



7

**RISK
MANAGEMENT
AT THE ACS
GROUP**

7.1 DUAL SYSTEM OF RISK CONTROL AND SUPERVISION

The ACS Group carries on its activities in different industries, countries and socio-economic and legal environments, which entails exposure to different levels of risk inherent to the businesses in which it operates.

The ACS Group's risk control system is based on a range of strategic and operational actions designed to mitigate these risks and fulfil the objectives established by the Board of Directors. The Corporate Unit is responsible for determining the basic guidelines for the purpose of unifying the operating criteria in each of the divisions to guarantee an adequate level of internal control. The companies and divisions that form part of the Group are responsible for developing the required and appropriate internal regulations so as to implement internal controls that guarantee the optimum performance thereof based on the particular nature of their activities.

In order to respond to the need for global and standardised risk management, the Corporate Unit has established a model that includes the identification,

assessment, classification, valuation, management and follow-up of risks at the Group and operating division levels. When these risks have been identified, a risk map is prepared that is updated regularly based on the different variables involved and the types of activities in which the Group is involved.

The risk control systems adopt the Group's decentralised nature, enabling each business unit to exercise its own risk control and evaluation policies under certain basic principles. These principles are as follows:

- Definition of the maximum risk limits that may be assumed by each business in accordance with the characteristics and expected return thereof, and which are implemented at the time contracts are entered into.
- Establishment of procedures to identify, approve, analyse, control and report the different risks for each business area.
- Coordination and communication to ensure that the risk policies and procedures of each business area

are consistent with the Group's overall risk policy.

The systems provide the necessary information to supervise and evaluate the risk exposure of each business area and develop the corresponding management information required for decisions with the monitoring of the appropriate indicators.

Particularly worthy of note are the systems related to risk control in the tenders, contracts, planning and management of construction work and projects, as well as quality management, environmental management and human resources systems.



Risk control policy





The ACS Group’s risk management system identifies and evaluates various risk scenarios grouped into two categories:

Corporate risks:
affect the Group as a whole and, in particular, the listed company.

Business risks:
Specifically affect each of the business areas and change based on the unique nature of each business activity.

Regulatory risks: arise from the reliability of the financial information published, the company’s lawsuits, stock market regulatory rules, the data protection law, possible changes in Spanish and international tax regulations and civil liability on equity integrity.

Financial risks: include the level of indebtedness, liquidity risk, risks resulting from fluctuations in exchange rates, risks from interest rate fluctuations, risks from the use of derivative financial instruments, risks from investments and exposure to the risk from variable return on investments made in listed companies.

Information risks: include reputational risks that may affect the Group’s image and those relating to transparency and its relationship with analysts and investors.

Strategic Risks: Strategic risks: may arise as a result of choosing a certain strategy, which could significantly influence, directly or indirectly, whether the ACS Group is able to reach its long-term objectives.

Reputational Risks: Reputational risks: are those with a potential adverse impact that may affect the Group’s image such as transparency and the relationship with analysts, investors and various stakeholders regarding expectations on the behaviour of the Company and the Group.

Operational risks: include risks relating to contracting and tendering for works and projects, planning and controlling the execution of the various works and projects, customer relations and credit risk, product quality, and environmental, purchasing and subcontracting risks.

Non-operational risks: include risks relating to occupational health and safety, with human resources, compliance with the legislation and specific tax regulations applicable to the businesses, the reliability of accounting and financial information and the management of financial resources and indebtedness.

- In addition to the risks inherent to its different business activities, the ACS Group is exposed to various risks of a financial nature due to interest rate or exchange rate fluctuations, liquidity risk and credit risk.

a) Risks arising from changes in interest rates on cash flows are reduced by hedging the interest rates through financial instruments that mitigate the effect of any fluctuation therein.

b) Foreign currency risk is managed by arranging debt in the same functional currency as that of the assets financed by the Group abroad. To hedge the net positions

denominated in currencies other than the euro, the Group arranges various financial instruments to reduce its exposure to foreign currency risk.

