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RISKS



Risks

Anticipating and searching for opportunities

Achieving Ferrovial's strategic and operating objectives requires effective risk management.

Ferrovial has a Risk Control and Management Policy approved by the Board of Directors that sets a general framework for action for control and management of the diverse risks the management team may encounter in working towards the business objectives, as well as the tolerance level for each risk factor.

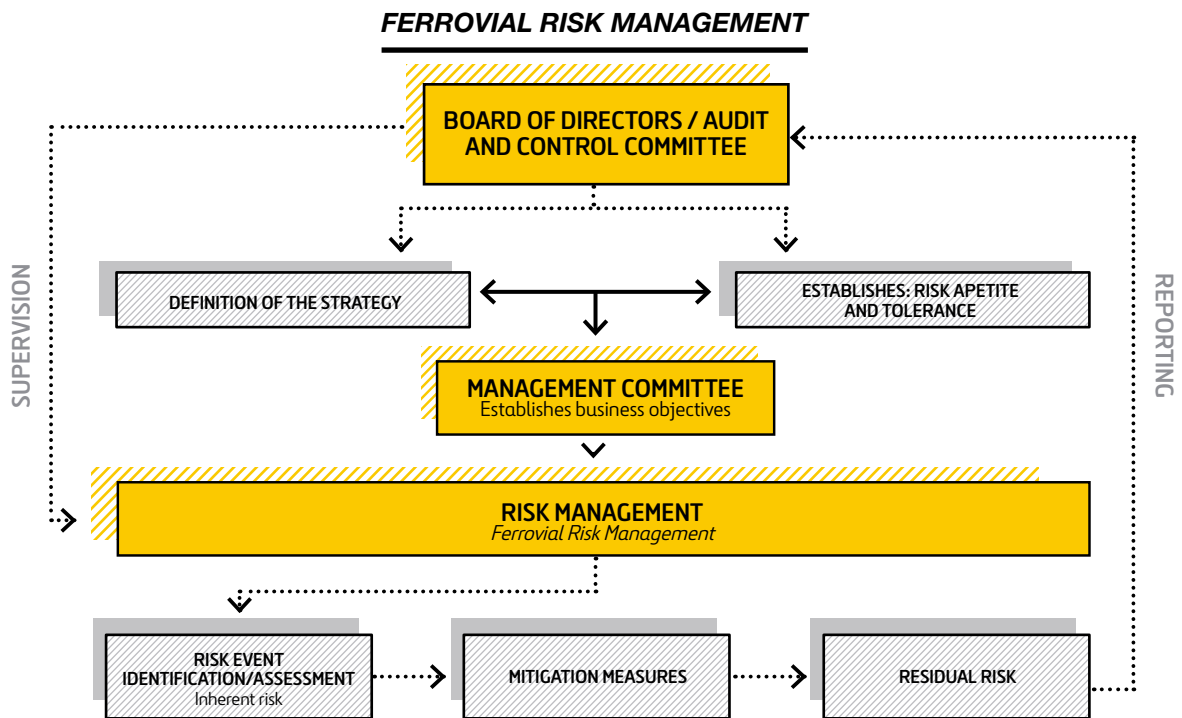
(FRM) led by the Management Committee and implemented in all the company's business areas under the regular supervision of the Audit and Control Committee of the Board of Directors.

This risk management process has been subject to independent verification that confirms the high degree of alignment with the good practices and principles within the 2017 COSO ERM framework, particularly aspects related to governance and culture, connection with the business strategy and operating objectives or performance.

EFFECTIVE RISK MANAGEMENT

In order to detect sufficiently in advance the risks that threaten the attainment of the business objectives, the company has a risk identification and assessment process called Ferrovial Risk Management

By applying common metrics, the process can detect risk events early and assess them by their probability of occurrence and their possible impact on business objectives, including corporate reputation. In



this way, Ferrovial can take more appropriate steps of management and protection according to the nature and location of the risk.

For each risk event identified, two assessments are made: one inherent, prior to specific control measures implemented to mitigate the risk, and a residual one, after implementation of specific control measures.

