

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group (Consolidated)

Consolidated Financial Statements for 2019
and Consolidated Directors' Report,
together with Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Construcciones y Auxiliar de Ferrocarriles, S.A.:

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2019, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue and margins by reference to stage of completion

Description

The Group engages mainly in the manufacture of rolling stock material and, in relation to long-term construction contracts, as indicated in Notes 3-f and 12 to the accompanying consolidated financial statements, it generally recognises the revenue and profit or loss on each contract by reference to the estimated stage of completion thereof, obtained on the basis of the hours incurred in the contract as a percentage of the total budgeted hours. The revenue recognised in 2019 on train contracts by reference to the stage of completion amounted to EUR 1,201 million.

Determination of the stage of completion involves a high degree of complexity and estimation by management in relation to, inter alia, the estimation of the total costs to be incurred in each contract, the percentage of the total budgeted hours allocated to each contract or the estimation of the margin taking into consideration the expected revenue and the expected contract costs.

Therefore, the recognition of revenue and margins by reference to the stage of completion was a key matter in our audit.

Procedures applied in the audit

Our audit procedures included a combination of tests on the operating effectiveness of the relevant controls that mitigate the risks associated with cost allocation in the projects, as the basis for estimating the total costs yet to be incurred, and substantive analytical tests and tests of details. In this regard, we performed, inter alia, tests to verify that the aforementioned controls operate effectively, including the information system controls, for which we involved our internal technology and systems experts. Also, we performed a detailed and case-by-case analysis of a selection of the main projects, based on qualitative and quantitative factors, in order to evaluate the reasonableness of the assumptions and hypotheses used by the Group, for which purpose we held meetings with Group personnel. In addition, we reviewed the consistency of the estimates made by the Group in 2018 with the actual data for 2019 and conducted other substantive procedures such as: detailed perusal of the most significant contracts and analysis thereof with management in order to obtain an appropriate understanding of the terms and conditions agreed upon; analysis of whether the revenue is properly recognised, taking into account the contractual terms and obligations vis-à-vis the customers; tests of details on a selective basis aimed at evaluating the reasonableness of the estimates made by management, and the review of the most sensitive assumptions; and the performance of combined manual and technology and systems expert-assisted tests in order to obtain and verify the entries recorded in the revenue accounts.

Notes 6 and 12 to the accompanying consolidated financial statements contain the disclosures and information relating to the Group's revenue by reference to the stage of completion.

Provisions and contingent liabilities arising from commercial contracts

Description

It is standard practice in the industries in which the Group operates for long-term construction contracts to provide for significant penalties arising primarily from not meeting delivery deadlines or from breaches of other contractual obligations, as well as of obligations of any other kinds relating to its activities that require the recognition of liabilities.

The estimation of the provisions required is a key matter in our audit because normally this type of breach comes to light in the framework of negotiations with the customer in order to acknowledge the incidents or modifications that usually cause the delays or breaches of the terms and conditions accepted during the performance of contracts.

As described in Notes 12 and 20 to the accompanying consolidated financial statements, the provisions recognised by the Group to cater for these obligations amounted to EUR 137 million recorded as a reduction of "Trade Receivables for Sales and Services" and EUR 38 million recognised under "Long-Term Provisions" at 31 December 2019. Also, Notes 12, 20 and 26 include the disclosures of the main litigation and claims involving the Group arising from these obligations.

In this connection, the assessment performed by management to determine, if appropriate, the recognition of those obligations is complex and involves the use of a significant level of judgement based on assumptions with respect to possible events occurring during the product construction process, including the identification of causes not attributable to the Group.

Accordingly, the situation described was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, obtaining and analysing the detail of the estimates made by management in relation to the situation of each project and the provisions recognised. For a sample of contracts, obtained on a selective basis, we performed substantive procedures aimed at evaluating the reasonableness of the estimates made by management by comparing those estimates with the terms and conditions included in the aforementioned contracts and with the obligations arising therefrom, the circumstances prevailing in those contracts and historical experience. We also compared the estimates made with the legal documentation (the contract itself, legal opinions, confirmation letters from lawyers, etc.) and with the correspondence with customers in order to evaluate the reasonableness of the judgements applied in relation to the completeness of the provisions recognised. We also performed analytical procedures to review the consistency of the estimates made by the Group in 2018 with the actual data for the contracts in 2019.

Lastly, we also evaluated the adequacy of the disclosures provided in the consolidated financial statements (see Notes 12, 20 and 26).

Sales cutoff at the year-end

Description

As described in Note 3-f to the consolidated financial statements, the Group recognises revenue from bus segment contracts when the control of the assets is transferred to the customer and establishes clauses for the delivery terms and conditions and the control thereof. Such clauses usually determine when ownership is transferred, although in order to establish when a transaction accrues, it is also necessary to analyse the specific transfer of the related risks and rewards.

The revenue recognised in 2019 relating to bus segment contracts amounted to EUR 650 million.

The evaluation of the interpretations made by management was a key matter in our audit for determining the appropriate cutoff for the year ended 31 December 2019.

Procedures applied in the audit

Our audit procedures included, among others, choosing, on a selective basis, a sample of sales performed at 2019 year-end and at the beginning of 2020, analysing the clauses established in each transaction with the customer and evaluating compliance with the terms and conditions for revenue recognition. Also, we requested written confirmation for the aforementioned sample in order to check with customers that the sales had actually been performed at year-end.

Notes 6 and 12 to the accompanying consolidated financial statements contain the Group's disclosures and information.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2019, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we observed that the information described in section a) above was provided in the consolidated directors' report and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2019 and its content and presentation were in conformity with the applicable regulations.

Responsibilities of the Directors and Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in the Appendix to this auditor's report. This description in the Appendix forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2020.

Engagement Period

The Annual General Meeting held on 15 June 2019 appointed us as auditors of the Group for a period of two years from the year ended 31 December 2018.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2001, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

DELOITTE, S.L.
Registered in ROAC under no. S0692



Pablo Mugica
Registered in ROAC under no. 18694

27 February 2020

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

2019 DIRECTORS' REPORT
OF
THE CONSOLIDATED GROUP

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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1. CAF GROUP BUSINESS MODEL AND OUTLOOK

CAF is a multinational group with over 100 years' experience offering integrated transport systems at the forefront of technology that provide high value-added sustainable mobility.

A leader in the railway industry, it offers its customers one of the widest and most flexible product ranges in the market (both in terms of complete integrated transport systems and parts thereof), i.e. rolling stock, components, infrastructure, workshops, signalling and services (maintenance, refurbishment, assessment and financial).

Precisely within the services area, EuroMaint, one of the top passenger fleet and locomotive maintenance companies in Sweden, joined the Group recently, corroborating this resolute line of action and bolstering the commercial and industrial presence of all our railway activities in the Nordic countries.

For its part, within the rolling stock segment, which constitutes its most traditional business, CAF offers a wide range of products that includes, among others, high and very high-speed trains, regional and commuter trains (diesel and electric), meters, trams and LRVs or locomotives.

More than 90% of its revenue comes from the international market, with particular focus on Western Europe, the CAF Group has various factories in Spain, France, the US, Mexico, Brazil and UK. The Group also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

In the bus and sustainable urban mobility segment, 2019 has been the first full year of control over, and inclusion in the scope of consolidation of, Solaris Bus & Coach, which will represent significant progress in this sector, thus increasing the commitment the CAF Group has made to it for the last couple of years through the Vectia range of solutions. With more than 700 customers to its name, and the widest range of propulsion solutions (diesel, hybrid, full electric, hydrogen, gas and trolleybus), combined with Vectia's experience in integrated bus systems, maintenance and innovative sales formulae (e.g. availability payments, operating leases), a promising future can be glimpsed in a high-growth segment.

The main objective of the CAF Group's strategy for 2020 is profitable growth for the Group. To accomplish this, the CAF Group's activities in the coming years will continue to further develop the prior years' lines of action and also set in motion new areas of action, such as:

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including, where applicable, taking advantage of joint ventures or alliances.
- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, financing, operation of railway systems, leasing, maintenance and/or refurbishing of trains, trams and locomotives, as a continuation of our most recent successes in Liege (Belgium), Parramatta and New South Wales (Sydney, Australia). Also, the various value propositions to customers that might be derived from the marketing of digital services (fleet management, predictive maintenance, etc. through the Group's LeadMind solution, which has already been installed in various projects in the handover phase, and also through service agreements unrelated to the sale of fleets).
- Continue making investments in technological development, in relation to technologies and high value-added products in all our lines of business (rolling stock, signalling, energy, data management, inspections, buses, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.
- Achieve further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Solaris, BWB, etc. This strategy aims to increase and diversify the integrated transport offering beyond the railway, thereby responding to new, sustainable social mobility needs. To do so, the technological commitment has been and is a fundamental part of the Group's strategy to gain a competitive advantage.

- Achieve further progress in the process to integrate operations with Orbital Sistemas Aeroespaciales, S.L. (Noain, Navarre), a leader in the development of critical systems in the aeronautical, space and railway industries, of which the CAF Group purchased a 30% ownership interest in 2018, which can be increased based on the performance of certain business parameters. As a result of this ownership interest, the CAF Group expects to contribute to strengthening Orbital's current activities and to benefit from a state-of-the-art development base in critical systems with high security standards (hardware, software and integration, and validation services) in order to develop its own solutions in the railway industry.
- Gradually digitise our operating processes (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0), as a means guaranteeing their long-term competitiveness. Examples of this evolution include technologies such as online data capture, training and execution supported by augmented reality, 3-D printing, etc.
- Systematic and recurring application of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety, environment and management across all Group business activities and areas, within a highly competitive environment. This includes:
 - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK and Europe, Inneo metros, etc.).
 - Gradual expansion of the Industrial Operations Transformation Plan.
 - Optimisation of the life cost cycle (LCC) of the product, an area that increasingly defines our competitiveness.
- Lastly, making progress in fundamental areas of business management such as, for example, corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

In short, in an increasingly competitive market, the ongoing pursuit of solutions adapted to our customers' needs that increase their satisfaction is part of the Company's DNA, and forms part of the culture shared by all the individuals forming part of the CAF Group, thereby providing a balanced response to the needs of its stakeholders.

2. BUSINESS PERFORMANCE AND RESULTS

Main indicators (*)

Figures in millions of euros	2019	2018	Change (%)
Contracts-			
Backlog	9,946	7,716	22%
Contracts in the year	4,066	2,902	40%
Contracts to Revenue ratio	1.57	1.42	11%
Profit and Cash-Flow-			
Revenue	2,598	2,048	27%
EBITDA adjusted	244	201	21%
Cash-Flow	106	101	5%
Investment in current assets	112	40	180%
Investment in P, P & E and R&D+i	77	94	-18%
Capital management and liquidity-			
Net financial debt	434	324	34%
Equity attributable to the Parent	733	752	-3%
Available liquidity	914	944	-3%
Net financial debt to EBITDA ratio	1.78	1.61	11%
Proposed dividend per share	0.842	0.765	10%

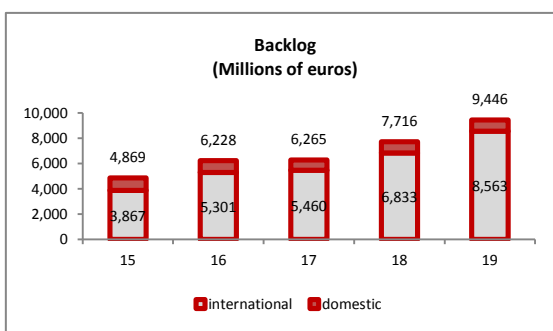
- The high level of new contracts means that the Group's backlog is at record highs and continues to guarantee the continuation of the Group's normal business activities.
- The comparison of the indicators with respect to 2018 must take into account the changes in the scope of consolidation of the Group; in particular, the inclusion of the Solaris Group in September 2018 and the Euromaint Group in July 2019.
- EBITDA as a percentage of the Group's revenue stood at 9.4% in 2019, increasing by 21% in absolute terms.
- With respect to the financial position, the Financial-Debt-to-EBITDA ratio remained stable despite the investments in the year in property, plant and equipment and R&D+i and the obtainment of control over the Euromaint Group.
- The proposed distribution of profit consists of paying dividends of EUR 28.9 million.

