

3. A Promising Environment

THE ENVIRONMENT IN 2018

→ Sustained growth

STRATEGIC PLAN

RISK MANAGEMENT

- A strategic pillar
- Organisational Structure
- The risk management system in the context of the industry



THE ENVIRONMENT IN 2018

In 2018 the growth of the world economy has been 3.7% according to IMF data. A level similar to that of 2017 that seems to show the beginning of a moderation stage marked by more intense commercial and political tensions and a more restrictive financial environment.

Sustained growth

World trade grew by 4%, compared to 5.3% in 2017, and global passenger traffic experienced a year-on-year increase of 6.5% , lower than the value of 7.6% reached in 2017 and in line with a less dynamic evolution



Less dynamic world economy.



More demanding travellers.



Airlines seek profitability in a new context.



Regulatory drive: safety and environment.

Political context

Spain and the United Kingdom, the two European countries where Aena operates, have gone through a very turbulent political year. In the latter, the final stretch of the Brexit negotiations has not resolved all the uncertainties and continues to affect the exchange rate. Spain, on the other hand, has experienced a change of government that marks a different model during the last years of the financial crisis.



Your opinion matters

Abc

Abbreviations and acronyms

Spain



According to the INE (Instituto Nacional de Estadística), the GDP growth in 2018 was 2.5%, compared to 3.0% in 2017, still driven by the strength of private consumption and investment in capital goods, which increased by 2.1% and 4.6%, respectively. In this context, the tourism industry has contributed to the economy's financing capacity with a positive balance similar to that registered in 2017, when it amounted to €55.5 M. Tourist arrivals have grown by 1.1%, while average spending has increased by 2.2%, with the consequent increase in passenger air traffic, which has set a new record (+4.1%). Despite the slight recovery of some alternative tourist destinations, Spain remains a leading tourist destination in the world and, increasingly, a point of reference for intercontinental connections. It has received 82.8 million tourists, of which 67.5 have arrived by air. The main countries of origin, according to INE data, were the United Kingdom (18.5 million tourists), Germany (11.4 million) and France (11.3 million) in 2018. The average cost per traveller has increased to 1,086 euros while low-cost airlines continue to increase their market share, with 55.4% in 2018.



United Kingdom



GDP in the United Kingdom has grown by 1.4%, 4 points lower than the previous year, while business confidence has fallen to the lowest level since August 2016, weighed down by uncertainty about Brexit and concern about the exchange rate of the pound sterling.

Latin America



The Latin American economies have slowed down their growth, influenced by the appreciation of the dollar, financial restrictions and the volatility of oil prices. However, in the countries where Aena operates, no significant political tensions have been recorded: stability has favoured year-on-year growths of 2.7% in Colombia (third quarter data), 1.1% in the Caribbean area and 1.3% in Mexico.



Your opinion matters

Abc

Abbreviations and acronyms

Current regulatory framework

The current regulatory framework, articulated at the national level through the Airport Regulation Document 2017-2021 (DORA), guarantees visibility and long-term predictability and ensures the generation of value through investment. In 2018, a new Royal Decree on airport planning for airports of general interest was approved, updating the regulations in force, extending the participation in the preparation of the Master Plans to other agents of the industry, in addition to the territorial administrations.

INTERNATIONAL CONTEXT

At the international level, it is worth mentioning the approval of the regulations for the implementation of the European Travel Information and Authorisation System (ETIAS) by the EU, which will allow the entry and monitoring of visitors' movements from countries that do not need a visa to access the Schengen area. The system seeks to reduce the procedures and waiting periods at the borders, as well as to address problems related to terrorism and the migratory crisis, with the aim of improving security.



The current regulatory framework, articulated at the national level through the Airport Regulation Document (DORA), guarantees visibility and long-term predictability and ensures the generation of value through investment.