Ferrovial, in achieving its business objectives, is exposed to diverse risk factors that are intrinsic to the nature of the activities it carries out and to the countries in which it operates. The following risks can impact the progress of the strategy, depending on their residual assessment:

- **Economic environment:** the policies of fiscal consolidation being carried out in some of the countries where Ferrovial operates is weakening the financial capacity of the public authorities that are the company's clients, which may adversely impact in operations and margins and contracting volumes of certain projects, and in expectations of fulfillment of the business plan, thus affecting its viability.

In response to these risks, Ferrovial selects assets in settings with proven legal certainty and actively manages the risks of projects by putting in place contingency plans and the contractual and financial guarantees necessary to safeguard the company's interests in any eventuality. Further, the weakening of public finances, along with the need to improve transport infrastructures, may give rise to new business opportunities in the field of public-private partnerships.

- **Competitive tension:** the slowdown of the European economy and the financial difficulties being experienced by emerging economies are adversely impacting the investment capacity of public and private clients in these territories and, therefore, in demand for infrastructures. This situation is triggering a movement of capital movement towards international markets with greater availability of resources and, consequently, greater business opportunities.

The concentration of business opportunities in certain geographical areas is increasing competitive tension and demand for qualified human resources, reliable suppliers of products and services, as well as partners with sufficient financial solvency and technical proficiency, with the resulting pressure on prices and margins in large-scale projects with a long life cycle. This risk led to losses in 2019 in Construction under onerous contracts in a number of large-scale projects. To meet this challenge, Ferrovial Agroman has strengthened its tender processes in order to obtain several prices per project tendered of independent teams that combine resources of contracting and execution. Along the same lines, greater weight is sought in execution with own resources, and a focus on geographies where the construction firm can be considered local.

In addition, the increase in infrastructure-focused investment funds in a low interest rate environment and these funds' readiness to take on more segments of the value chain of projects is increasing competition in Ferrovial's target markets.

Further, the concentration of competitors in some geographical areas is stimulating the creation of entry barriers by local companies and public authorities towards international competitors, which is hindering growth in these areas.

Ferrovial has an approval procedure in place for investments in which the most significant risks of each project are identified and assessed, including those generated by the competitive environment and by the high demand for factors of production, and the decision is made to offer those for which the company has suitable risk management capabilities and that offer a competitive edge. Hence, tendering is focused on technical complex projects in which effective management of risk stands as a differentiator against the competition.

- **Brexit:** finally, January 31, 2020 saw the consummation of the United Kingdom's exit from the European Union and the start of an eleven-month transitional period in which the two parties are to reach a definitive agreement for the exit and future collaboration. The current uncertainty regarding the outcome of this negotiation is generating short and medium-term economic instability in the United Kingdom and in the rest of the European Union. The consequences of the type of exit agreement could affect the profitability and value-creation capability of Ferrovial's assets in the country.

In the case of Heathrow Airport, the principal asset in which Ferrovial holds a share in the United Kingdom, this uncertainty could impact the progress of the project for the airport's expansion. In addition, any stagnation or slowdown of the British economy could affect the overall activity of the airport, although this is not considered likely due to the significance of the asset and the fact that it is now operating at full capacity.

In response to the risks that may arise from Brexit, Ferrovial is continuously following developments in the negotiations between the United Kingdom and the EU, planning measures of operational efficiency in its diverse business areas in order to adapt to new market conditions and monitoring the situation in financial markets with a view to adapting contingency plans and hedging measures.

Section 5.4h of the Consolidated Financial Statements explains the impact of Brexit on key financial figures. The pound sterling appreciated against the euro in 2019 in anticipation of a negotiated exit from the single market. Interest rates have declined due to the economic slowdown as a result of uncertainty relating to the final exit agreement. This has a positive impact on derivatives that hedge the risk of lower inflation and on exchange rate hedge options that materialized during the year.