(*) The indicators' definitions are included in the "Alternative Performance Measures" section.

3. COMMERCIAL ACTIVITY

Just as the acquisition of the bus company Solaris was announced in 2018, the inclusion of the Swedish railway maintenance company EuroMaint in the CAF Group must be reported in 2019. This acquisition marks a further step in the process of the company's transformation.

The Group commenced 2019 with success stories as a result of years of good work. In this connection, January saw the execution of the agreement culminating the process that began in 2016 with pre-qualification, at the Walloon Regional Transport Company (SRWT), for the restructuring and modernisation of the urban public transport network in Liege, namely, the planning of a tram line within the Tram D'Ardent consortium, together with Colas group companies. CAF's role in this project is to supply 20 trams and signalling, telecommunications and energy systems, and to participate in system maintenance.



On the other side of the world, CAF -through the Momentum Trains consortium, formed together with Pacific Partnership and DIF Infrastructure V- also entered into agreements for the supply and maintenance of 29 diesel units, driving simulators and the construction and fitting out of a new maintenance depot. In addition, CAF -as a member of the Momentum Trains consortium- will participate in the operation of the regional train service in New South Wales.

In the UK capital, Transport for London (TfL) awarded the CAF Group a contract to design, manufacture and supply a fleet of 43 automatic trains for the Docklands Light Railway (DLR) line. The trains will enter into operation in 2023 and will significantly improve the frequency of the service and network capacity, since they will increase the current fleet size by 10, and boast ATO features. They will also be fitted out with modern train conveniences such as real-time visual and audio journey information, charging points for mobile devices, spaces reserved for wheelchairs and multi-use areas such as pushchair, bicycle and luggage spaces.

Also in the UK, the West Midlands Combined Authority (WMCA) selected CAF to supply an additional 21 catenary-free trams to the 21 trams contracted in 2012 and remodelled in 2018 which will come into service in Birmingham's tram network in 2022. The new tram units will also be equipped with Greentech technology, developed by CAF to enable autonomous circulation without the need for catenary systems in urban areas. The new trams will join the 21 existing Urbos trams, on the Midland Metro Line linking Birmingham and Wolverhampton and the extension to Centenary Square, and will constitute the UK's first commercial, catenary-free tram line.

Also, the Flemish Transport Company De Lijn (Belgium) has formalised the purchase of 23 trams in addition to those initially ordered in 2017. This fresh extension brings the number of trams to be supplied by CAF for the De Lijn tram service up to 71. The initial 48 units will enter into service next year on the tram line that runs along the Belgian coast, whilst this third batch of trams will be delivered as of the second half of 2022 to serve the city of Antwerp.

A similar situation exists in Naples (in Italy), where the city council of the capital of the Campania region authorised an extension to the initial contract to supply 12 metro units to include an additional 7 units.

In Jerusalem, a consortium between CAF and the construction company Saphir through a public-private partnership has been awarded the extension and operation of the tram system in the Israeli capital. The network will be extended by 27 kilometres and 53 new stations and will be supplied with 114 new trams. CAF's involvement includes supplying the new units, refurbishing the 46 existing units currently in service, supplying signalling, power and communications systems in addition to project integration. CAF also holds a 50% interest in the SPV that will manage the operating and maintenance activities of the two tram lines for an initial term of 15 years.

To complete this initial section dedicated to rolling stock, in our neighbouring country, France, SNCF has formalised a contract with CAF to manufacture 28 medium- and long-distance trains for the intercity services on the Paris - Clermont-Ferrand and the Paris - Limoges - Toulouse routes. Future extensions to the contract could provide service on the Bordeaux-Marseille railway axis. The trains will be designed to run at 200 km/h and offer a high-level of comfort and top quality facilities: ergonomic seats, full accessibility to enable passengers with reduced mobility to board from platforms and move inside the train unassisted, Wi-Fi, power sockets and USB ports, areas for bicycles and galleys for 'high quality' trolley catering.

The signalling and control area is also reaping the rewards of work undertaken in recent years. In January 2019 ADIF formalised the contract with CAF Signalling for the drafting of the construction project, execution of the renovation work and provision of expert assistance in relation to maintenance of the Centralised Traffic Control (CTC) systems in El Berrón, Santander and Bilbao for the metric-gauge railway network. This time for Iberian gauge tracks, ADIF also awarded CAF Signalling the project to install the electronic interlocking system in the southern technical area of the Madrid-Vicálvaro freight railway terminal; as part of an engagement to build four new tracks that can accommodate the reception and dispatch of 750-metre trains at the connecting point of the Mediterranean and Atlantic Corridors.

ADIF High Speed signed a contract with the CAF Signalling - Thales consortium for the drafting of the construction projects, execution of the works, upkeep and maintenance of interlocking systems, train protection systems, centralised traffic control, auxiliary detection systems, energy supply systems, fixed and mobile telecommunications systems, as well as protection and safety systems for the La Encina-Xativa - Valencia stretch of the Mediterranean corridor. Beyond Spain's borders, CAF Signalling participates in consortiums that have been awarded contracts in Slovenia and Uruguay. The Slovenia contract is for the upgrade of the safety and signalling systems on the 117 km stretch between the stations of Zidani Most and Sentilj along the Slovenian border with Austria. The second contract is for the design, manufacture, installation, testing and entry into service of all the signalling and communication systems, including a centralised traffic control system for the line as well as an L1 ERTMS system, for the Ferrocarril Central project that covers a route of almost 276 km connecting the city of Paso de los Toros, located at the centre of the country, with the port of Montevideo.

Returning to France to focus on the refurbishment line of business, the public transport operator Régie Autonome des Transports Parisiens (RATP) and Île-de-France Mobilités have awarded CAF the project to refurbish 43 RER MI2N units manufactured between 1995 and 2005.

Further south, SRO (Saudi Railways Organization) and SAR (Saudi Railway Company), the two Saudi Arabian state railway companies, have both renewed the maintenance agreements for their trains covering the services between Riyadh - Qurayyat and Riyadh - Dammam, respectively, thus reaffirming the confidence placed in the Group through the acquisition of trains, the maintenance of which will be extended for a further three-year period.

Renfe has also chosen CAF to maintain its series 446 and Civia Cercanías Madrid commuter trains for the next 4 years; however the contracts will be undertaken by the public-private entity Actren, incorporated between Renfe and CAF.

On a more technological level with respect to train manufacturing, refurbishment and maintenance or signalling, we should point out that the UK Northern franchise has awarded CAF the contract for a real-time remote monitoring system and CBM (Condition-Based Maintenance). The project consists of supplying the LeadMind Real-Time and Advanced Analytics functionality for the 101 Civity UK regional trains that CAF has begun to deliver and for the Legacy Fleet Class 170 and 158. A project with a similar scope of LeadMind functionalities has been contracted by Saudi Arabian Railway Company (SAR) for the six trains operating between Riyadh and Qurayyat.

Thus, LeadMind is already making fleet management and maintenance easier for internationally renowned operators such as Euskotren, Trenitalia, Metro de Santiago (Chile), Amsterdam Tramway (GVB) (the Netherlands), Northern Arriva (the UK) and Los Tranvías de Zaragoza, among others. With the latest contracts, LeadMind's scope will extend to more than 3,700 monitored coaches in approximately 950 trains, for 25 customers around the world.

With respect to the bus segment, mention should be made of the contracts recently awarded to the Group at European level, in particular Solaris' selection as the supplier for one of Europe's most ambitious zero-emission bus contracts to date, for ATM Milan, which covers the supply of up to 250, 12 metre electric bus units. The contract in Milan is complemented by the contract with the transport operator ACTV SPA Venezia for the delivery of 30 electric buses as well as the associated battery-charging infrastructure. The electric buses will provide services on the Lido and Pellestrina islands, where they will replace the current fleet of diesel vehicles, and increase the presence of CAF products in the region; 18 Solaris buses are currently circulating in the capital of the Veneto province, ten of which are run on compressed natural gas (CNG). The same technology is employed by the 54 electric buses contracted by the public transport operator in the Polish capital Warsaw, and the 100 units ordered by Tallinna Linnatranspordi AS, to provide services in Tallinn.

The Italian company Cotral, the operator in charge of the regional transport with head office in Rome, has recently signed a new framework contract with Solaris to supply up to 300 interurban diesel buses. The new agreement arose on completion of a previous contract signed in 2016 with the same Polish manufacturer, which has now been integrated into the CAF Group, to supply 360 buses.

Solaris' first foray into Norway was for 10 trolleybuses in Bergen, Norway's second largest city. The brand consolidated its position in the Hungarian and Romanian markets with the contracts signed to provide urban transport in the cities of Paks and Satu Mare, operating 10 electric bus units and 11 hybrid bus unit, respectively.

Back in Spain, of note is the contract signed by Solaris with Alsa to supply two electric buses and two charging stations for Bilbao. This brings the number of bus units supplied in Spain since 2010 to a total of almost 200 units circulating in various cities such as Barcelona, Pamplona, Castellón, Las Palmas, Seville and San Sebastián.

It is also important to note that hydrogen technology-based solutions are also now a reality in our company, following the contract formalised with the Italian city Bolzano to supply and maintain 12 hydrogen powered bus units over a term of 8 years. 15 Trolleybuses and 20 electric buses, with roof-mounted PV panels to increase vehicle energy efficiency, comprise the zero-emissions package selected by the public transport operator of the Polish city of Lublin.

We bring our section on the area of commercial activity to a close with a reference to the accolade received from the Spanish Chamber of Commerce in France, which presented CAF with the Spanish company of the year in France award. This award was presented by the Chamber of Commerce in recognition of the CAF Group's advances in France in recent years, as evidenced by firm contracts in 2019.

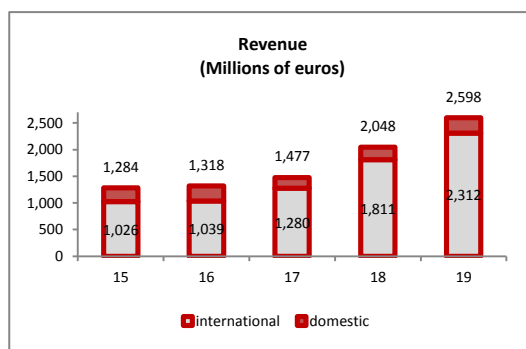
Last but by no means least, the fact that for the third year running the business year has ended with the backlog (EUR 9,446 million) at record levels, up 22% on the previous record set at the end of 2018, is of particular note.

