



**Greenergy**  
renovables

The sky is the limit

# **ESG RISK MANAGEMENT**

2021





**Risk** is defined as the possibility of an **event** occurring and **adversely** affecting the achievement of an organisation's objectives.

The Committee of Sponsoring Organisations of the Treadway Commission has developed a methodology for risk management commonly known as ERM (Enterprise Risk Management) or COSO II (2004)



One of the phases of this methodology is the risk assessment, which will be carried out in terms of **Impact** and **Likelihood**

The conclusions obtained will enable Greenergy:

- Carrying out **a risk/process association**, to verify those processes that need to be reviewed more frequently (Audit Plans).
- **Monitoring** risks (monitoring indicators, creation of risk/control matrix, etc.).

# DRAWING UP A RISK MAP

NO.	EXTERNAL RISKS	DEPARTMENT
1	Macroeconomic	Directorate General
2	Regulatory and political	Directorate General
3	Competitors	M&A
4	Other energy sources	M&A
5	Over-demand for panels	EPC
6	Price falls (regulated component)	Energy Sales
7	Price falls (market component)	Energy Sales
8	Increased raw material costs	EPC
9	Volatility of solar and wind resources due to weather conditions	Energy Sales
10	Weather, natural disasters and acts of vandalism or terrorism.	EPC / OM&AM
11	Currency	Financial Management
12	Interest rate	Financial Management
13	Congestion evacuation restriction at transport junction	Energy Sales
14	Climate change risk	OM&AM
NO.	INTERNAL RISKS	DEPARTMENT
15	Reputational risk (impact on biodiversity)	Directorate General
16	Downward negotiation or termination of service contracts	OM & AM
17	Reliance on a limited number of suppliers and subcontractors	EPC
18	Failure to obtain or loss of permits, licences and authorisations (PLAs)	Development
19	Obtaining land use rights and easements	Development
20	Creation of temporary groupings of undertakings for the construction of joint infrastructures	Development
21	Repairs required to Project components and inadequacies of insurance coverage	EPC
22	Technological, operational or re-engineering failures of renewable projects (perspective as IPP)	OM&AM
23	Technological, operational or re-engineering failures of renewable projects (operator's perspective)	OM&AM
24	Credit	Financial Management
25	Liquidity	Financial Management
26	Obtaining and enforcing guarantees	Financial Management
27	Reputational (environmental impact)	Directorate General
28	Reputational (credibility in the capital markets)	Directorate General
29	Corporate governance	Directorate General
30	Termination of power purchase agreements (PPAs)	Energy Sales
31	Risk of contractual non-compliance by suppliers	Legal
32	Talent attraction and retention risk	Directorate General
33	Corruption risk	Directorate General
34	Information technology risk	IT
35	Reputational risk (relationship with the local community)	EPC
36	Fiscal risk	Financial Management

## Risk Assessment Questionnaire

### Inherent Risk:

Before Internal Control activities  
(Variables: Impact and Likelihood)

### Residual Risk:

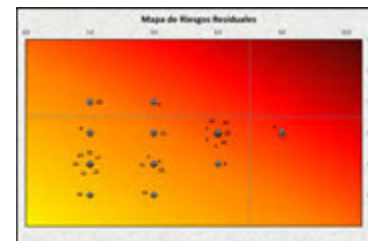
After Internal Control activities  
(Variables: Impact and Likelihood)

Risk Monitoring

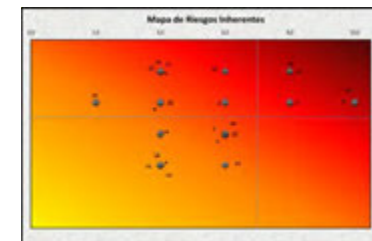
Internal Audit Plan

Association of Risks  
to Processes

Residual Risk Map



Inherent Risk Map



Perceived  
Internal  
Control

Next steps

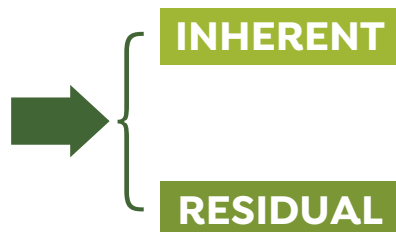
The variables used for each risk were as follows:

- **Impact:** The effect that each risk has on the achievement of Greenergy's objectives.
- **Probability:** Number of times a risk event occurs in a given period of time.