Increase in air traffic



The increase in air traffic has again been higher than the increase in economic activity worldwide: a challenge for governments and for operators, who do not always have the capacity and infrastructure to respond to the growing demand. According to information from Eurocontrol, in Europe delays have doubled in comparison to 2017, due mainly to the aforementioned lack of capacity, as well as to the scarce staffing to meet an increasingly high and demanding passenger demand.



Your opinion matters

Abc

Abbreviations and acronyms

STRATEGIC PLAN

Focused on the creation of value, Aena has prepared its Strategic Plan 2018-2021.

OBJECTIVES

Consolidating Aena's strong growth

Promoting new lines of business that generate value

PILLARS AND LINES OF ACTION

Aviation activity

Commercial services

Real estate services

Internationalisation

Allocation of capital resources

People and talent

STRATEGY
Consolidating leadership and compliance

Capacity Quality Standards
Technology Environment

STRATEGY
Optimisation and diversification as a source of future growth

Redesign and optimisation

New real estate developments

Boost for international expansion

REGULATED BUSINESS

UNREGULATED BUSINESS

New projects that generate capacity and value

Maintaining leadership in efficiency and competitiveness

Integrated sustainable growth mode

○○○ BASE BUSINESS

●● NEW BUSINESS LINES



Your opinion matters

Abc

Abbreviations and acronyms

Lines of action

Increase of airport capacity and adaptation

The capacity of Aena's airports is one of its main competitive advantages. Therefore, it is planned to execute all the investments included in the DORA (2,185 million euros) and start planning the subsequent scenario.

Development of digital solutions and innovative technologies

Aena works in the development of technological solutions that allow for an improvement of passenger experience at the facilities, as well as optimising processes to maximise capacity and decrease costs.

Compliance with high levels of quality of service

In order to comply with the high standards included in the DORA, Aena has established a demanding system of KPIs to monitor various areas considered critical, which will be used to check passenger's satisfaction and act in areas that can be improved.

Minimisation of the environmental footprint

To guarantee a sustainable growth of traffic, Aena integrates environmental sustainability into its business model and decision-making process in order to minimise the environmental footprint or impact on the environment derived from its activity. This commitment is reflected in strict compliance with environmental regulations, as well as the implementation of innovative solutions in our management, mainly in the area of noise management and climate change.



Redesign and optimisation of the commercial offer

The modernisation and commercial expansion of airports has driven an increase in Aena's commercial revenue. To take advantage of the business opportunities in this area, a redesign and optimisation of the commercial spaces will be carried out and an action plan will be implemented to improve the performance of the Duty Free stores. In addition, work will be done on the optimization of specialised stores and the development of a digital transformation platform to improve customer loyalty and guide them through the facilities.



Your opinion matters

Abc

Abbreviations and acronyms

Allocation of capital resources

Aena has a solid position in the face of possible changes in the context. The plan maintains the same discipline in costs, contributing to preserve competitive rates and to continue being leaders in cash flow. It also defends the commitment with shareholders thanks to the maintenance of the remuneration policy.

New boost to international expansion to benefit from key opportunities

Aena will work on the consolidation and development of the assets already operated through the extension or renewal of the concessions (Luton, Mexico and Colombia). In addition, it will pay attention to the emergence of opportunities for the acquisition of new assets, in Latin America and Europe, as well as exploring other attractive opportunities in areas such as Asia, the Middle East and North America.

People and talent

Aena considers the need to have human resources to tackle future challenges. It is about strengthening the image of Aena as a strong and attractive company to work for, supporting digital transformation, working on the retention of talent, promoting training for the development of capabilities and defining an optimal organisational structure.

Use of available land to create a real estate supply

Aena has real estate assets with high development potential, mainly at Adolfo Suárez Madrid-Barajas and Barcelona-El Prat airports, where a development model tailored to each of them has begun to be implemented. Aena will provide the land or right of use and will have private partners that provide financing and knowledge.