2020 is embraced with renewed optimism in view of the various tender processes published by RENFE, the benchmark operator in the Spanish market, confident that it will be able to continue to collaborate in the development of the Spanish railway sector as it has regularly throughout its now more than 100 years of existence.

4. INDUSTRIAL ACTIVITY – Railway segment

2019 reported remarkable figures in terms of the CAF Group's industrial business having manufactured 1,048 coaches for 26 different projects and more than 70,000 wheels and other rolling stock components for customers located across the five continents.

Progressing in line with the life cycles of the projects, 2019 saw the completion of various projects initiated in previous years, such as the project for 75 push-pull cars for Caledonian Sleepers with the delivery of the last 14 units; the eight electric units completing the 12 contracted for Transpeninne Express; the project for 13 push-pull cars for the same customer, with the manufacture of the two last trains; the 18-train project contracted for the Quito metro with the delivery of the last 15 units together with the delivery of the last of the 30 trains for Toluca (Mexico); 8 trams completing the order for 27 five-module trams for Utrecht (the Netherlands) as well as the first 5, seven-module trams of an order for 22 units for the same city.



The projects completed in 2019 also included the project entered into with the city of Newcastle with the delivery of the last of the 6 trams; the project for the city of Kansas with the delivery of 2 trams, as well as the order for 12 units for the metro of Algiers with the delivery of the last 6 units and the delivery of the 7 trains completing the order for 10 trains for line 1 of the Mexico City metro.

Of the 26 projects indicated at the beginning of this section, those contracts of the most importance in 2019 in terms of the industrial activity generated were the contract for commuter trains for the Netherlands operator Nederlandse Spoorwegen with the manufacture of 21 three-car units and 20 four-car units, or the 12 push-pull cars built for the US operator Amtrak and the 14 LRVs (Light Rail Vehicles) for the city of Boston and 13 of the 18 LRVs for the island of Mauritius project. Also, 4 of the 8 high-speed trains for the Norwegian client Flytoget, the first 2 trains of the 22 units ordered for the Brussels metro, the first 4 trains of a total of 15 ordered for the city of Auckland (New Zealand) and the first 7 trains of the 20 ordered for the city of Stockholm.

With regard to the tram category, 2019 saw the first deliveries in relation to the projects for Vitoria-Gasteiz with the delivery of the first four trams, the four nine-module trams for the city of Budapest, the seven seven-module trams for Luxembourg and the six five-module trams for Amsterdam.

In view of the importance of the projects earmarked for the UK market in this section, note should be taken of the projects for the Northern Arriva franchise which include the contract for the manufacture of 58 DMU (Diesel Multiple Unit) class units, of which 20 two-car units and 22 three-car units have been built, and also 23 three-car and 6 four-car EMU (Electrical Multiple Units) class units. Also for the UK market, the first of the 26 multiple unit trains contracted with the West Midlands Combined Authority (WMCA) was built.

Lastly, a brief mention should be made of the projects which, although still at an early stage, are beginning to occupy the Group's industrial activities, such as the new series 5000 and series 6000 trains for the Barcelona metro and the project contracted for the city of Manila.

The most important products manufactured in 2019 were as follows:

No. of Vehicles

High-speed for Flytoget	16
Long-distance Amtrak cars	12
Long-distance Caledonian	14
Medium-distance TransPennine cars and driving cabs	11
Medium-distance TransPennine EMUs	40
Medium-distance Northern by Arriva EMUs (three-car units).....	69
Medium-distance Northern by Arriva EMUs (four-car units)	24
Medium-distance Northern by Arriva DMUs (two-car units).....	40
Medium-distance Northern by Arriva DMUs (three-car units)	66
Medium-distance West Midlands (four-car units)	4
CPTM Commuter trains	8
Commuter trains for Toluca	5
Commuter trains for NS (three-car units).....	63
Commuter trains for NS (four-car units)	80
Commuter trains for Auckland	12
Quito metro	90
Argel metro	36
Mexico City metro Line 1.....	63
Bruselas metro	12
LRV for Boston.....	42
LRV for Mauricio	91
Trams for Vitoria-Gasteiz	28
Trams for Utrecht (five units)	40
Trams for Utrecht (seven units)	35
Trams for Budapest (nine units).....	36
Trams for Luxembourg	49
Trams for Newcastle.....	5
Trams for Amsterdam.....	30
Trams for Stockholm	21
Trams for Kansas.....	6
TOTAL	1,048

BOGIES

With mechanic-welded chassis..... 1,321

WHEEL SETS AND COMPONENTS UNITS – (MiiRA)-

Assembled axles (power car + push-pull car)	4,721
Loose axle bodies.....	8,449
Monoblock wheels	71,174
Elastic wheels	1,966
Couplers	941
Gear units.....	2,962
Bandages.....	788

5. R&D+i ACTIVITY - Railway segment

As regards CAF and CAF I+D, the CAF Group's new Innovation Plan for 2019-2020 was defined in 2019, which is aligned with the Strategic Plan.

The Innovation Plan, defined in accordance with the new Innovation Process, includes the Corporate R&D Plan and the Product plans of the following businesses: CAF Vehicles, CAF I+D, Rail Services, MiiRA, CAF Power & Automation, CAF Signalling, CAF Turnkey Engineering and Cetest.

The Innovation Plan envisages a total of 192 projects, 83 of which are in the Corporate R&D Plan and 109 are in the product plans of the various businesses.

The aforementioned projects obtained funding through grants for R&D activities from the following entities:

- Provincial Government of Guipúzcoa
- Basque Autonomous Community Government
- Spanish Ministry of Economy and Enterprise
- Spanish Ministry of Science, Innovation and Universities
- European Commission

Projects in which CAF, CAF I + D and different subsidiaries participate have been promoted in the Plan implemented, maintaining a very intensive collaboration with different technology centers and universities.

The projects included in the 2019-2020 Technology Plan encompassed the following fields:

- Specific rolling stock products.
- Digital Train, which comprises projects using Big Data technologies to gather and process operational data for use in product and maintenance enhancements.
- Energy management and ecodesign, comprising projects relating to the reduction and optimisation of energy consumption in trains and in the system as a whole, energy capture and storage in various modalities, etc.
- Signalling (on-board and fixed).
- Traction.
- Autonomous vehicle.
- Virtual validation and approval.
- Specific products and developments using basic rolling stock technologies, traction, wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

All of the above combined the execution of projects aimed at assimilating technologies with the development of products based on such technologies and strategic projects.

The CAF Group participates in joint projects at state level and also as part of the European Union's Seventh Framework Programme and Horizon 2020 programme. Noteworthy projects included:

- SMART-TRAIN, which is part of CAF's strategic digitisation initiative and is aimed at developing a new generation of more competitive trains and services through the digitally secure capture, storage, processing and advanced analysis of all the train operations data.
- UNIMODEL, a joint two-year project aimed at developing a universal cost model (UCM) methodology to calculate the overall cost of running the vehicle on the tracks, reduce and improve life cycle costs (LCCs) and analyse the impact on costs of introducing innovative technologies to the rolling stock.
- AROSS, focused on developing prediction, monitoring and diagnosis solutions for the key components of rolling stock bogie, suspension and braking systems, which will allow for useful-life optimisation and advanced management of these components.

- SHIFT2RAIL. As a founder member of the Shift2Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is involved in various technology development projects (CONNECTA 1, PINTA 2, IMPACT 1, FINE 1, X2RAIL 1, PIVOT, FR8RAIL 1, IMPACT1, IMPACT2, CONNECTA 2, PINTA 2, X2RAIL 1, X2RAIL 2, X2RAIL 3, PLASA 2, FR8RAIL 2) which are scheduled to continue until 2024.
- RAILCONNECT (Basque Industry 4.0 programme): the main aim of this project is to increase CAF's international competitiveness through the deployment of R&D technologies in the field of Big Data – Advanced Analytics and Cybersecurity, which allow the company to create a business line that sets it apart from the rest of its competitors in relation to rolling stock management and maintenance.

In addition to the development, enhancement and expansion of CAF's existing vehicle platforms, the most significant engineering projects undertaken in 2019 were as follows:

- Diesel and electric multiple units for Northern by Arriva (UK)
- Electric multiple units for TransPennine Express-First Group (UK)
- LRV for Boston and Maryland Metro (US)
- Push-pull cars for Caledonian and TransPennine Express-First Group (UK)
- Units for Toluca (Mexico)
- Mexico City metro Line 1
- Trams for Canberra and Newcastle (Australia) and Amsterdam (The Netherlands)
- Locomotives for RATP (France)
- Electric multiple units for Schönbuchbahn (Germany)
- Automated metro for STIB (Brussels)
- DMUs for West Midlands (UK)
- Metro Naples (Italy)
- LRVs for Manila (Philippines)
- Metro Barcelona (Spain)
- Metro Amsterdam (The Netherlands)
- Trams for Oslo (Norway) y Lund (Sweden)
- Ampliación trams Friburgo
- Tram od Lieja
- DMUs for Wales & Borders (Keolis)

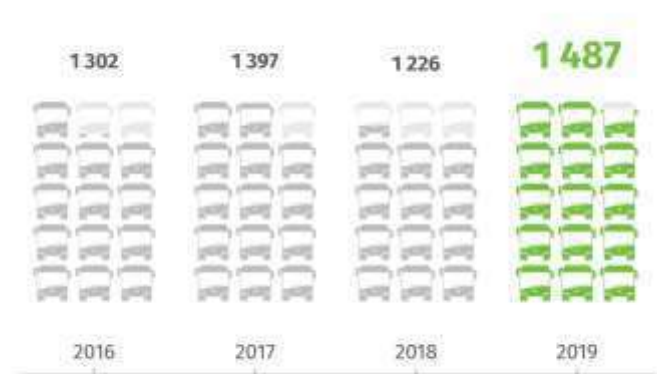
The following projects entered into service in 2019:

- Intermediate cars and rehabilitation of Units for NIR
- Tram for Parramatta
- Rehabilitation of Units Metro of Medellín
- Extension of Units Civity for NS (The Netherlands)
- Trams for Lijn (Amberes)
- Units of Metor for Docklands (London)
- DEMU Long Regional for Transport of New South Wales (TfNSW)
- Tram of Birmingham
- Tram of Jerusalem
- Trains TET AMLD SNCF

6. SOLARIS

2019 was a record-breaking year for Solaris in many respects. First, the company's revenue was at an all-time high. In 2019, Solaris sold a record number of 1,487 vehicles, which was the best result ever achieved by the company. 2017 held the previous sales record, which was almost 100 fewer buses (1,397).

Sales of Solaris vehicles from 2016 to 2019 in units



Solaris products can now be found in 32 countries and more than 700 cities. In total, to date the manufacturer has supplied its customers with approximately 19,000 vehicles. In 2019, the largest Solaris sales markets were Poland, Germany, Belgium, Lithuania and Italy.

It is worth noting that the development of Solaris' sales position in European markets is highly dynamic, while it is also refocussing the organisation of its production and after-sales service towards alternative-propulsion, low- or zero-emissions vehicles. In 2018, hybrid and electric buses as well as trolleybuses accounted for 29% of all the vehicles sold. In 2019, their share of sales increased by 11% to reach 40%.

Percentage of alternative-propulsion buses with respect to conventional buses in Solaris' sales structure in 2018 and 2019.