These variables have been assessed from an **inherent** and a **residual** level of risk.

## RATING SCALES

IMPACT		PROBABILITY	
Under	0,00	Past	0,00
	3,00		2,00
High	5,00	Media	4,00
	7,00		6,00
Critic	9,00	Certainty	8,00
	11,00		10,00



### ► Inherent Risk Map:

- Inherent Criticality: Inherent Impact x Inherent Probability

### ► Residual Risk Map:

- Residual Criticality: Residual Impact x Residual Frequency

### ► Internal Control Map:

- Perceived Internal Control: Difference between Inherent Criticality and Residual Criticality

Risk Inherent



Risk Residual

The **risks identified** by Greenergy's **management** are classified as external and internal and by department:

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24	Credit	Financial Management
25	Liquidity	Financial Management
26	Obtaining and enforcing guarantees	Financial Management
27	Reputational (environmental impact)	Directorate General
28	Reputational (credibility in the capital markets)	Directorate General
29	Corporate governance	Directorate General
30	Termination of power purchase agreements (PPAs)	Energy Sales
31	Risk of contractual non-compliance by suppliers	Legal
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33	Corruption risk	Directorate General
34	Information technology risk	IT
35	Reputational risk (relationship with the local community)	EPC
36	Fiscal risk	Financial Management

In 2021, the GREENERGY risk map was updated. This update consisted of:

- 1 Meeting with all Greenergy executives responsible for each of the risks identified in the company's risk map.
- 2 Review and update, where appropriate, of the valuations of each of the risks in terms of impact and probability based on the new circumstances currently affecting GREENERGY.

**A-** The inherent risk assessment matrix has been modified, leaving only 3 categories:

		PROBABILIDAD		
		Alta	Media	Baja
IMPACTO	Alto	Alto	Alto	Medio
	Medio	Alto	Medio	Bajo
	Bajo	Medio	Bajo	Bajo

**B-** The assessment of the following risks has been modified:

NO.	EXTERNAL RISKS	DEPARTMENT	RISK CLASSIFICATION		MODIFICATIONS
			2020	UPDATING 2021	
5	Over-demand for panels	EPC	Medium	High	The probability of occurrence has been increased to high and therefore the risk rating has been increased as this event is currently occurring.
12	Interest rate	Financial Management	Medium	High	Due to the increase in the Company's indebtedness, both current and forecast at the end of the year, the impact that an increase in interest rates could have on Greenergy has been increased and therefore the risk rating has been increased
NO.	EXTERNAL RISKS	DEPARTMENT	Risk classification Inherent	Risk classification Inherent	MODIFICATIONS
15	Reputational risk (impact on biodiversity)	Directorate General	Medium	Medium	The risk has been changed from external to internal risk. No change in score
16	Downward negotiation or termination of service contracts	OM & AM	Medium	Under	Given the low % of Greenergy's total revenue from services, the risk rating has been reduced.
30	Termination of power purchase agreements (PPAs)	Energy Sales	Under	Medium	Updating the risk classification based on improved risk assessment
31	Risk of contractual non-compliance by suppliers	Legal	Under	Medium	Updating the risk classification based on improved risk assessment
33	Corruption risk	Directorate General	Under	Medium	Updating the risk classification based on improved risk assessment
36	Fiscal risk	Financial Management		High	New risk

- 3** Analysis of the inclusion of new risks or exclusion of existing risks.

A new risk has been included in the **GREENERGY** risk map:

Tax risk (score HIGH): Greenergy is subject to compliance with tax obligations in each of the countries where it operates, as well as the payment of different taxes, duties, fees, etc., in each of these countries. Failure to comply with these tax obligations, as well as the misinterpretation of the tax regulations in each of the countries poses a risk for Greenergy in the event of suffering tax inspections with unfavourable results.