Your opinion matters

Abc

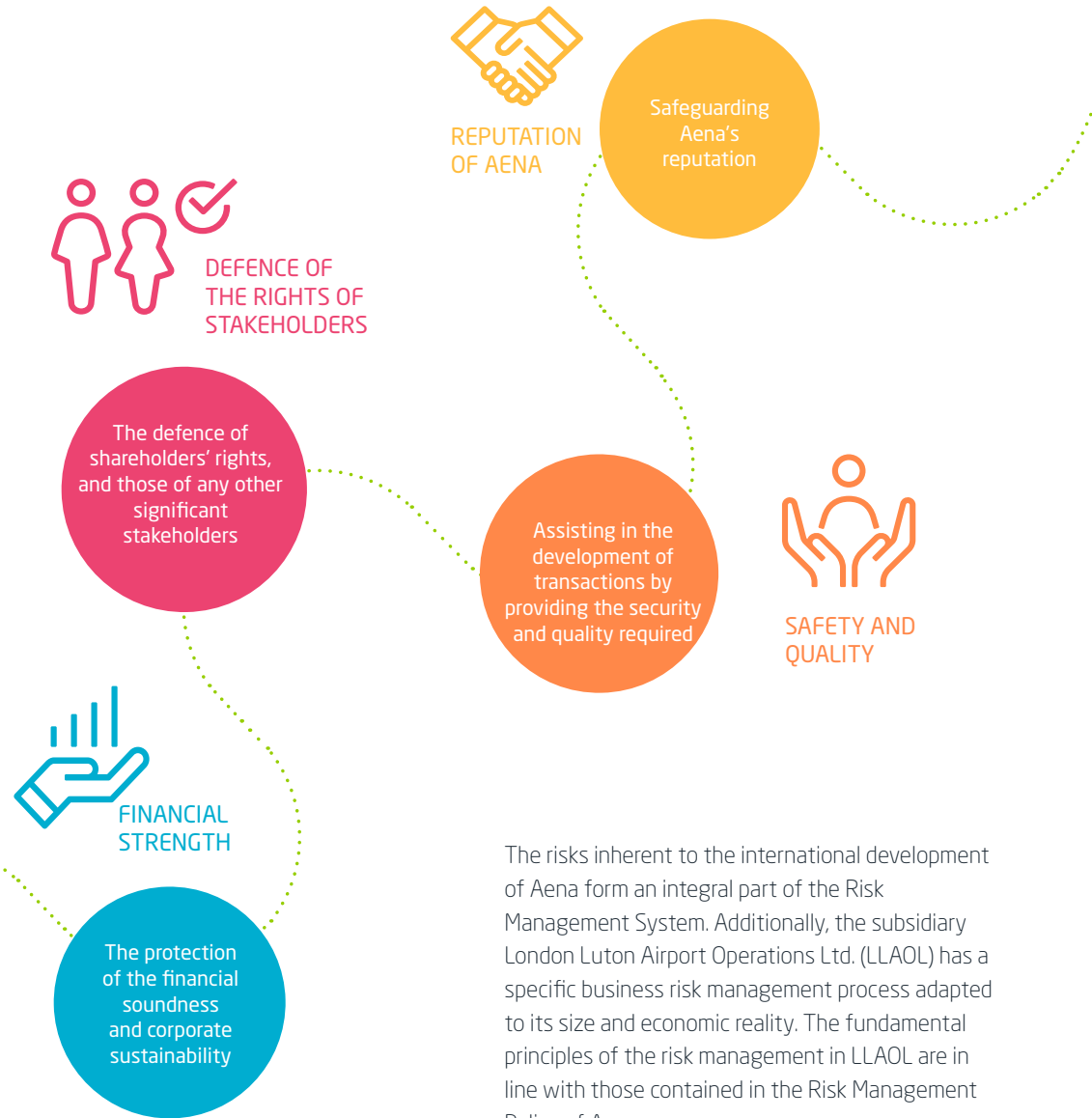
Abbreviations and acronyms

RISK MANAGEMENT

The Risk Control and Management Policy ensures that Aena can manage the threats and uncertainties inherent to the strategy, business processes and the environment in which the company operates.