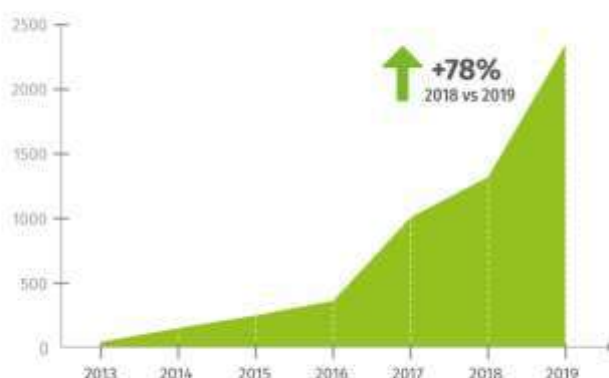
Solaris is one of Europe's undisputed leaders in e-mobility. The number of electric buses sold and ordered that are produced by Solaris has grown dramatically in recent years. In 2019, the manufacturer supplied a total of 162 battery-powered electric buses, which is an increase of 51% with respect to 2018.

On the basis of firm orders for 2020, it is possible to presuppose that sales of electric buses at Solaris will reach a level of at least 500 units in 2020. The contracts that will be performed over the coming year include the mega order for 130 Solaris Urbino 18 articulated buses for the Warsaw operator MZA, and the framework agreement for the supply of 250 Solaris Urbino 12 electric buses for the Milan operator ATM. With respect to 2017, this represents a more than eightfold increase in firm orders for electric buses.

The growing importance of electric buses in Solaris' sales structure is consistent with the company's long-term development strategy, and that of the whole CAF Group, which Solaris has belonged to since 2018.

It is also consistent with trends across the whole of the European Union and European Free Trade Association markets, which are the main markets in which Solaris carries on its business activity. For some years now, these countries have witnessed an unusually dynamic increase in the demand for low- and zero-emissions vehicles for public transport, which grew by 78% in 2019 with respect to 2018. Solaris is one of the market leaders in this transition to e-mobility. The company was one of the first to back and promote electric bus technology and has continued to play a leading role for many years now.

Total number of battery-powered electric bus orders in EU member states, Switzerland and Norway in 2019.



In order to respond to the growing market requirements for low- and zero-emissions vehicles, Solaris is constantly developing its portfolio of products in this area.

At the Global Public Transport Summit held in Stockholm in 2019, the Polish company presented the new generation of its Solaris Urbino 12 hydrogen bus. The vehicle's main energy source is hydrogen, which is transformed into electricity that, in turn, powers the propulsion system.

The hydrogen technology used to generate energy will allow the buses to cover even longer distances with no emissions whatsoever. Buses powered with hydrogen will enable the creation of a complementary portfolio of emissions-free buses, as a result of which Solaris will be able to prepare for today's challenges and the various needs of customers as regards the range, flexibility and operability of the vehicles. Solaris considers that the development of all the electromobility ranges -battery powered electric buses, trolleybuses or hydrogen-powered vehicles- should generate synergies, and that this process is essential to ensure the

sustainable transport of the future. Therefore, Solaris' hydrogen-powered buses will not constitute competition for battery-powered electric buses or the Trollino series models. On the contrary, these technologies will complement each other perfectly and will benefit from the technological progress of the electric drive units and their components. It is worth noting that in 2019, Solaris received its first orders for hydrogen vehicles. The transport company SASA Bolzano has ordered 12 units of the Urbino 12 hydrogen model, which will be delivered in 2021. Since 2014, Solaris has therefore demonstrated that it is a reliable partner in hydrogen technology, having already delivered vehicles of this kind in Hamburg and Riga.

In 2019, Solaris also unveiled its new Trollino 24 bi-articulated trolleybus, which is the longest vehicle assembled by the manufacturer to date. The idea of the Trollino is to create a platform for the future serial production of 24-metre vehicles with electric or hybrid transmission and of trolleybuses.

The latest development of the company are the Solaris High Energy + batteries. These were designed by Solaris' research and development department taking into account the needs of the transport companies that require a range of at least 200 km in a single charge, irrespective of weather conditions. Solaris' High Energy + batteries are characterised by an extremely high energy density, which fits 79 kWh into one pack, where articulated buses can be equipped with up to seven packs. It should be noted that the solution is the result of cooperation between Solaris' and BZM Poland's research and development departments.

In view of the development of the global e-mobility market and customer needs, which Solaris monitors on an ongoing basis, the company has developed the eSConnect product, a modern remote diagnosis system for electric buses, for Solaris customers that have opted to purchase emissions-free vehicles. The eSConnect software is a multifaceted tool that enables the efficient management of a fleet of electric buses and their optimal use. eSConnect is a precise diagnostic tool that facilitates and supports maintenance capabilities.

Among its many functionalities, the eSConnect system provides users with the following:

- access to vehicle data in real time;
- monitoring of the updated operating parameters of the vehicle, such as energy consumption, the battery charge level, or the projected range;
- monitoring of the location of the fleet of buses in real time and oversight of the routes;
- generation of statistics and reports on, among other things, the number of charge cycles and the time required to recharge the batteries;
- real-time identification and notification of faults, anomalies or warnings indicated by the vehicle both to the driver and to the operator;
- speedy maintenance support: the Solaris service has remote access to the diagnostic data, which significantly reduces repair times.

Other R&D projects carried out by Solaris in 2019 include the new advanced driver assistance solutions available in Solaris vehicles. Also, in 2020 Solaris will present its latest offering in the electric bus segment. This will be Solaris' Urbino 15 LE (low-entry) electric bus. The tri-axle bus is built mainly with customers of the Scandinavian market in mind. The vehicle will be available both as a typical city bus (class I) and also as an intercity bus (class II).

In short, Solaris is facing new challenges in 2020, related above all to the ongoing dynamic development of electromobility and the increase in its commercial and manufacturing activities to meet the current backlog.

7. INVESTMENTS

Capital expenditure by the CAF Group in 2019 amounted to EUR 40.493 thousand. The most salient investments in 2019 are as follows:

The MiiRA wheel sets business is modernising the axle forging lines and automating the production process of the area in order to obtain cost reductions and increase the precision of the work. In addition, the cooling facilities on the wheel heat-treatment line were replaced and the furnace for heating forged axle parts was renovated.

The train manufacturing area is continuing the plan to transform the production model in order to increase the efficiency of the process. The most notable achievements of this plan are the new automated installation of bogies with cutting-edge technology for manufacturing, the remodelling of the structure manufacturing and the finishing lines areas at the Irún plant, and the new logistics and storage facilities at the Zaragoza plant.

The CAF Group's digital area continues its work on the digital factory plan, through the introduction of a larger number of resources and means to strengthen information capture and reporting at plants, improving the information handled by operators, and optimising processes and advanced planning and scheduling. In addition, in relation to information technologies, the network backbone infrastructure is being renewed and the storage and servers infrastructure is being expanded, due to the rise in the number of applications and information handled by the company.

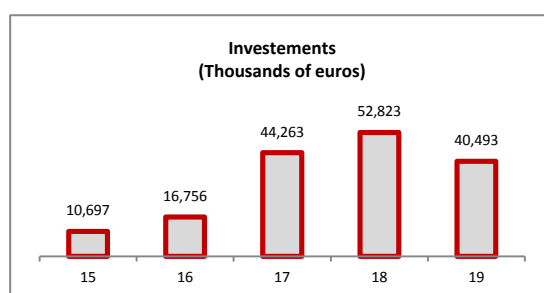
The most noteworthy investments in CAF's other areas were those made mainly at the Beasain and Zaragoza plants, in the office area, due to the increased workforce at those plants and the redistribution of certain departments, mainly Quality and Human Resources.

Also worthy of note are the investments being made by the subsidiary CAF Power & Automation to expand its Guipúzcoa facilities, which will increase production capacity, and the refit of its new Madrid offices through the installation of the equipment necessary to handle turnkey traction equipment projects.

Also, the purchase of new equipment by the subsidiary CAF Digital & Design Solutions in order to meet the 3-D printing needs arising from the growth of its business is of particular note. In 2019, CAF Track Test Center completed the new test track in Corella, an investment initiated in 2018, which is now fully operational.

Notable investments outside Spain include the upgrades made to the Huehuetoca plant in Mexico to adapt it to the new projects to be undertaken there. These upgrades consisted mainly of acquiring and installing the equipment necessary to manufacture austenitic stainless steel structures.

In addition, construction is underway on a new manufacturing unit at the Bagnères-de-Bigorre plant in France, which is expected to be operational in the first half of 2020 and is necessary for the work that the CAF Group plans to carry out at the plant in coming years. Lastly, the investments being made at the Solaris production plants in Poland should be noted, the goal of which is to adapt the facilities to the expected increase in production of buses at that subsidiary in the coming years.



8. MAIN RISKS AND UNCERTAINTIES

The CAF Group is exposed to various risks inherent to the activities it carries on and to the various countries and markets in which it operates, which might prevent the achievement of its objectives.

With the commitment to addressing this matter, the CAF Group's Board of Directors establishes the mechanisms and basic principles to appropriately control and manage risks through the General Risk Management and Control Policy. This policy, which is aligned with the Group's mission, vision and values, expresses its commitment to providing greater certainty and security in:

- Achieving the strategic objectives set by the CAF Group with a controlled volatility;
- Providing the utmost level of guarantees to shareholders;
- Protecting the CAF Group's results and reputation;
- Defending the interests of stakeholders, customers and other stakeholder groups with an interest in the progress of the Group and of the community in general; and
- Ensuring business stability and financial strength in a sustained way over time.

To do so, the General Risk Management and Control Policy is implemented throughout the entire CAF Group by means of an Integrated Risk Management and Control System. This system constitutes a series of rules, processes, procedures, controls and IT systems, whereby all the risks are appropriately managed by means of the following system phases and activities, which include:

- 1) Establishment of the risk-management context for each activity, by setting, inter alia, the level of risk the Group considers to be acceptable.
- 2) Identification of the various risk types, in line with the main risks detailed in the Policy, faced by the Group.
- 3) Analysis of the risks identified and what they entail for the CAF Group as a whole;
 - Corporate Risks – Risks affecting the Group as a whole.
 - Business Risks – Risks specifically affecting each of the businesses/projects, which vary in accordance with the particularities of each of them.
- 4) Risk assessment based on the defined risk appetite;
- 5) The measures envisaged to address the risks; and
- 6) Regular monitoring and control of current and potential risks through the use of information and internal control systems.

The Integrated Risk Management System adopted by the CAF Group detailed above is aligned with international standards as regards the use of an effective methodology for the comprehensive analysis and management of risks and the Three Lines of Defence Model in relation to the allocation of responsibilities in the risk management and control area.

In this regard, the Board of Directors is ultimately responsible for the General Risk Management and Control Policy, and approves the appropriate procedures to identify, measure, manage and control risks. It is also responsible for establishing clear lines of authority and responsibility and requires the existence of appropriate methodologies to measure the various types of risks and the effective internal controls to manage them. It is the body responsible for establishing and monitoring the Integrated Risk Management and Control System implemented at the Group and verifies whether the significant risks for the Group are consistent and fall within the defined risk tolerance level.