Moreover, no risk has been excluded.
- 4** Focus on controls: for risks defined as medium and high, special focus has been placed on existing controls.

  - Existence of control
  - Whether it is formalised or not
  - Periodicity
  - How to leave evidence
  - Actions for improvement
- 5** Review of the risk attitude of each of the risks identified
- 6** Modification of the individual risk sheets on the basis of the updates of the previous points.
- 7** Next steps: Testing of controls and definition of risk attitude limits.



# CONTROLS (MITIGATION) – EXTERNAL RISKS (1/2)

The existence and formalisation or not of controls for each of the external risks with Medium and High scores is indicated below:

NO.	EXTERNAL RISKS	DEPARTMENT	RANKING	EXISTENCE OF CONTROL (Y/N)	FORMALISED CONTROL (Y/N)	EXISTING CONTROL MECHANISMS	PERIODICITY	HOW TO LEAVE EVIDENCE
1	Macroeconomic	Directorate General	High	Yes	No	We are continuously updating price projections to see how the markets are evolving. In addition, we try to establish commercial relationships with the majority of offtakers, banks and investors that allow us to take advantage of the opportunities that exist in the sector at any given time. On the other hand, we are diversified in several countries so that the unfavourable situation in one country does not affect 100% of the Group's activity.	No established periodicity	N/A
2	Regulatory and political	Financial Management	High	Yes	No	With regard to regulatory changes, the control mechanisms are mainly based on being in constant contact with renewable energy associations to learn first-hand about the discussions that are taking place, as well as the proposed measures. In this regard, we are members of UNEF in Spain, ACERA in Chile, CADER in Argentina, SER in Colombia and SPR in Peru.	No established periodicity	N/A
3	Competitors	M&A	High	No	No	This is a risk inherent to any company and business. There are no control mechanisms as such, but there are various mitigating factors that minimise this risk, such as: <ul style="list-style-type: none"> <li>- Technological diversification (solar and wind)</li> <li>- Geographical diversification</li> <li>- Presence in all phases of the value chain.</li> </ul>	N/A	N/A
5	Interest rate	Financial Management	High	Yes	No	Continuous relationship with suppliers, information on market prices, knowledge of new products, in general to have a deep knowledge of the sector looking for and having different alternatives that reduce the risk.	No established periodicity	N/A
6	Price falls (regulated component)	Energy Sales	High	Yes	No	With regard to regulatory changes, the control mechanisms are mainly based on being in constant contact with renewable energy associations to learn first-hand about the discussions that are taking place, as well as the proposed measures. In this regard, we are members of UNEF in Spain, ACERA in Chile, CADER in Argentina, SER in Colombia and SPR in Peru.	No established periodicity	N/A
7	Price falls (market component)	Energy Sales	High	Yes	Yes	Regarding the market price, we are continuously updating price projections to see how the markets are evolving. We are also monitoring electricity futures prices (in Spain), as this can be an indicator of the long-term price evolution in the different markets.	Spain, Italy and UK: quarterly. Latam: semi-annually Futures: weekly	Price reports received