A strategic pillar

Risk management is one of the strategic pillars of the company. The Risk Control and Management Policy has the following purposes:



The risks inherent to the international development of Aena form an integral part of the Risk Management System. Additionally, the subsidiary London Luton Airport Operations Ltd. (LLAOL) has a specific business risk management process adapted to its size and economic reality. The fundamental principles of the risk management in LLAOL are in line with those contained in the Risk Management Policy of Aena.



Your opinion matters

Abc

Abbreviations and acronyms

Organisational Structure

All corporate addresses together with the different governing bodies are part of the company's risk management system, as detailed in the following scheme:

ORGANISATIONAL SCHEME FOR RISK MANAGEMENT

Board of Directors



Defines, updates and approves the Risk Control and Management Policy, and sets the acceptable level of risk at all times.

Audit Committee



Supervises the internal control and risk management systems, ensuring that they are identified, managed and maintained at the planned levels.

Corporate guidelines



These identify and evaluate the risks that are under their area of responsibility, proposing and executing action plans for their mitigation and reporting on the effectiveness of said plans.

Internal Auditing Directorate



Supervises the correct operation of the Risk Management System, standardises and consolidates the information related to the identification and evaluation of risks (and its corresponding follow-up actions) and reports to the Management Committee and the Audit Committee.



Your opinion matters


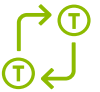

Abc

Abbreviations and acronyms

Context of the airport sector and its translation to the risk management system

CONTEXT OF THE AIRPORT SECTOR

RELATED TO AENA AND ITS BUSINESS LINES

Factors	Scenarios	Actions 2018
 <p>Economic situation and evolution of the tourism sector</p>	<ul style="list-style-type: none"> The positive evolution of the Spanish economy is maintained. Of the 82.6 million tourists received in 2018, 83.2% travelled by plane. The main countries of origin were the United Kingdom (18.5 million tourists), Germany (11.4 million) and France (11.3 million). 	<ul style="list-style-type: none"> As a result of the enormous investment effort made in the previous decade, the Spanish airport network has been able to cope with the traffic growth figures. The expansion works in the terminal and on land side have been completed in London-Luton Airport.
 <p>Political situation</p>	<ul style="list-style-type: none"> Socio-political context in Spain and other countries where Aena operates. Brexit: passenger traffic from the United Kingdom to Spain has been affected and British tourists' spending has diminished in the Spanish airport network due to the pound sterling's value against the euro. 	<ul style="list-style-type: none"> Aena Strategic Plan 2018-2021. Continuous promotions in the commercial area of the Spanish airport network. Contacts with airlines affected by the Brexit.
 <p>Evolution of the profile of the airlines</p>	<ul style="list-style-type: none"> Evolution of the routes operated by low cost airlines, with increased relevance on airports. 	<ul style="list-style-type: none"> Aena offers incentives for airlines aiming to increase long haul traffic, opening new routes and growth in smaller airports, with a strong seasonal component.







Your opinion
matters

Abc


Abbreviations
and acronyms

CONTEXT OF THE AIRPORT SECTOR

RELATED TO AENA AND ITS BUSINESS LINES

Factors	Scenarios	Actions 2018
 Terrorism	<ul style="list-style-type: none"> The risk of terrorist threat has remained at high levels during 2018 in the European environment. 	<ul style="list-style-type: none"> Collaboration with security forces in the strengthening of security controls.
 Climate change	<ul style="list-style-type: none"> The consequences of climate change (adverse weather events) can affect the operational capacity, safety and efficiency of airports. EU regulation is especially active in this area. 	<ul style="list-style-type: none"> Implementation of various energy efficiency and renewable energies measures in airports, along with awareness-raising tasks and outreach endeavours.
 Affection to local communities	<ul style="list-style-type: none"> Compatibility of air operations and development of airport infrastructures with local environments (noise). 	<ul style="list-style-type: none"> Continuance with noise mitigation measures in airport environments and especially sensitive spaces.
 Claims of stakeholders	<ul style="list-style-type: none"> Ethics and transparency 	<ul style="list-style-type: none"> New perception analysis mechanisms for passengers and employees. Materiality analysis update New Strategic CR Plan.