The Audit Committee is responsible for the independent oversight or assessment of the effectiveness of the Integrated Risk Management and Control System implemented and of the procedures designed to monitor it. To do so it will be supported by the Risk Management Department and additionally by the internal audit function.

The most significant risks facing the Group can be categorised as follows:

- Strategic risks: these are risks arising from the uncertainty that macroeconomic and geopolitical conditions represent, in addition to characteristics inherent to the industry and markets in which the Group operates and the strategic planning and technological decisions adopted.
- Financial risks: arising from market fluctuations (financial and commodities markets), contractual relations with third parties (customers, debtors) and counterparties related to investments in financial assets and financial liabilities (banks, investors). The subcategories of risks that are included are as follows:
 - Market risk, which includes the following risks:
 - Interest rate risk: risk of fluctuations in interest rates that might give rise to changes in the Group's profit or loss and the value of its assets and liabilities.
 - Foreign currency risk: risk arising from fluctuations in exchange rates of one currency with respect to another with a possible effect on future transactions and the valuation of assets and liabilities denominated in foreign currency.
 - Commodity price risk: risk arising from changes in prices and market variables relating to commodities required in the businesses' supply chain.
 - Credit risk: this risk relates to doubtful debts, insolvency proceedings or bankruptcy or possible default on payment of quantifiable monetary obligations by counterparties to which the Group has actually granted net credit that is yet to be settled or collected.
 - Liquidity and financing risk: in relation to liabilities, it is the risk tied to the impossibility of performing transactions or breach of obligations arising from operating or financing activities due to a lack of funds or access to financial markets, either because of a drop in the Parent's credit rating or other reasons. In relation to assets, it is the risk of being unable to find at any given time parties to purchase an asset at the arm's length price or to obtain an arm's length price.

The Group's exposure to market risk and credit risk is detailed in Note 5, "Management of financial risks", and the use of derivative financial instruments to hedge the risks to which its activities are exposed is detailed in Note 17, "Derivative financial instruments", to the consolidated financial statements. Liquidity risk is addressed further in the following section.

- Legal Risks: arising from the preparation and performance of various types of agreements and obligations (commercial, administrative, intellectual property, etc.) and the possible contingencies arising therefrom. Risks relating to legal proceedings, administrative procedures and claims are also included.
- Operating Risks: inherent to all the Group's activities, products and processes that have an economic and reputational impact arising from human/technological errors, insufficiently robust internal processes, or the involvement of external agents.
- Corporate governance risks: arising from potential non-compliance with the Group's corporate governance system, which comprises: (i) the bylaws and other rules governing the corporate governance governing bodies; (ii) the corporate policies and rules approved by the Board of Directors of the Group's Parent; and (iii) the other internal policies, rules and implementing protocols approved by other competent bodies of the Group that govern the design, integration and operation of the governance bodies and their relationship with the Parent's stakeholders and that in turn are based on the commitment to ethical principles, best practices and transparency and are organised around the defence of the company's interests and the creation of sustainable value.

•Compliance and Regulatory Risks: arising from the breach of applicable national and international regulations and laws irrespective of the activity in question, included in the following large blocks: (i) Commercial and Competition (market abuse, corporate obligations and securities market regulations, antitrust and unfair competition), (ii) Criminal (prevention of crimes, including those arising from corruption), (iii) Labour, (iv) Tax and (v) Administrative (including personal data protection regulations, environmental laws, etc.)..

Due to its global risk scope, the Integrated Risk Management and Control System is continuously updated to include new risks that might affect the Group as a result of changes in the environment or revised objectives and strategies, as well as updates that arise from lessons learned from monitoring and controlling the system.

The realities of Brexit in June 2016 gave rise to the need to analyse its consequences and its effect on the Group's various lines of business. Subsequent to this analysis, a series of mechanisms were activated that have made it possible to anticipate and manage such effects.

The consequences identified with the greatest impact included the operational risks of the contracts in the backlog (more than EUR 1,600 million at 31 December 2019) and future tender processes. Projects were identified and analysed in this particular block that might have an impact as a result of changes in customs and/or import tariff procedures and the movement of people in various Brexit scenarios and time horizons and, consequently, the appropriate measures to be taken at any given time were established.

Similarly, as in the other countries in which CAF operates, the impacts related to financial risks were analysed. In the case of the pound sterling exchange rate risk, its possible impact is detailed in Note 5 to the consolidated financial statements, "Financial risk management", and in the case of Libor interest rate risk, there is no exposure.

Worthy of note are the ongoing monitoring and control relating to the measures and action plans established to mitigate the consequences of Brexit

Liquidity and capital resources

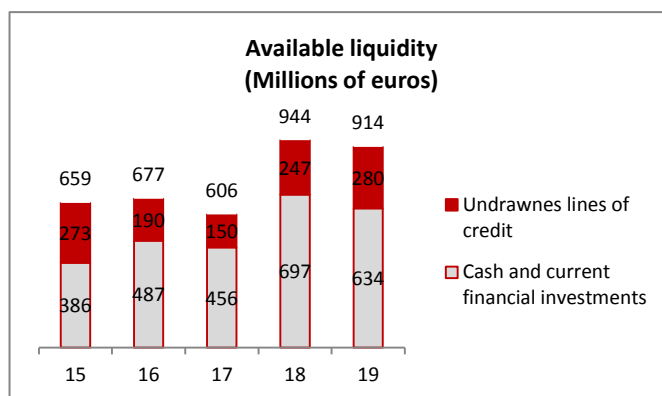
Availability of liquidity at short term-

The CAF Group constantly assesses its available liquidity, including cash balances, short-term liquid investments, the availability of lines of credit, access to short-term capital market instruments and the generation of cash flows from operating activities, in order to meet the Group's liquidity needs at all times.

When assessing the CAF Group's short-term liquidity needs, the following factors, among others, are taken into consideration: the historic volatility of the Group's liquidity needs, their seasonality, the maturity profile of the liabilities, the needs arising from investment plans, the expected level of customer advances and the evolution of working capital. To define target levels of available liquidity worse-than-base-case scenarios are taken into consideration.

On 21 December 2017, Construcciones y Auxiliar de Ferrocarriles, S.A. registered on the Irish Stock Exchange a Euro Commercial Paper Programme for a maximum amount of EUR 200 million, which was renewed on 19 December 2018 and again more recently in December 2019, whereby the original amount was increased to EUR 250 million. In 2019 placements were made under this programme, which were well received by investors and which the Group used as an alternative source of financing to the existing lines of credit, thereby diversifying the source of financing and adding an additional source of liquidity.

Sources of short-term available liquidity include liquid assets, current financial assets and undrawn lines of credit. The evolution of the Group's available liquidity in recent years is as follows:



Capital structure-

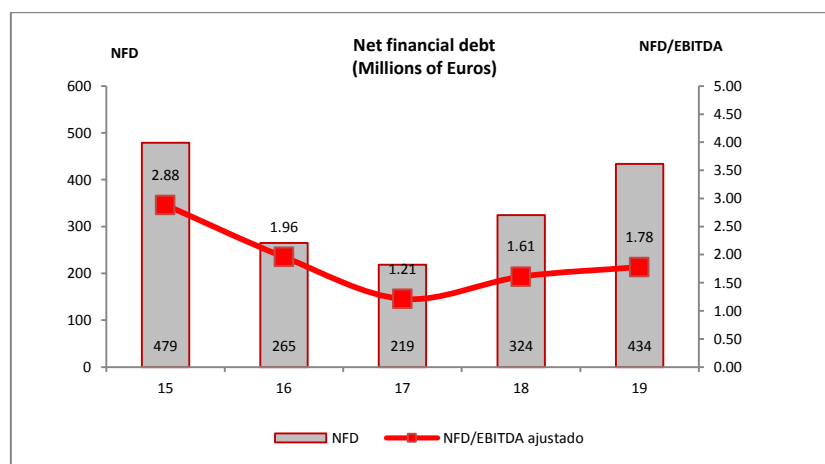
The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital and ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The Group sets as an objective maintaining a leverage ratio and creditworthiness in line with the profile of its businesses.

The CAF Group regularly assesses the appropriateness of its liability structure, and takes into consideration the projected cash flows, the maturity profile of its debt, the foreseeable evolution of its working capital and other future liquidity needs.

In September 2018 Construcciones y Auxiliar de Ferrocarriles, S.A. acquired all the share capital of the Polish bus manufacturer Solaris. Also, in July 2019 it acquired all the shares of EuroMaint, a leading Swedish train maintenance company, for an enterprise value of more than EUR 80 million. The cost of these acquisitions was financed primarily with additional long-term debt of the Group's Parent. These acquisitions have had a significant impact on the Group's gross financial debt figures, both due to the increase in debt in the Group's parent company for the purchase of the shares, and mainly due to the incorporation into the perimeter of the Solaris Group in 2018.

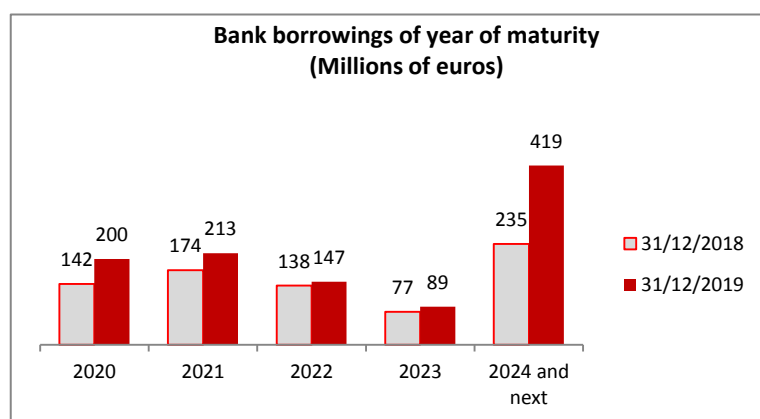
The main aggregates of the Group's liability structure have performed as follows in recent years:



Millions €	2015	2016	2017	2018	2019
Gross debt Concesionss	346	364	283	239	203
Gross debt Solaris	-	-	-	145	168
Gross debt Corporative	531	403	406	650	708
Total	877	767	689	1,034	1,079

