

RISKS

Ferrovial's is exposed to a range of risk factors arising in countries where it carries out its activities and inherent to the sectors in which it operates. The company seeks to detect and assess risks, and implement timely control measures to mitigate their probability of occurrence and/or potential impact according to the strategic objectives set. Moreover, new business opportunities can be identified because of the effective and efficient management of certain risks.

EFFECTIVE RISK MANAGEMENT. FERROVIAL RISK MANAGEMENT

Ferrovial has a Risk Control and Management Policy that was approved by the Board of Directors to establish the acceptable risk and tolerance level per risk factor. This policies sets the general engagement framework for controlling and managing risk of diverse sorts that the managing team could encounter when attempting to attain business objectives.

Ferrovial Risk Management (FRM) is the company's risk identification and assessment process, which is supervised by the Board of Directors and Management Committee, and implemented in all business areas.

FRM was created for the early detection and assessment of risk events based on their likelihood of occurrence and potential impact on strategic objectives, including corporate reputation. This enables Ferrovial to roll out the most suitable management and protective measures according to the nature and location of the risk.

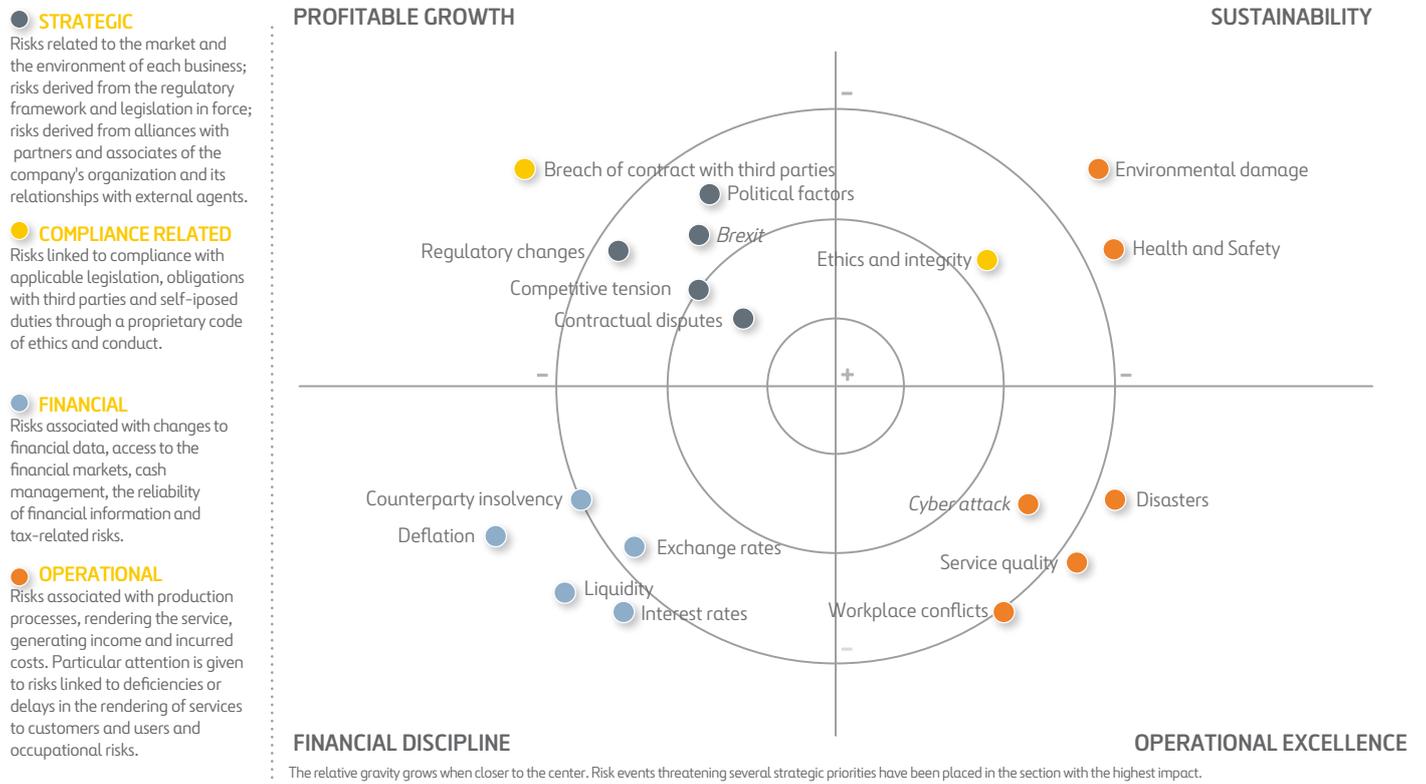
The identified risk events are assessed using common metrics: one inherent, before the specific control implemented to mitigate the risk, whether impact or likelihood, and one residual, after implementing specific control measures. In addition to determining the relative importance of each risk event in the risk matrix, it enables the assessment of the effectiveness of the implemented measures for managing them.

For further details, please refer to section E in the Annual Corporate Governance Report.