RISKS RELATED TO THE REGULATION OF THE BUSINESS AND ITS SHAREHOLDING STRUCTURE

Factors	Scenarios	Actions 2018
 Regulation of the business and its shareholding structure	<ul style="list-style-type: none"> Regulatory framework of the airport sector: DORA. Shareholding structure. 	<ul style="list-style-type: none"> New organisational structure New Strategic Plan 2018-2021


 Your opinion
matters

Abc

 Abbreviations
and acronyms

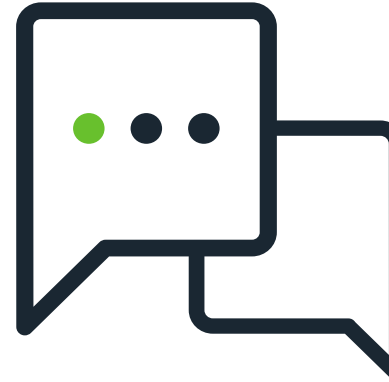
RISK CONTROL AND MANAGEMENT SYSTEM

The Risk Control and Management System allows Aena to identify and assess the risks, as well as to implement the appropriate control measures in advance to mitigate the probability of occurrence and/or its potential impact.

The assumed risk management model includes all those risks to which the organisation is exposed. Through the Risk Management and Control System, all identified risks are incorporated and categorised in the corporate risk map, assigning their management to at least one corporate division that documents their management according to the parameters defined and approved in the Control and Risk Management Policy.

At least annually, the Management Committee updates the risk map based on the information provided by the corporate divisions, with the supervision and approval of the Audit Committee.

In 2018, the Risk map identifies 39 risks for which key monitoring indicators are established, and tolerance thresholds are determined based on their economic impact, on the operations or on the reputation of the company and on its expected probability, which, if exceeded and depending on each risk type involves the implementation of the corresponding action plan and the consequent mitigating activities, thus establishing a process of continuous improvement.



39 risks identified in 2018.

160 mitigating activities.

95 action and contingency plans in 2018.

Classification of risks according to their nature



STRATEGIC

Those that put in danger the social interest and the strategy of the company.

COMPLIANCE

Derived from the regulatory framework and its possible modifications, which may affect the conditions and development of the activity and cause regulatory breaches of an environmental, employment, fiscal, recruitment, etc. nature.

OPERATIONAL

Risks produced by failures of processes, personnel, equipment, etc. that can affect the correct development of the operations, the quality and security of the services.

INFORMATION BASED

Derived from processing, storage or transmission of information that may compromise business processes or threaten the security of information.

COMMUNICATION AND REPUTATIONAL

These are the potential negative impacts on the Company derived from behaviour below the expectations of its stakeholders.

FINANCIAL

Events that may have negative consequences and significantly affect the results of financial operations, usually due to market, credit or liquidity risks.



Your opinion matters

Abc

Abbreviations and acronyms

Below is a relational diagram of the risk management process, and how this is articulated throughout this report considering the material aspects it addresses:

MOST RELEVANT RISKS MANAGED IN 2018				
Risk categories	Risk Map: Main events involving Risk	Examples of mechanisms for control	Material aspect	Section of the Report
Strategic Risks	<ul style="list-style-type: none"> Regulatory framework Public law - private law limits Aeronautical business Commercial and Real Estate Business Investment planning Evolution of environmental issues Brexit International activity 	<ul style="list-style-type: none"> Corporate Governance Policy Contingency plan of the licensees Business development plan Actions of the airport marketing plan, air traffic capture and airline loyalty Procedure for adapting corporate applications to improve budget tracking and control investments ABC implementation plan for passport control Implementation of the XOVIS System in border control Master Plans Policy on Integrated Management of Quality, Environment and Energy Efficiency Participation in working groups on regulatory review Hearing procedures before the modification of certain regulations. 	<ul style="list-style-type: none"> CR Strategy Ethics and transparency Holding on to talent and professional development Profitability / income increases Quality and service improvement Energy and climate change 	Chapter 2 Chapter 3 Chapter 4 Chapter 5 Chapter 6 Chapter 9
Compliance risk	<ul style="list-style-type: none"> Physical and operational safety Environmental regulations Procurement Other regulations 	<ul style="list-style-type: none"> Code of conduct Regulatory Compliance Policy General Regulatory Compliance System Corporate fiscal policy 	<ul style="list-style-type: none"> Human rights and labour standards Acoustic impact Control of suppliers Ethics and transparency 	Chapter 2 Chapter 4 Chapter 7 Chapter 9 Chapter 10



Your opinion
matters

Abc

Abbreviations
and acronyms

MOST RELEVANT RISKS MANAGED IN 2018

Risk categories	Risk Map: Main events involving Risk	Examples of mechanisms for control	Material aspect	Section of the Report
Operational Risks	<ul style="list-style-type: none"> • Air control • Dependence-coordination of third parties • Quality of the services provided • Physical and operational safety • Procurement processes • Environmental conflicts • Climate change • Organisational model and management of human capital • Industrial relations • Carrying out of Investments • Others 	<ul style="list-style-type: none"> • Coordination procedure with Enaire / control centres to prevent or mitigate situations of air traffic congestion • Operational Security Management System: <ul style="list-style-type: none"> * Quality plans for each airport * Critical infrastructure plan to adapt security plans to the new regulatory requirements • Certification of airports under EU Regulation number 139 / 2014 • External airport safety and security audits • Management Centres for Airport Incidents <ul style="list-style-type: none"> * Action plans regarding the modification of the legal framework and labour regulations • Occupational Risk Prevention Systems • Climate Change Strategy. • Existence of airport security clauses for contracts signed with companies that recruit Aena to develop their activities in the Company's centres • Rules and systems of control and review of staff recruitment • Management of the acoustic condition on the surrounding populations to ensure the correct management of environmental plans and programs. • Investment planning and control procedure • Monitoring of carrying out of investments 	<ul style="list-style-type: none"> • Quality and service improvement • Airport security • Control of suppliers • Acoustic impact • Equality, diversity and inclusion • Human rights: commitment and due diligence • Holding on to talent and professional development • Energy and climate change 	Chapter 4 Chapter 6 Chapter 7 Chapter 8 Chapter 9 Chapter 10
Information Risks	<ul style="list-style-type: none"> • Financial and non-financial information systems 	<ul style="list-style-type: none"> • Organisational Model and information security policy <ul style="list-style-type: none"> * Automation of infrastructure management • ICT security reviews under ISO 27002: 2013 • Disaster Recovery Plans (DRPs) • Financial information control system (SCIF) 	<ul style="list-style-type: none"> • Technological solutions and competitiveness • Culture of Innovation 	Chapter 11
Communication and reputational risks	<ul style="list-style-type: none"> • Emergency situations (natural catastrophes, accidents, etc.) • Communication and reputation 	<ul style="list-style-type: none"> • Self-protection plans and contingency, preparation and response procedures to emergencies • Framework of relations with stakeholders • Communication Policy • Aena tax strategy 	<ul style="list-style-type: none"> • CR Strategy • Ethics and transparency 	Chapter 2 Chapter 4 Chapter 9
Financial Risks	<ul style="list-style-type: none"> • Interest rates • Exchange rates • Liquid assets • Credit 	<ul style="list-style-type: none"> • Guarantees, bonds or prepayment required from customers • Interest rate hedging instruments • Financial-economic analysis • Anti-corruption and fraud policy 	<ul style="list-style-type: none"> • Profitability • Other financial issues 	Chapter 5