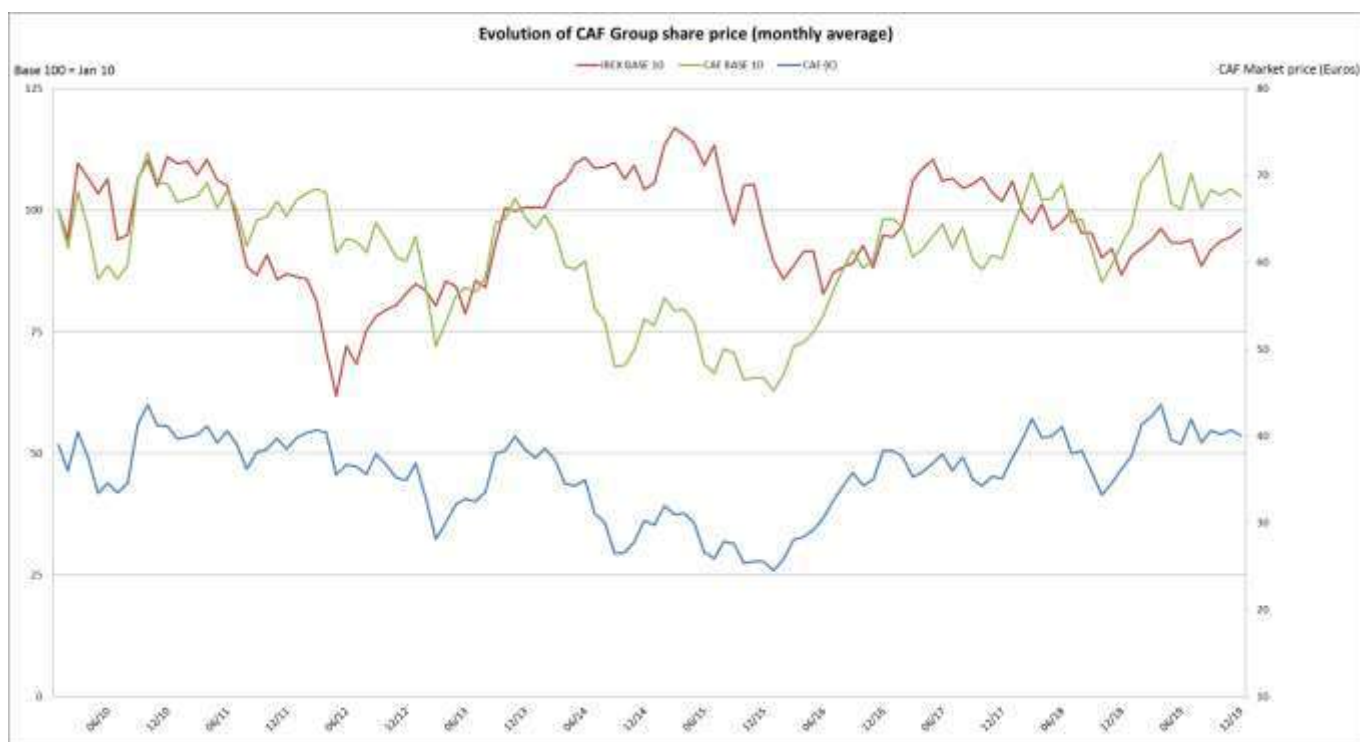
The CAF Group is constantly renegotiating its financial liability structure, in order to minimise borrowing costs and bring maturities into line with its needs, within the possibilities offered by bond markets.

The maturity schedule of the Group's borrowings at 31 December 2019, comparing with the year end of 2018 is the following:



9. STOCK MARKET INFORMATION

	2019	2018	2017	2016	2015
Market price-					
Market capitalisation at year-end (millions of euros)	1,406	1,241	1,172	1,313	876
Closing price (euros)	41.00	36.20	34.18	38.30	25.55
Low (euros)	35.30	31.30	32.22	20.66	23.45
High (euros)	44.90	43.60	39.50	38.39	34.39
Data per share (euros)-					
Earnings per share (EPS)	0.72	1.27	1.24	1.02	1.20
Dividend per share	0.842	0.765	0.66	0.58	0.525
Market ratios-					
PER (average market price/EPS)	56.34	30.14	29.06	30.30	23.76
Market price/EBITDA	5.72	6.50	6.84	7.84	5.87
PBV (average market price/BV)	1.90	1.74	1.64	1.37	1.39
Dividend yield	2.07%	2.00%	1.84%	1.87%	1.85%
Pay-out ratio (Dividend/EPS)	117%	60%	53%	57%	44%
Liquidity ratios-					
Free-float rotation	47%	65%	71%	89%	99%
Traded volume (millions of shares)	8.4	10.8	11.8	15.6	16.2



10. EVENTS AFTER THE REPORTING PERIOD

As in December 31 of 2019, there was a firm order book, net of the amounts corresponding to interim billings, for an amount of approximately 9.446.468 thousand euros (7.716.487 thousand euros as of December 31, 2018) (Note 11).

Additionally, in January 2020 the subsidiary Euromaint entered into an agreement with the operator VY for the maintenance of the Bergensbanan fleet (Norway). The Parent will also supply the Helsinki metro with five additional units. These contracts taken as a whole amount to more than EUR 100 million.

11. ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2019 neither Construcciones y Auxiliar de Ferrocarriles, S.A. nor its subsidiaries purchased or held treasury shares.

12. PAYMENTS TO SUPPLIERS

The average period of payment to suppliers in 2019 was 86,18 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Group is making an effort to align events giving rise to payments with those giving rise to collection in order to reduce the payment time without losing the necessary liquidity.

13. ALTERNATIVE PERFORMANCE MEASURES

Backlog: this represents the volume of firm orders that will be recognised in the future under "Revenue" in the consolidated statement of profit or loss. An order is considered firm only where obligations between the CAF Group and the customer arise. In the case of sales of trains and services, obligations are deemed to arise when the parties sign the agreement.

Contracts in the year: this includes firm orders in the year and potential modifications to orders from prior years, and is obtained as follows: (Backlog at end of reporting period - Backlog at beginning of the reporting period + Revenue). This measure does not include the backlog acquired through business combinations in the year.

Adjusted profit from operations: the intention is to measure the Group's recurring profit from operations. It is calculated by deducting from "Profit from Operations" any significant non-recurring item, such as the outcome of litigation arising outside the normal course of business, exceptional staff restructuring costs and, in general, any exceptional event that is not expected to recur in subsequent years.

The reconciliation of the adjusted profit from operations to the Group's consolidated financial statements for the year is as follows:

	Thousands of euros	
	2019	2018
Profit from operations	124,994	144,168
Income from litigation (*)	37,872	-
Adjusted profit from operations	162,866	144,168

(*) Detail disclosed in Note 26-a to the consolidated financial statements.

Adjusted EBITDA: the intention is to measure the Group's recurring EBITDA by deducting from "Adjusted Profit from Operations" the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

Cash-Flow: the CAF Group's cash flow is calculated by deducting from "Profit for the Year Attributable to the Parent" in the consolidated statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

Working capital expenditure: this is obtained by taking into consideration the following items of the consolidated balance sheet, the breakdown of which can be obtained from the consolidated financial statements:

- + Inventories
- + Trade and other receivables
- + Other current financial assets - Derivatives
- + Other current assets
- Short-term provisions
- Current financial liabilities - Derivatives
- Trade and other payables
- Other current liabilities

Net financial debt: this is obtained by taking into consideration the items making up the calculation of this indicator, which are disclosed in Note 14-h to the consolidated financial statements.

Liquidity available: this includes items defined in order to calculate net financial debt (see Note 14-h to the consolidated financial statements), "Current Financial Assets" and "Cash and Cash Equivalents" as well as credit lines and other undrawn financial balances.

Market capitalisation at year-end: the value of the shares at the close of the last trading day of the year multiplied by the number of outstanding shares traded on the stock market (see Note 14 to the consolidated financial statements).

Free-float rotation: ratio that compares the volume of shares traded with the estimated number of shares included in the float, excluding those shares held by significant shareholders, members of the Board of Directors and treasury shares. The estimated free float % is disclosed in the Annual Corporate Governance Report (section A.11).

14. CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT

2019

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INTRODUCTION

This section of the directors' report provides disclosures on the non-financial information as defined in the legislation in force ("non-financial information statement"), the content of which has recently been defined by Law 11/2018, of 28 December, amending the Spanish Commercial Code, the Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July, in the area of non-financial information and diversity.

Without prejudice to this, CAF also prepares an annual corporate social responsibility report that includes both the aforementioned non-financial information and also further develops additional matters relating to sustainability and corporate social responsibility.

In this connection and in accordance with CAF's Corporate Social Responsibility Policy, the central line of its corporate strategy is that all persons that form part of the CAF Group base their actions on the ethical principles of good faith and integrity, and that its standards of conduct are governed by the values contained in the aforementioned policy.

The CAF Group's primary objective, as established in its Code of Conduct, is to build trust and drive value in the domestic and international markets for the items, equipment, materials, goods and services intended for transport and other related activities, for the benefit of customers' needs, shareholders' investment, competitiveness in the countries where it operates and the expectations of all the individuals who work at the organisation.

The Group also defines its social responsibility as a voluntary commitment to foster the achievement of its business objectives, complying with legal obligations and applying balanced criteria in dealings with stakeholders to create value on a sustainable basis.

The Group's commitment to sustainability is articulated through eight principles for action established by the Corporate Social Responsibility Policy: 1) establishment of preventive measures to ensure strict compliance with the legislation in force, 2) following good governance practices, 3) scrupulous respect for fundamental rights, 4) confidentiality and transparency, 5) responsible communication practices, 6) fiscal responsibility, 7) commitment to innovation and sustainability and 8) commitment to the environment.

In order to make progress in corporate social responsibility management, the activities necessary to ensure compliance with the guidelines contained in the ISO 26000:2012 standard were performed; this made it possible to obtain a positive third-party declaration for rolling stock and wheel sets and components and MiiRA and Rail Services in 2019.

This Non-Financial Information Statement was prepared on the basis of stakeholders' expectations and requirements identified in the CSR Policy, with special attention given to the matters most relevant to the stakeholders and with the greatest impact on the Group's strategy.

The stakeholders at the centre of CAF's strategy are shareholders, individuals, society, suppliers and customers.

The first formal identification of CAF's stakeholders was carried out in the definition of the Code of Conduct in 2011, and its validity was confirmed in the materiality analysis performed in 2016.

Accordingly, the CAF Group's management model ("MGCAF") was drawn up this year and consists of seven items, which include the five stakeholders. This model contains the CAF Group's management strategy which, together with the business strategy, forms part of the Group's global strategic framework.



CAF aims to build a relationship of trust with the stakeholders. Therefore, it promotes ongoing and effective communication with them through the following communication channels in order to strengthen their participation and involvement in corporate objectives and in those areas where their activities are affected.

Stakeholders	Communication channels
Shareholders¹	<ul style="list-style-type: none"> - Shareholders and Investors Services Office - Spanish National Securities Market Commission (CNMV) communications - Annual General Meeting - Regular informative meetings - CAF Website
Customers	<ul style="list-style-type: none"> - Meetings with potential customers - Customer meetings on projects - Customer audits - Quality and Safety Management System Audits - CAF Website - Customer Satisfaction Surveys
Individuals	<ul style="list-style-type: none"> - CAF Portal - Internal channels - Direct communication - Union representation - Corporate magazine - Whistleblowing channel - CAF Website - Organisation Health Survey
Suppliers	<ul style="list-style-type: none"> - Supplier portal - CAF Website - Supplier audits - Supplier Satisfaction Surveys
Society	<ul style="list-style-type: none"> - CAF Website - Direct relationship with public authorities - Participation at forums and in associations - CSR Report

These channels are essential to ascertain the concerns and interests of each of the stakeholders in relation to CSR, and are key to defining CAF's strategy and actions in this area. That is why, in 2019 the communication process with the stakeholders was systemised by means of the review and adaptation of the communication channels for the capture of information on stakeholders, the definition of the KPIs in relation to each of them, the treatment and establishment of actions in this regard, and subsequent communication through the aforementioned communication channels.

In tandem with the strategic cycle, in 2016 CAF prepared a CSR materiality analysis based on internal and external sources of information following the guidelines defined by the Global Reporting Initiative (GRI) standard across the following phases.

Identification Phase: enabling the detection of the material aspects and their coverage in accordance with their impact on the activities, products, services and relations within and outside of the organisation. For this purpose, CAF analyses the information from commitments assumed (the Company's strategic lines of business, CAF policies, applicable regulations), customer requirements (questionnaires required of CAF in the CSR area, requirements of tender processes in which CAF has participated) and CSR trends (Global Reporting Initiative, Principles of the Global Compact, news media).