# CONTROLS (MITIGATION) – EXTERNAL RISKS (2/2)

NO.	EXTERNAL RISKS	DEPARTMENT	RANKING	EXISTENCE OF CONTROL (Y/N)	FORMALISED CONTROL (Y/N)	EXISTING CONTROL MECHANISMS	PERIODICITY	HOW TO LEAVE EVIDENCE
8	Increased raw material costs	EPC	High	Yes	Yes	Constant contact with suppliers, information on sector news, etc., makes us aware of possible increases in raw materials and in some cases we can anticipate certain purchases. Budgetary controls that allow us to estimate the profitability of the different projects and decide whether to carry out the project or not depending on its profitability.	Prior to the start of each project	Quotations received and approved by email
10	Weather, natural disasters and acts of vandalism or terrorism.	EPC/OM&AM	High	Yes	Yes	Hiring of insurance and surveillance services in the different parks.	At the start of each project	Policy contracted
11	Currency	Financial Management	High	Yes	No	The evolution of the €/USD exchange rate is continuously monitored, and in the event that this evolution shows signs that could have a negative impact on Grenergy, exchange rate hedges are taken out. In 2020 and 2021 the accounting of the Chilean, Peruvian and Argentinean subsidiaries has been dollarised, which mitigates a large part of the impact on P&L.	N/A	No evidence is left
12	Interest rate	Financial Management	High	Yes	Yes	As for corporate financing, they are not very long-term and normally have a fixed interest rate, so they are not exposed to this risk. As for project finance, they are either fixed rate or a hedging derivative is contracted to mitigate the exchange rate risk.	No established periodicity	Contracts signed
13	Congestion evacuation restriction at transport junction	Energy Sales	Medium	Yes	No	We are considering this effect in the spot price projections we use for our base case (Chile). In other markets such as Spain, we do not believe that in 2021 we will have a relevant supply constraint.	No established periodicity	No evidence is left
14	Climate change risk	OM&AM	High	Yes	Yes	The risk of flooding of the plants is assessed and, if necessary, drainage systems are designed to protect the equipment. 3. Inverters specially adapted to extreme temperatures (up to 50°C) have started to be used for all projects.	Prior to the start of each project	Contracted policy, hydrological and drainage studies, specifications of purchased inverters.

# CONTROLS (MITIGATION) – INTERNAL RISKS (1/4)

In 2021, an **update** of the risk **assessment** has been carried out for each risk **manager**. The changes are as follows:

NO.	INTERNAL RISKS	DEPARTMENT	RANKING	EXISTENCE OF CONTROL (Y/N)	FORMALISED CONTROL (Y/N)	MODIFICATIONS	PERIODICITY	HOW TO LEAVE EVIDENCE
15	Reputational risk (impact on biodiversity)	Directorate General	Medium	Yes	Yes	Communication and highlighting of environmental impact assessments, compliance with environmental requirements, annual investment and nature of compensatory measures for biodiversity in the Sustainability Report, as well as the absence of sanctions for environmental non-compliance.	Continua	Web, annual sustainability report, network posts, press releases, media articles.
16	Downward negotiation or termination of service contracts	OM & AM	Under	Yes	Yes			
17	Reliance on a limited number of suppliers and subcontractors	EPC	High	Yes	Yes	The current mechanisms implemented by Greenergy to avoid operational failures are based on two axes: Mitigation through correct preventive and predictive maintenance of the installations, so as to avoid potential failures, which in reality could lead to a significant reduction in the number of failures.	No established periodicity	Quotations received from different suppliers on the different projects
18	Failure to obtain or loss of permits, licences and authorisations (PLAs)	Development	Under	Yes	Yes			
19	Obtaining land use rights and easements	Development	Under	Yes	Yes			
20	Creation of temporary groupings of undertakings for the construction of joint infrastructures	Development	Medium	Yes	No	Creation in the early stages of development of an Economic Interest Grouping or Limited Company that brings together all the promoters, where the mechanisms and deadlines for contributions to the company are established, as well as the provision of the necessary guarantees to guarantee the common infrastructures to be built.	No established periodicity	Memorandum of association and guarantee documents

