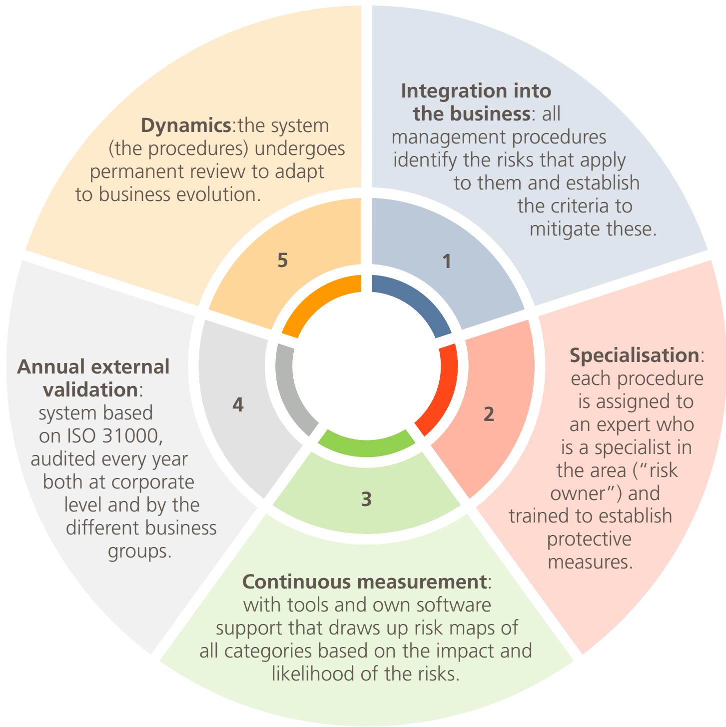
**SOX**
Mitigates the risks of the reliability of financial information through a combined system of control activities and procedures in key areas of the company.

**Quantification risks**

**Universal Risk Model (URM)**
An internal Enterprise Risk Management (ERM) methodology that help to gauge, based on impact and probability indicators, the level of the main risks affecting Abengoa in each one of the categories (strategic, financial, operational, legal and regulatory). The tool generates risk maps in real time, enabling us to design efficient responses that are aligned with business objectives.

**Adequate internal control system**

## Key elements of the Risk Management System




The global risk management system is characterised by having a **comprehensive and dynamic approach** that enables it to control and identify risks, the creation of a common culture that facilitates the achievement of objectives in this area, and has the capacity for both performance and adaptation. *102-11*

This process is carried out for all projects in their different stages, from identification of the business opportunity, through the procurement, performance and guarantee period, with a predictive approach that enables us to anticipate the most appropriate mitigation measures for each type of risk and in each phase. *102-11*

The monitoring and tracking of risk evolution and the mitigating measures in each stage means **lessons are learned** that make it possible to obtain risk management feedback, and the application of measures for new projects or businesses based on past experiences. In addition, this information serves as an input to the internal Enterprise Risk Management (ERM) system for updating the Abengoa Risk Map.

## Risk monitoring

As a result of closing the restructuring agreement in March 2017, where a series of requirements were established and based on the new strategic plan approved by the Board of Directors, a process is being introduced **to update the common management systems and the risk management system** to adapt it to the company's new organisational structure.

The **main specific actions** in this matter were:

- Definition of the **new approval scheme for the relevant decisions** of the company, through an Executive Committee and, from certain levels, by the Board of Directors. A **risk analysis** as support in the taking of decisions by these bodies **is mandatory**.
- **Centralisation of the Risk Management department** to provide a global service to the different business areas, ensuring synergies between the different areas in terms of risks and being able to control the impact at Abengoa of potential risks that may materialise.
- **Review of the procedure to evaluate the Country Risk** and the mitigation measures required according to said classification.
- **Limitation of risks in the performance of the activity**, focusing the strategy on smaller projects and recurring markets, increasing the diversification of activity, and reducing the potential impacts of the risks to which Abengoa is exposed in its activity.

## Evolution of risks

According to the focus of the strategic plan and the company's evolution in 2017, most sales were due to engineering and construction projects for third parties, which resulted in a **reduction in the exposure of risks inherent to the concession-type infrastructures**, such as high borrowing, volatility of interest rates, regulatory risks that affect revenues, capital contribution needs not included in the budget, etc.

In this way, the risks to which Abengoa has been exposed in its main activity in 2017 as a contractor, a sector in which the company continues to be a benchmark thanks to the know-how acquired over decades, were those of its construction activity:

- **Contractual risks**.
- **Risks derived from extra costs and delays** in the guaranteed deadlines in projects of high technical complexity.
- **Risks of** customer **default or insolvency**.
- **Risks of nature** in the area where the projects are located and those due to the high internationalisation of Abengoa.
- **Risks arising from a situation of political and economic instability** and deterioration in the security conditions in those countries where the company carries out its activity.

Due to the high percentage of the company's activity in the Middle East, and given the linkage of these economies to variations in the price of crude oil, it is worth highlighting the indirect exposure to scenarios of low oil prices, which imply tax increases and risks of exchange, currency, default, and delay or cancellation of projects in the area.

On the other hand, based on the financial limitations signed in the restructuring agreement, **agreements have been made with international partners** under conditions that satisfy the risk profile of Abengoa, to approach the market with competitive bids and which is serving to win contracts in different countries. *102-15*

## Integration of risk management into the organisation's strategy

Abengoa integrates risk management in the organisation with its strategy.

Through its **Universal Risk Model (URM)** methodology, Abengoa is able to identify and evaluate 20 risks classified as "strategic", including the risk of inadequate strategy planning and/or execution, errors in budget preparation and monitoring, deficiencies in the distribution of R&D and innovation expenditure, significant changes in demand or inadequate consideration of socio-political changes, and the risk of commercial concentration, among others.

In preparing the organisation's **strategic plan**, the criterion of adaptation of the same to the risk profile adapted and assumed by Abengoa prevailed. **Priority** was therefore established **in recurrent markets**, with a **reduced exposure to the country risk** according to the internal classification developed by the company, and for a typology of projects that minimizes exposure to the inherent risks, prioritizing EPC contracts with third parties, and the **definition of a balanced pipeline** according to the project size.

In light of agreements with potential customers, the risk criteria of high commercial concentration, the credit capacity of the counterparty, how it could impact Abengoa as a whole, and possible risks that materialize in a specific business opportunity are fundamental in taking decisions.

## Risk Control of the supreme governing body

**Senior management's commitment to an efficient risk management system**, which connects with the company's overarching vision and is integrated into the business, is maximum.

This commitment and involvement with the function is clearly shown in the company's own organization, where the Risk Management department **reports directly to the executive chairman of Abengoa's Board of Directors**, allowing him to monitor the efficiency of risk management processes through of a series of regular bi-weekly committees between the chairman and the director of Risk Management of the company. *102-30*

In addition, once a month a **committee** of each of the **business units** is held **with the Executive Committee**, committees on which the Risk Management department takes part, and in which the evolution of the main risks that affect each of those units is identified and analysed. This includes an assessment of compliance with trading, environmental, social and health and safety figures, as well as the potential impacts on this unit and on Abengoa as a whole. *102-30, 102-31*