¹ The information on shareholders is included in CAF's Annual Corporate Governance report, available on the corporate website.

Prioritisation Phase: enabling the determination of the contents of the reporting through the prioritisation of relevant aspects and matters identified by means of a participatory process involving the organisation's area managements. In this connection, all of CAF's areas participate in the process of defining the material aspects, thus achieving a global reflection of the Company's CSR.

Validation Phase: enabling the determination of the end content, the validation of the list of relevant aspects by the organisation's senior management, and its coverage and prioritisation. Management of CAF also actively participates throughout this materiality analysis, so as to include its standpoints on each of the phases, to provide a final list of material aspects.

The identification made as a result of this diagnosis remains in force and was confirmed subsequent to the analysis prepared in accordance with the CSR guidelines included in the ISO 26000:2012 standard and in the definition of the Group's Management Model for 2020.

As a result of the materiality analysis, 16 aspects of relevance for CAF and its stakeholders in the CSR area were confirmed.



The information in this Non-Financial Information Statement relating to 2018 is presented for comparison purposes with that relating to 2019. None of the indicators presented in this Non-Financial Information Statement for comparison purposes differ from those in the Non-Financial Information Statement for 2018.

For more information than that disclosed below, see the "2019 Corporate Social Responsibility Report", which is available on the CAF Group's website.

ENVIRONMENTAL ACTIVITY

The CAF Group is committed to combatting climate change and to being environmentally friendly mainly through two channels:

- Offering more efficient and environmentally friendly means of transport, as detailed in the current Corporate Social Responsibility Policy. To this end, the Group channels and coordinates its product and technology innovation initiatives as part of the corporate innovation strategy the purpose of which is to align technological design and product and service activities with the Group's main strategic challenges, to develop and offer our customers efficient, accessible and ecological solutions and, at the same time, guarantee our competitiveness.
- Including the environmental precautionary principle by preventing the environmental impact of the industrial activities carried out. CAF's Environmental Policy indicates that the efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and minimise important areas of environmental concern, such as atmospheric emissions, waste generation and energy consumption, among others.

The following environmental risks associated with both the products and services the Company provides and the industrial activities it carries on are identified in these two areas: (i) use of polluting materials; (ii) non-optimisation of energy consumption and natural resources (electricity, fuel, water, etc.); (iii) impact on water sources; (iv) impact on biodiversity; (v) polluting emissions including greenhouse gases; (vi) generation of waste; (vii) environmental impact of products and services on technological development; (viii) generation of excessive environmental noise; (ix) non-compliance with the requirements established by the customer specifications; (x) extreme weather conditions related to climate change; (xi) other environmental impacts related to incorrect management of waste and products in production and/or from machinery.

The impacts of these risks may be felt in fines and inspections relating to breaches of environmental laws, irrevocable damage to the ecosystem and the effect on the milieu (population, etc.) as well as the additional cost to the CAF Group's operations of the adverse effects of climate change. These impacts directly affect the short term; however, the last two impacts can also have medium-term effects since the environmental impacts are sustained over time. In this regard, it must be stated that no provisions have been recognised or guarantees given for environmental risks, since the Group does not have any litigation in progress or contingencies relating to environmental protection and improvement or environmental pollution events.

To put these risks into context, the Group has established an environmental management system to help it to improve environmental performance, comply with legal requirements and achieve environmental targets. This system is based on the ISO 14001:2015 reference framework.

This environmental management system consists of an environmental policy and the environmental management system manual in which the main management principles, management system procedures and registers containing the activities performed are established.

The Group also has an Environmental Committee, to which management belongs, that meets periodically and acts as an environmental manager, coordinating and fostering all actions seen to be necessary to achieve and improve environmental performance.

This framework is supplemented by a corporate risk management and control system that integrates the aforementioned risks and establishes a sequence of activities the sole purpose of which is to manage such risks. This process meets the requirement of performing an analysis of the risks and opportunities of the reference framework.

In relation to the objective of offering more efficient and environmentally friendly means of transport, collective transport systems (rail and bus) have major environmental advantages, and enormous potential for reducing environmental impacts, improving the quality of life of citizens and actively contributing to the protection of ecosystems².

- Greenhouse gas (GHG) emissions from transport in the EU increased by approximately 20% between 1990 and 2013. Transport currently accounts for around 23% of global CO₂ emissions, and railways contribute just 0.7% of such emissions.
- In its "2011 Transport White Paper" the European Commission imposed a target of a 60% reduction in CO₂ emissions over the 1990-2050 period. This means that a special effort is required in the coming years to reduce these emissions.
- The growing trend towards urbanisation is leading to increasing air quality problems in cities, where authorities frequently take measures to limit the movement of private vehicles.

As environmentally-friendly means of transport, the railway and bus industries can make a significant contribution to the fight against climate change. In this context, CAF prioritises activities aimed at improving the energy costs of transport and providing highly efficient mobility alternatives, which show the way to a sustainable, clean, ecological and emissions-free future. These are turned into a reality through the following lines of action; 1) Eco-design methodology, 2) Improvements in energy efficiency, 3) Use of light and recyclable materials, 4) Reduction of noise and vibrations.

- Eco-design methodology: In order to offer more efficient and environmentally-friendly means of transport, CAF is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their lifecycle. As a result of these activities, in 2011 the Parent of the Group prepared the first verified worldwide environmental product declaration (EPD) for a tram in accordance with ISO 14025, the Urban Tramway for the city of Zaragoza. It continues to be one of the rolling stock manufacturers with the largest number of EPDs registered at present.
- Improvements in energy efficiency: Improving the energy efficiency of products and services is a priority challenge for CAF and some of the initiatives in this area are energy recovery from braking, development of highly efficient traction equipment, reduction in energy consumption, efficient energy management based on journey times and the reduction in journey times.
- Use of light and recyclable materials: CAF carefully selects all the materials used in manufacturing and pays particular attention to their recycling, as their use prevents the consumption of natural resources. In addition, the design of the trains is aimed at reducing mass and weight, which is an effective way of optimising energy demand.
- Reduction of noise and vibrations: In order to reduce interior and exterior noise pollution, CAF's technical team analyses its causes in detail and adopts the most effective measures with a view to its minimisation: prior calculations and tests, use of insulating and absorbent materials, aerodynamic forms, studies on wheel-rail contact and interaction, etc.

² UNIFE (Association of the European Railway Industry). International Energy Agency.

On the other hand, and as to how to minimize the environmental impact of its operations, in its most relevant³ manufacturing centers there is an Environmental Management System implemented and certified according to the ISO14001: 2015 standard. In 2019, maintenance audits were performed in relation to the aforementioned certification at the above-mentioned plants.

In addition, with a view to extending the Environmental Management System, the remaining manufacturing plants are engaged in a plan to implement and certify the Group's Environmental Management Model by the end of 2020, having performed internal audits in 2019 on all of them, in which the progress of the implementation of the Environmental Management System was reviewed. Other centres such as CAF TE and CAF Signalling have an Environmental Management System implemented and certified based on the same international benchmark standard.

Also, in 2019 the Corporate Environmental Forum was created in order to, on the one hand, unify policies, approaches and management tools and, on the other, to define and monitor environmental guidelines across the Group's various activities.

In order to monitor and improve these management systems, environmental programmes are established with their respective objectives, goals and actions. In this way, the centres specifically control the environmental aspects of their activity and minimise the impacts generated, with the aim of continuous improvement.

In addition, CAF maintains communications channels open to the exterior in a fluid manner, with public authorities, communities and associations, among others.

The measures implemented to control significant environmental matters and the results obtained in 2019 at the Group's manufacturing plants are summarised below⁴.

Raw materials

Environmental criteria are included in the purchase of raw materials for the Group's production processes, with particular emphasis on the selection of reusable and renewable materials.

Most of the purchases made are processed materials, i.e. components, and metal is the most common element thereof. However, raw materials (all of which are renewable) are also acquired, to be used in the manufacture of components. The most used items are metals, in particular steel and aluminium profiles and sheets (18.717t)⁵ and steel blocks (57.086 t)⁶.

Apart from the acquisition of these materials, CAF includes in its processes materials that contribute to environmental sustainability. For example, recycled steel is used for manufacturing wheels and axles.

Also, in order to reduce the environmental impact of the products an analysis is conducted of the recycling of the products in accordance with the ISO 22628 standard. The average recycling percentage of the vehicles manufactured by CAF, S.A. is around 93%⁷.

With respect to the purchase and use of chemical substances, the CAF Group operates under the scope of the REACH Regulation and, in turn, requires its suppliers to comply therewith. On the one hand, train equipment suppliers are requested to comply with the requirements of UNIFE's Railway Industry Substance List (RISL) which lists the materials and substances that are prohibited by European and international legislation specifically for the railway industry. On

³ CAF, S.A. and Solaris Bus & Coach manufacturing plants.

⁴ The measures and results of manufacturing centres representing 97% of the headcount of the CAF Group manufacturing centres are included.

⁵ Data relating to the CAF, S.A. and Solaris Bus & Coach manufacturing centres. In 2018, 10,221 t.

⁶ Data relating to MiiRA. In 2018, 54,337 t.

⁷ Average of the calculations performed in the life cycle analyses conducted by the organisation, both in relation to projects carried out and bids.

the other hand, information has been transferred throughout the entire supply chain of substances, chemicals and articles subject to the REACH Regulation.

The main actions performed by the Group for a more sustainable use of raw materials consist of the reduction in the designed weight of products, the use of greener materials and the reuse of packaging.

Energy

The Group has set as the main objectives of its "Energy Efficiency Strategic Programme" the promotion of renewable energies, savings on energy consumption caused by its activities and the promotion of environmental policies within the Group and in all the railway networks in which it operates and collaborates.

Essentially, and as a result of the energy audit action plans, the measures taken to reduce energy use at CAF, S.A.'s plants in 2019 were based on:

- Replacement of lighting with other, more efficient lighting. Of note at the Parent in 2019 was the completion of the plan to replace exterior and manufacturing workshop lighting, as well as the replacement of half of the office lighting; both of these actions were a result of the energy audit action plan for 2015. Also, the periodic energy audit, which serves as a basis for the next 2020-2024 action plan, was conducted.
- The replacement and optimisation of the functioning of key elements regarding the energy efficiency of the production processes (engines, heat exchangers, ventilators, etc.).
- Furthermore, the actions at the offices have been aimed at programming the functioning of the air conditioning units and raising environmental awareness regarding rational energy use.
- In addition, year after year CAF has incorporated systems in the functioning of its facilities to fully harness the benefits of renewable energies and clean and ecological technology through, for example, the use of solar panels. Accordingly, in 2019 the Parent enabled the generation of renewable energy equalling 10% of the factory's annual consumption, from the solar panels installed on the roofs of the workshops and the hydroelectric plant owned by the CAF Group.
- Bus activity reduced its energy consumption by 185,385 kWh/year thanks to the action plan implemented since 2018, promoting actions such as the replacement of transformers with others with lower energy loss and the replacement of lighting with other, more eco-friendly lighting. In this way, the savings target set for 2019 was exceeded.