# CONTROLS (MITIGATION) – INTERNAL RISKS (2/4)

NO.	INTERNAL RISKS	DEPARTMENT	RANKING	EXISTENCE OF CONTROL (Y/N)	FORMALISED CONTROL (Y/N)	MODIFICATIONS	PERIODICITY	HOW TO LEAVE EVIDENCE
21	Repairs required to Project components and inadequacies of insurance coverage	EPC	High	Yes	Yes	Contracting insurance with high coverage and low deductibles. Most of the wind farms we build are associated with a bank loan for their construction. The banks make it compulsory to take out insurance with a high degree of coverage. In addition to the company's general insurance, we oblige our suppliers to take out their own insurance.	At the start of each project	Policy contracted
22	Technological, operational or re-engineering failures of renewable projects (perspective as IPP)	OM & AM	High	Yes	Yes	The current mechanisms that Greenergy has implemented to avoid operational failures are based on two axes: 1. Mitigation through correct preventive and predictive maintenance of the facilities, so as to prevent potential failures from actually occurring. 2. Greenergy, in any case, has an insurance scheme that protects against loss of income due to breakdowns or technical incidents, so that there is very complete coverage in this regard, although it is true that the insurance excess scheme leaves us with a certain exposure to the risk of breakdowns.	At the start of each project	Policy contracted
23	Technological, operational or re-engineering failures of renewable projects (operator's perspective)	OM & AM	Under	Yes	Yes			The contract signed with the customer where the guarantees are detailed
24	Credit	Financial Management	Medium	Yes	Yes	Financial study of the client/supplier, request for guarantees to cover the credit, rating study carried out by specialised companies, negotiation of the delivery of goods and services.	No established periodicity	
25	Liquidity	Financial Management	High	Yes	Yes	The finance department prepares one-year cash flow projections. These projections are updated on a monthly basis through a meeting between the CEO, CFO and the treasury manager, where, depending on these results, the appropriate decisions are taken (contracting new loans, refinancing, capital increases, etc.) to avoid liquidity problems.	Monthly	Excel file sent by email
26	Obtaining and enforcing guarantees	Financial Management	Under	Yes	No			

# CONTROLS (MITIGATION) – EXTERNAL RISKS (3/4)

NO.	INTERNAL RISKS	DEPARTMENT	RANKING	EXISTENCE OF CONTROL (Y/N)	FORMALISED CONTROL (Y/N)	MODIFICATIONS	PERIODICITY	HOW TO LEAVE EVIDENCE
27	Reputational (environmental impact)	Directorate General	Medium	Yes	Yes	Appropriate selection of land with low environmental sensitivity and preparation of exhaustive environmental impact assessments in which all possible environmental impacts are identified in detail, as well as the necessary protection measures to avoid impacts or mitigate them if a certain level of impact cannot be avoided, as well as the correct implementation of the compensatory measures assigned for each project. Effective communication to the outside world, highlighting the efforts made by Grenergy to protect the environment (website, sustainability report, press releases, articles in the media).	Development and construction phase of each project. Compensatory, when indicated in the EIS. Communication, continuous	EIA, DIA and for communication: website, annual sustainability report, network posts, press releases, media articles.
28	Reputational (credibility in the capital markets)	Directorate General	Medium	Yes	Yes	There is a department in charge of investor relations and external communication in order to analyse external feedback and update operational information on a quarterly basis. On the other hand, the audit and control committee analyses compliance with the previously approved investor communication policy, which regulates this risk.	Monthly/Quarterly	Commission Minutes and published information
29	Corporate governance	Directorate General	High	Yes	Yes	Independent audit and control, and appointment and remuneration committees. Analysis of the suitability of directors prior to their re-election. Corporate governance and directors' remuneration reports, which are published annually.	Monthly	Commission Minutes
30	Termination of power purchase agreements (PPAs)	Energy Sales	Medium	Yes	Yes	A compensation mechanism is established based on a calculation of the projected mark to market at the time of termination.	At the signing of each agreement	Signed contract
31	Risk of contractual non-compliance by suppliers	Legal	Medium	Yes	Yes	Requesting liquid guarantees from suppliers, withholding payments, factory inspections, standardising contract management by ensuring common parameters. Hiring independent experts to supervise the progress of work, etc...	At the signing of each agreement	Signed contract
32	Talent attraction and retention risk	Directorate General	High	Yes	Yes	There is a stock option programme that includes other key personnel in addition to the management team. A "Cantera" programme has been designed for junior talent, focusing on full professional development and offering international career opportunities.	No established periodicity	Approved plans