- **Regulatory environment:** A majority of Ferrovial's operations are in countries with a high degree of legal certainty, where socio-economic stability and visibility in tax regulation is expected. However, the overall situation of low growth forecasts is encouraging public authorities to make changes in tax regulation in order to boost revenues by increasing the tax contribution made by large companies. Further, the rise of protectionist policies in some areas where Ferrovial operates and political instability in others may lead to regulatory changes that adversely impact management of assets and expose the company to new risks.

In the specific case of Spain, growth prospects may be conditioned by a possible slowdown in the economy.

Ferrovial is keeping a constant watch of regulatory and legislative processes that might affect its activities, and of political movements that may occur, with the aim of anticipating any changes sufficiently in advance so as to adequately manage them.

- **Quality of service and contractual breaches:** Ferrovial's strategy is centred on technically complex projects with long periods of maturation and whose development may involve many risk factors that are difficult to foresee, which may lead to non-compliance of agreed quality levels and/or committed deadlines. These may give rise to disputes with clients or counterparties.

To manage this risk, Ferrovial has quality management systems by business area (ISO 9001) and with key conditions that measure the quality and execution of projects and of the provision of services. It also uses digital platforms to ensure compliance with legislation and technical standards throughout

all phases of the life cycle of contracts and it monitors projects in accordance with the established audit plan to ensure compliance with regulations, contractual requirements and objectives.

- **Cyber-attacks:** the infrastructures in which Ferrovial holds a share are exposed to cyber-attacks, with the resulting impact on persons and the infrastructures themselves, and which may either paralyze operations and/or compromise privacy and information integrity. The infrastructures most exposed to such risks are airports and roads, in addition to mobility projects.

Ferrovial is working with the authorities with respect to security in order to implement more suitable security measures and systems with a view to preventing attacks on its infrastructures. In addition, the implementation of cybersecurity measures is reducing the risk of unauthorized access to the company's information and operating systems.

Financial risks: section 5.4 of the financial statements describes the financial risks and how they are handled.

In addition to the aforementioned risks, Ferrovial assesses and monitors emerging risks that may adversely affect the attainment of its strategic objectives and others that, in spite of their low probability of occurrence, would cause significant adverse impacts on business objectives. Among others, these include humanitarian crises, anti-globalization and protectionist political movements that reduce international investment and endanger free competition, technological disruption and/or obsolescence and the impact of technological innovation in the management of infrastructures.

Ferrovial also pursues a policy of insurance coverage in international markets so as to transfer risks of material damage in assets, and lost profits that may result from such damage. The company has civil and professional liability policies in place to cover damage the company's activity may cause to third parties, including policies to cover liability for damage to the environment and the civil liability of directors and executives. With respect to coverage of cyber-risks, Ferrovial is negotiating the taking out of specific coverage that will be in effect in the coming weeks.

Also, Ferrovial has a Compliance Model for identifying and assessing the risk of the commission of criminal acts, and for identifying and assessing the control measures designed to mitigate such risks. This is all based on the principle of "zero tolerance" with fraud and corruption (see Integrity section).