RISKS



The chart displays the most relevant risk events according to their residual assessment (after controls) that threaten the execution of Ferrovial's corporate strategy



MAIN RISKS

The following risks are prominent among the main risks affecting the implementation of the Ferrovial strategy:

- Contractual disputes:** fiscal consolidation policies in force in some of the areas where Ferrovial carries out its activities are negatively affecting the financial capacities of public sector customers and, therefore, their investment capabilities. The financial tensions affecting some public sector customers with whom Ferrovial operates increases exposure to contractual dispute risks, which could affect the profitability of some projects. However, the elevated level of legal security in the areas where projects are underway partly mitigate this risk. In this regard, there were some noteworthy decisions ruling in favor of Ferrovial during 2016, including yet not restricted to the ones on contractual disputes with the public sector, concerning roads in Madrid (M-203), and with the Birmingham Council.
- Competitive tension:** the economic recovery slow-down in the Europe and emerging countries negatively affects public sector investment capacity and could therefore affect the demand on infrastructures. This circumstance increases competitive tension in the

international markets where Ferrovial operates with the resulting pressures on prices and profit margins in projects that, by their very nature, have significant execution risks. As a response to these risks, the company has an investment approval procedure in place for identifying and assessing the most relevant project risks, including risks generated by the competitive environment, and opts to tender projects for which it has the most appropriate risk management tools that will yield a competitive advantage.

- Ethics and Integrity:** the markets in which Ferrovial competes may be exposed, in some of their activities, to ethical risks. Ferrovial is governed by principles of honesty, integrity and respect for legality in all its activities. To mitigate these risks, Ferrovial, in accordance with its Zero Tolerance commitment, identifies and assesses risks of this type, implementing follow-up and control measures that avoid them. Ferrovial has a Code of Business Ethics, as well as Anti-corruption and Human Rights Policies, which are known to all employees through information and training campaigns. The company has been a signatory to the United Nations Global Compact since 2002, while it is included in the most prestigious indices such as the Dow Jones Sustainability Index or FTSE4Good.

As discussed in the Human Rights section, Broad-spectrum provide services to the Regional Processing Centers (RPC) of Nauru and Manus Island, which have been the subject of controversy by different entities and organizations opposed to this policy of immigration from the Government of Australia, claiming that these centers violate Human Rights.

Broadspectrum does not manage or operate the RPCs, it merely provides social care, security and maintenance services, with the highest standards of quality and focused on improving the living conditions of these asylum seekers or refugees.

Immediately after the acquisition of Broadspectrum, Ferrovial announced that the provision of such services were not strategic activities and therefore would not form part of the Broadspectrum portfolio in the future. Although the service will continue until the end of the contracts in October 2017. Therefore, Broadspectrum will not bid for a renewal of the contracts to operate the RPCs of the Australian Government Department of Immigration and Border Protection.

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- **Brexit:** the victory favoring the United Kingdom's exit from the European Union in the recent referendum of 23 June 2016 opened up negotiations between the British government and a European Union facing an elevated degree of uncertainty. The final result of the negotiations and its repercussions on British and European Union economies could influence Ferrovial assets in the United Kingdom (representing 21% of the total assets value according to the estimates of analysts), affecting their profitability and capability of creating value for Ferrovial. The initial estimates made following the referendum expect to see considerable GDP easing in the UK with a possible short-term slowdown. However, these estimates have been tweaked toward a more optimistic outlook.

Heathrow airport is the largest asset in which Ferrovial participates in the United Kingdom but the forecast for a potential slowdown in the British economy is not expected to significantly affect its activity when compared to similar situations in the past in light of the relevance of the asset and its current full-capacity status. Moreover, the British government's decision to continue with the third runway project, albeit pending final parliamentary approval, clearly demonstrates Heathrow airport's importance for the United Kingdom and, therefore, its abated exposure to this risk.

Turning to the Services business (Amey), the impact of the public sector budget constraints could continue affecting business, though Services and Construction businesses alike could even be positively affected by the need to improve the transportation network, which is embodied in more me-

dium-term investment and maintenance tenders.

Section 5.4h in the Financial Statements addresses how *Brexit* has affected the main financial figures, comparing the negative effect of exchange rate fluctuations with the positive effects that an increased inflation rate would have and the reduction of interest rates and, therefore, the discount rate on regulated assets at Heathrow airport. Regulated assets indexed at inflation increase their value as inflation increases.

In response to the risks that could emerge from *Brexit*, Ferrovial will continue monitoring the developments in negotiations between the United Kingdom and the European Union, foster operating efficiency measures across its diverse business areas to adapt to arising market circumstances, and continue tracking the trends in the financial markets to take the appropriate coverage measures.

- **Political Factors:** In general, most of Ferrovial's operations are in countries with a high level of legal certainty and where there is an expectation of socio-economic stability and transparent tax regulations, as in the case of the United Kingdom, the United States, Canada, Poland, Australia and Spain. Nevertheless, recent political events characterized by the exponential growth of protectionist policies and fiscal consolidation could affect the legal and regulatory environments in which the company operates, negatively affecting the objectives of profitability and growth. In fact, Ferrovial monitors closely the regulatory and legislative processes that could affect its activities, in order to anticipate potential changes sufficiently in advance and manage them accordingly.

Emerging risks: Ferrovial assesses and monitors the status of emerging risks that could negatively affect its ability to meet strategic targets or risks that, despite their low likelihood of occurrence, could nevertheless have negative effects on targets. Some of the more prominent risks include cyberattacks, natural disasters or risks caused by human action, terrorism of any sort, humanitarian crisis, anti-globalization and protectionist political movements to reduce international investment and jeopardize free competition, technological obsolescence and impact on technology innovation in managing infrastructures. The company seeks to anticipate the occurrence of these risks to adapt its strategy sufficiently in advance.

FINANCIAL RISKS

Ferrovial analyzes its exposure level and the suitability of its management in relation to the interest rate, exchange rate, share price, liquidity and credit and the main financial risks. This analysis makes a distinction between the policies applied in infrastructure project companies and the rest of businesses for cases in which such a difference is relevant. The financial risks are described in section 5.4 of the Consolidated Financial Statements.