## CONTROLS (MITIGATION) – EXTERNAL RISKS (4/4)

NO.	INTERNAL RISKS	DEPARTMENT	RANKING	EXISTENCE OF CONTROL (Y/N)	FORMALISED CONTROL (Y/N)	MODIFICATIONS	PERIODICITY	HOW TO LEAVE EVIDENCE
33	Corruption risk	Directorate General	Medium	Yes	Yes	Code of ethics, travel expenses policy, compliance unit, audit committee, establishment of powers to make payments and signing of agreements.	No established periodicity	Minutes of Commissions, approved policies...
34	Information technology risk	IT	High	Yes	Yes	We have moved to full digitisation of our information systems through the use of Sharepoint and Onedrive. The network perimeter is secured through the use of a redundant firewall. Each workstation is equipped with Antivirus and Antimalware. Mail has threat control provided by Office 365. Users do not have administrative rights over the machines and a strong password system is used.	No established periodicity	It can be checked at any time
35	Reputational risk (relationship with the local community)	EPC	Under	Yes	Yes			
36	Fiscal risk	Financial Management	High	Yes	Yes	We have contracted tax advisors in each of the countries where we operate to advise us and help us comply with our VAT, personal income tax and corporate tax obligations. We also have transfer pricing tax advisors who assist us in the preparation of the master file and the different local files. Finally, for each of the countries we plan to enter, we commission a tax study from a prestigious advisor to analyse the taxation in those countries.	No established periodicity	Studies received, contracts signed, etc...

## FISCAL RISK

SECTION	DESCRIPTION
Description of the risk	Greenergy is subject to tax obligations in each of the countries where it operates, as well as to the payment of different taxes, duties, fees, etc., in each of these countries. Failure to comply with these tax obligations, as well as the misinterpretation of the tax regulations in each of the countries, entails a risk for Greenergy in the event that it is subject to tax inspections with unfavourable results.
Nature of the risk	Financial / Reputational
Probability of occurrence (see table 2)	6
Explanation of why this probability is assigned	Being present in different countries with very different regulations and continuous regulatory changes means that the probability of occurrence of this type of risk is medium-high.
Impact (see table 1)	8
Explanation of why this impact is assigned	Depending on the type of incidence, the impact can be high.
Attitude towards risk (*)	Setting limits
Existing control mechanisms that mitigate this risk	We have contracted tax advisors in each of the countries in which we operate to advise us on and comply with our VAT, personal income tax and corporate tax obligations.  We also have transfer pricing tax advisors who assist us in the preparation of the master file and the various local files. Finally, for each of the countries we plan to enter, we commission a tax study from a reputable advisor to analyse the taxation of these countries.
Actions for improvement in case of insufficient control mechanisms	Recruitment of a Tax Manager to oversee tax compliance in each country and provide tax advice to the different projects.
Risk Manager (Department)	Financial Management

(\*) Appetite, tolerance or limits of the undertaking

## RISKY RELATIONSHIP WITH THE LOCAL COMMUNITY

SECTION	DESCRIPTION
Description of the risk	The construction of the plants generates negative impacts on the environment (noise, traffic, visual impact) as well as employment expectations in the area where the projects are located, especially in the case of large plants. There is a risk derived from the management of communication with the community (complaints, information on the progress of the project, etc.) as well as the fulfilment of expectations of local employment generation.
Nature of the risk	Reputational/operational
Probability of occurrence (see table 2)	8
Explanation of why this probability is assigned	The size of the plants is increasing, which translates into higher impact and employment expectations.
Impact (see table 1)	7
Explanation of why this impact is assigned	If the community has been excluded and does not perceive that they have received any benefits, they will have a negative opinion of the company that could translate into damage to the plant.
Attitude towards risk (*)	
Existing control mechanisms that mitigate this risk	Social and environmental management plans are developed, including a community engagement plan and a mechanism for managing queries and complaints. We are starting to launch initiatives to maximise the number of local hires by subcontractors, facilitating the collection of information from candidates, analysing and filtering CVs by position and providing a platform for subcontractors to access. Greenergy's sustainability policy in relation to the local community is conveyed to subcontractors and the advantages of hiring locals are explained.
Actions for improvement in case of insufficient control mechanisms	Establish a social management plan at project level, as well as a local community relations policy to clarify the way in which Greenergy relates to the communities in the areas of influence of its projects, in accordance with the basic principles of its Sustainability Policy, its Community Relations Procedure, its Human Rights Policy, its Code of Conduct and the regulations applicable in the country of the project.
Risk Manager (Department)	EPC

(\*) Appetite, tolerance or limits of the undertaking



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