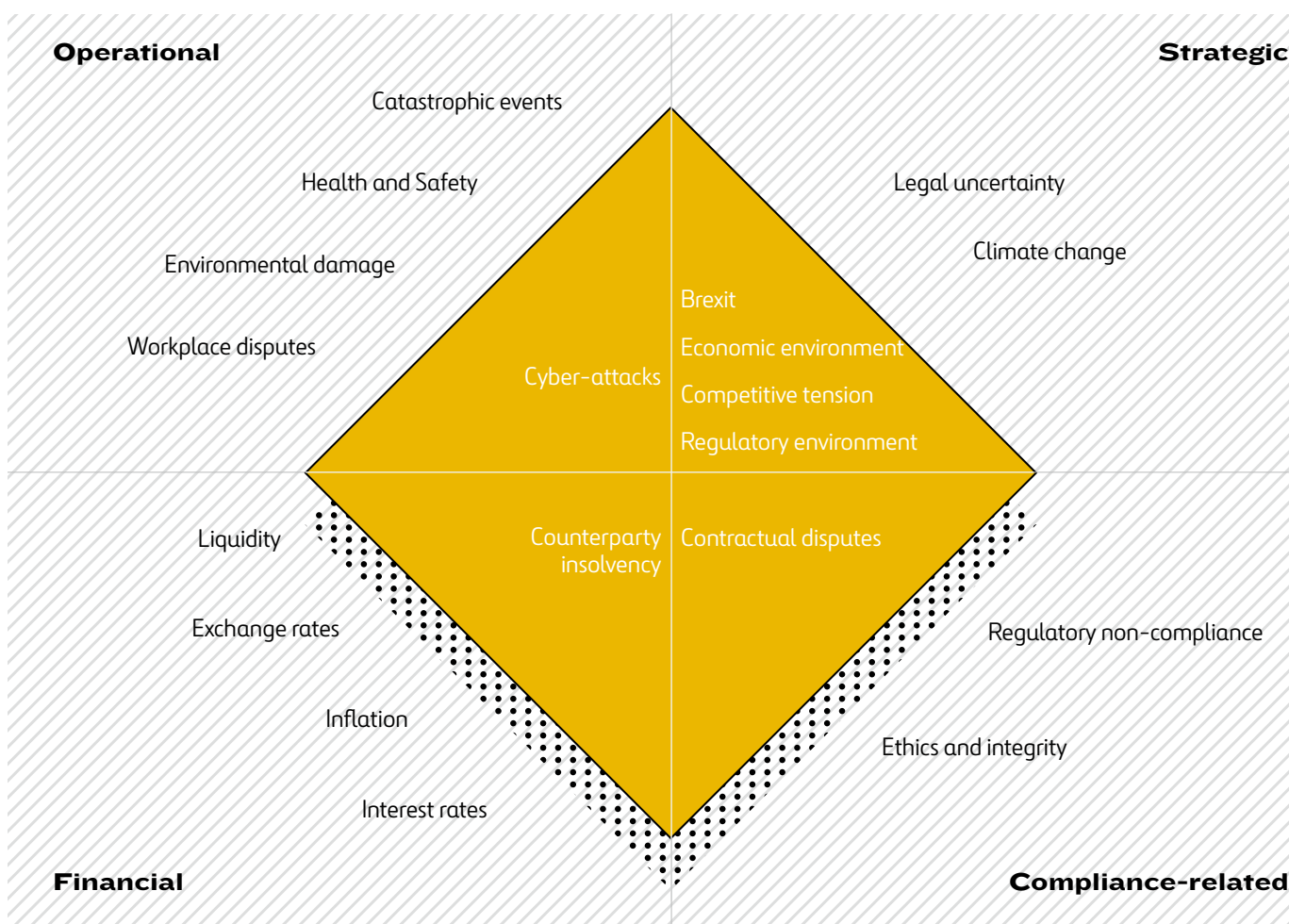
Further, the company monitors environmental risks with a special focus on risk exposure relating to

climate change, with the aim of anticipating them sufficiently in advance so as to implement programs of remediation and adaptation to the new environment. In the process, it distinguishes between physical risks; extreme climate events that may affect infrastructures and transition risks; economic effects (increase in cost of raw materials); and technology effects relating to regulatory changes designed to reduce pollutant gases (increase in taxes on fossil fuels, prices of greenhouse gas emissions, new forms of transport with an impact on projects' business plan, etc.). The Environment section of this report outlines Ferrovial's strategy with respect to climate change.

Lastly, the increase in trade tensions between the major world economic powers - i.e., China, the US, the EU and Russia - and the protectionist measures being put in place are adversely affecting world trade, capital markets and the regulatory environment. In this setting of socio-economic uncertainty, the weight of some risks presently deemed to be of low probability or negligible may increase.

MAIN RISKS

The graph places the most relevant risks inside the figure highlighted in yellow.



OPERATIONAL: risks associated with production processes, provision of service, generating income and incurring costs.

FINANCIAL: risks associated with changes in financial data, access to the financial markets, cash management, the reliability of financial information and tax-related risks.

STRATEGIC: risks related to the market and local influences on each business.

COMPLIANCE-RELATED: risks linked to compliance with applicable law, commitments with third parties and self-imposed obligations deriving from the Code of Ethics.