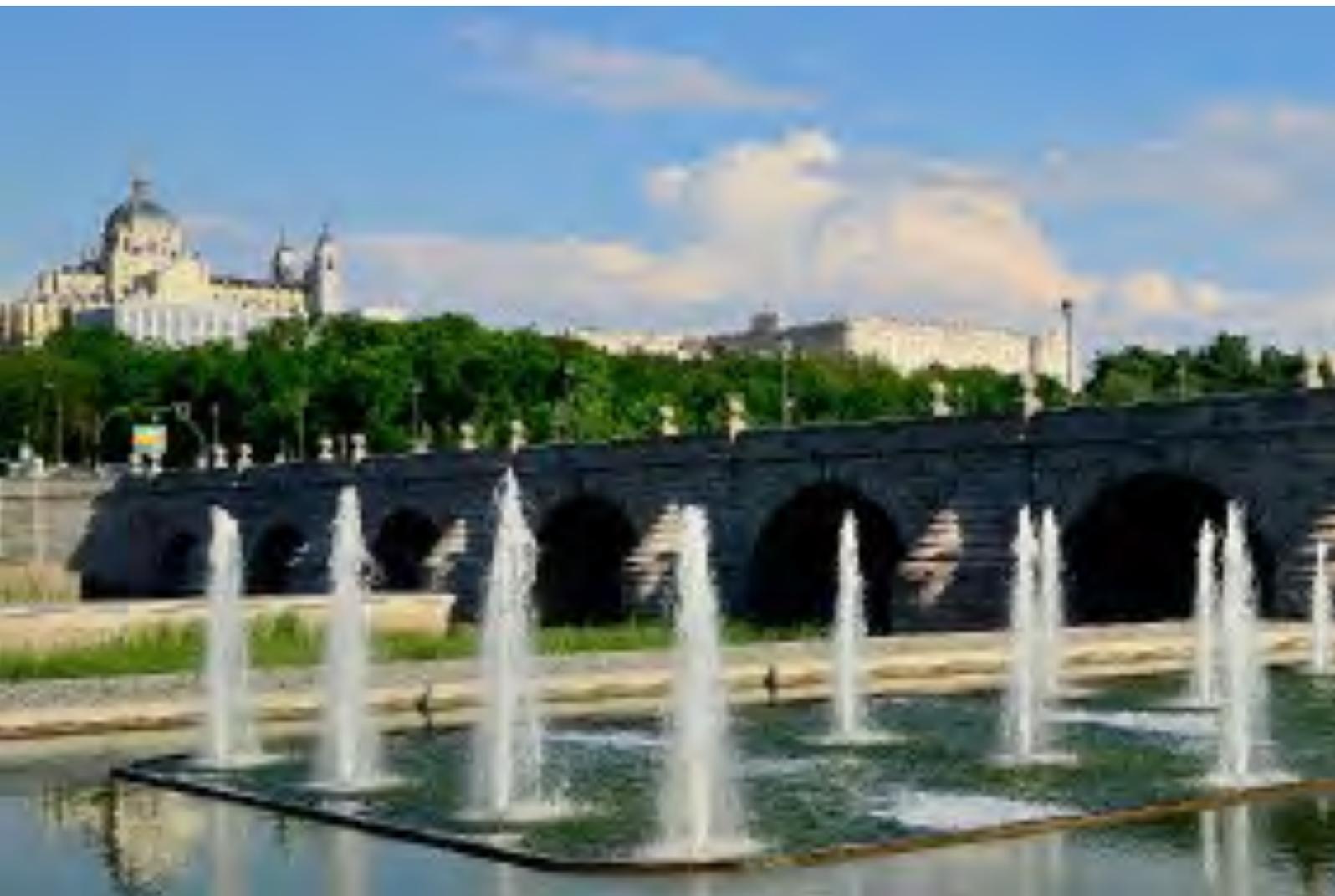
c) The most noteworthy aspects in the period on financial risks related to liquidity are as follows:

- The renewal of the Euro Commercial Paper (ECP) for €750 million and the Euro Medium Term Note Programme (EMTN Programme) for €1,500 million.
- The issue of notes on the Euromarket for €28 million maturing in 2018.

- The significant reduction in the market risk associated with its exposure to Iberdrola as a result of the forward sale, the derivative arranged and the completion of the put spread.

- The renewal of the syndicated loan in the amount of €2,350 million and extension until 2021.

- The strengthening of the Group's financial position after the collection of the sale of Urbaser in December 2016 and the exclusion of the debt associated with this group from the consolidated accounts.



- A more in-depth explanation of these risks and of the related risk control instruments is provided in the corporate governance reports and consolidated financial statements of the ACS Group (www.grupoacs.com). Likewise, the Annual Report of Hochtief (www.hochtief.com) details the inherent risks and control mechanisms.
- Based on the information currently available, in the next six months following the closing of the accounts referred to in this document, the ACS Group expects to face situations of risk and uncertainty similar to those faced in the second half of 2016, especially those arising from:
 - The internationalisation of the Group's activities.
 - The growth in activity in North America and Pacific Asia.
 - The economic and financial uncertainties in Europe.
 - The low growth expectations of investment in infrastructure in Spain.