Direct and indirect energy consumption (MWh)	2019⁸
Natural gas ⁹	129,302
Gasoil ¹⁰	306
Electricity	59,339
Energy intensity	4,077

Emissions and greenhouse gas (GHG)

The main source of the company's direct emissions contributing to greenhouse gas (GHG) are emissions of CO₂ from energy use. Also, the studies of the development of the most efficient and eco-friendly means of transport show that the greatest impact on the life cycle of CAF's products is centred on the usage phase, in particular the consumption of energy. Therefore, the Group concentrates its efforts on gradually reducing the intensity of its GHG emissions, in two ways: Improving energy efficiency in the production activities and facilities and the research and development of sustainable transport solutions.

In 2019 progress continued to be made in the reduction of emissions of Volatile Organic Compounds (VOCs). In order to achieve this, facilities are maintained for the use of water-based painting in the painting process, thereby improving the VOC reduction target for coating activities.

Also, to reduce the emissions generated during transportation to the workplaces and encourage sustainable mobility, the main manufacturing centre offers a bus service which transports almost 400 employees to the work centre every day, thereby avoiding annual emissions of approximately 2,000 tonnes¹¹ of CO₂. As a supplementary measure, a parking area was put into service to encourage the use of car pooling when commuting to the work centre.

Emissions (t CO₂eq.)¹²	2019
Scope 1: Fuel emissions	26,322
Scope 2: Electricity consumption emissions	24,329

Waste

The Group's objective regarding the management of the waste produced by its activities is to reduce, reuse and recycle it.

For this reason the CAF Group has committed to the concept of the "circular economy", and has been a member of the Circular Economy Pact of the Spanish Ministry of Agriculture, Food and Environmental Affairs (MAPAMA) since 2017. Waste management is based on the following aims:

⁸ The data for 2018 are not comparable, as the scope of the direct and indirect energy consumption data of CAF, S.A. and Solaris Bus & Coach (in 2018) was extended this year to the locations representing 97% of the headcount of the CAF Group manufacturing centres (in 2019). However, for information purposes, the data for 2018 are detailed below. Consumption of Natural gas: 114.631 MWh; Diesel: 25,173 L (262 MWh); Electricity: 51,762 MWh.

⁹ The consumption of natural gas to heat the facilities represents approximately 20% of the total consumption.

¹⁰ Consumption relating to transportation equipment at the factory.

¹¹ Estimate made based on the assumption that each worker uses his or her own car individually.

¹² These emissions are calculated through conversions of fuel and electricity consumption using emission factors published by the Spanish Ministry for Ecological Transition and Demographic Challenge.

- Reducing the generation of waste at source, e.g. by using returnable machine tools.
- Maximising reuse, recycling and recovery of waste. During the 2019, the 80% of the dangerous and non-dangerous waste has been recycled (54% of waste was recovered in 2018).
- Encouraging awareness campaigns on separating and minimising waste.
- Correct treatment and management of waste.

Waste generated (t)	2019
Hazardous, of which:	1,226
Recovered	660
To landfill	566
Non-hazardous, of which:	9,223
Recovered	7,749
To landfill	1,474

Water

The water used by CAF in the manufacturing process is used mainly to refrigerate equipment and for facilities to ensure the water tightness of the trains, using for such purpose mains water and river water in line with local limitations and limiting the consumption of rain water to use in closed circuits. The Group is aware that water, as a natural resource, is a scarce resource that should be preserved and, accordingly, a series of actions have been performed in order to encourage a more sustainable use thereof, the most noteworthy of which are as follows:

- Ensuring and encouraging rational use of water by implementing closed circuits, making employees aware of environmental matters, etc.
- Establishing and controlling the consumption of all water resources.
- Avoiding water catchment in areas of water stress.
- Performing appropriate maintenance on facilities to facilitate lower consumption and impact.

Water consumption (ML)	2019
Mains water consumption ¹³	93.17
River water consumption	54.12

For more information on environmental matters, see Chapter 5 "Contributing to the care of the environment" in the "2019 Corporate Social Responsibility Report", which is available on the CAF Group's website.

¹³ The data for 2018 are not comparable, as the scope of the water consumption data of CAF, S.A and Solaris Bus & Coach (in 2018) was extended this year to the locations representing 97% of the headcount of the CAF Group manufacturing centres (in 2019). However, for information purposes, the data for 2018 are detailed below. Mains water consumption: 70,208 ML.

HUMAN RESOURCES

The people making up the CAF Group are key to the development of a sustainable development project, as is also expressed explicitly in the Group's Corporate Social Responsibility Policy and its Code of Conduct.

The CAF Group fosters individuals' professional development, taking into account the balance between the company's objectives and the employees' needs and expectations, and permanently encourages the adaptation and improvement of competencies and skills. People's experience, knowledge and motivation are reflected in each of their products and services.

In order to attain this balance and continuous improvement, since 2017 the CAF Group has reviewed its human resources practices, giving rise to the definition of a new people management process at corporate level. This framework defines a proprietary standard that is common to all the companies in the Group. The standard's integrated nature gives it a broad scope, from ensuring organisational adequacy, through hiring and internal mobility, the assessment and qualification of its professionals to their training and development. In addition, both the remuneration management and labour relations policies at corporate level were also reviewed and defined.

In 2019, of note within the framework of the activities aimed at ensuring compliance with this process is the progress achieved at the Group's national and international subsidiaries where, among other actions, the Group has implemented systems to evaluate, qualify and manage corporate training, as well as the technological platform supporting it. In 2019 significant progress was made in the action plan in relation to the Vehicles and Railway Services activities at national and international level; this progress will extend to the Group's other activities throughout 2020 and 2021 taking into account the new scope of consolidation.

In this area, the following risks relating both to occupational risk prevention and appropriate professional development of employees were identified: (i) employee turnover (ii) insufficient training and professional development (iii) lack of diversity and equality of opportunities (iv) accidents and effects on health.

The impacts of these risks may give rise to a reduction in employee productivity, a decline in employees' health and motivation, and fines relating to employees' occupational safety. Since these risks and their impacts materialise gradually over time, this will occur in the medium term.

Putting these risks into context, the Group addresses and exercises personnel-related matters from a social responsibility approach with the aim of maximising its contribution to sustainable development. Its actions to do so are based on the reference ISO 26000:2012 standard.

These standard shapes the following policies and handbooks: Corporate Social Responsibility Policy, Occupational Risk Prevention Policy and Corporate People Management Process, mentioned above. These documents specify the main principles for action and the procedures and controls necessary to address employee-related matters.

This framework is supplemented by a corporate risk management and control system that integrates the aforementioned risks and establishes a sequence of activities the sole purpose of which is to manage such risks. This process meets the requirement of performing an analysis of the risks and opportunities of the reference framework.

People are key

In 2019 the plan to increase resources to respond to the growth initiatives of the various lines of business continued. The Group's average headcount in 2019 amounted to 12,484, with the headcount at December 31, 2019 standing at 13,179¹⁴. In this connection, in 2019 the CAF Group increased its average number of employees by 2,854; at year-end the headcount had increased by 1,746. Mention must be made of the effect of the inclusion in the Group of Euromaint, which had 990 employees at year-end.

Headcount of the CAF Group

	31.12.2019	31.12.2018	Change
Further education college graduates	4,015	3,634	381
Middle management and clerical staff	2,194	1,906	288
Production and services	6,970	5,893	1,077
Total	13,179	11,433	1,746

The headcount of the Parent stood at 4,314 at year-end and 4,301 in average terms.

Headcount of CAF, S.A.

	31.12.2019	31.12.2018	Change
Further education college graduates	1,205	1,155	50
Middle management and clerical staff	657	589	68
Production and services	2,452	2,531	(79)
Total	4,314	4,275	39

The changes in the headcount were consistent with the changes in revenue and corresponded to the need to address the projects in the backlog of the various lines of business and to catering for the challenges included in the plans prepared.

Following are details of the distribution of employees according to diversity criteria: gender, age and region.

Distribution by age

(% of the headcount at period end)

	2019	2018
Under 30	15%	15%
Between 30 and 50 years old	69%	72%
More than 50 years old	16%	13%
Total	13,179	11,433

Distribution by gender

(%of the headcount at period end)

	2019	2018
Men	85%	85%
Women	15%	15%
Total	13,179	11,433

¹⁴ The data were obtained from the information systems of each company. In order to perform those activities that the company considers it is necessary for outsourced personnel to carry on at its facilities, CAF enters into service contracts, which define the type of activity to be performed. CAF supervises the outsourcing activities performed, and does not deem it to be necessary to record statistics in relation to outsourced personnel, as this is not considered to be significant. Therefore, this document does not include the information on outsourced personnel required by the GRI Standards in disclosures 102-8 and 102-41.

Distribution by country
(of the headcount at period end)

	2019		2018	
	Region percentage	Country percentage	Region percentage	Country percentage
Europe ¹⁵	88%		85%	
Spain		50%		55%
Poland		18%		20%
Sweden		8%		-
UK		5%		5%
Rest of Europe		7%		5%
America ¹⁶	9%		12%	
Mexico		3%		4%
Brazil		2%		4%
US		2%		3%
Rest of America		2%		1%
Rest of the world	3%		3%	3%
Total	100%	100%	100%	100%

In this same area, the voluntary turnover¹⁷ rate of staff at the Group as a whole was 5.4% in 2019.

CAF is committed to stable quality employment. Experience and knowledge of people is one of the cornerstones that have enabled CAF to attain its current competitive position in all its business activities. 89% of CAF's employees had permanent contracts at year-end. This percentage is 87% in the case of women. In geographical terms, all the countries in which the CAF Group has a significant presence, 86% of employees have permanent contracts. Similarly, more than 88% of permanent employees are classified as professionals (employees¹⁸ and manual workers). In this connection, 71% of employees less than 30 years old have permanent contracts. These figures mean that permanent employment at the Group can be considered to be stable.

Distribution by contract type
(of the headcount at period end)

	2019	2018
Permanent employees	89%	89%
Temporary employees	11%	11%
Total	13,179	11,433

However, if we consider the average headcount and take into account the type of contract¹⁹ and criteria representing diversity: namely gender, age and professional group, the data are similar and are shown in the following tables.

¹⁵ The main countries in Europe are Spain, Poland and the Sweden and UK which account for 93% of the region.

¹⁶ The most important countries in America are the US, Mexico and Brazil, which account for 83% of the continent.

¹⁷ No. of total resignations/average headcount at the Group in 2019.

¹⁸ The Professional Group of Employees includes University Graduates, Middle Management and Clerical Staff.

¹⁹ In order to calculate the average by type of contract the distribution at year-end was used as reference, which was extrapolated by applying to it the average headcount at year-end. The average number of part-time contracts is not included as the number thereof in the Group's headcount is not significant.

Average distribution by type of contract and age group

	2019		2018	
	Permanent	Temporary	Permanent	Temporary
Under 30 years old	71%	29%	68%	32%
30-50 years old	91%	9%	91%	9%
Over 50 years old	96%	4%	97%	3%

Distribution of average headcount by type of contract and gender

	2019		2018	
	Permanent	Temporary	Permanent	Temporary
Male	89%	11%	88%	12%
Female	87%	13%	89%	11%

Distribution of average headcount by type of contract and professional group

	2019		2018	
	Permanent employees	Temporary employees	Permanent employees	Temporary employees
Employees	90%	10%	90%	10%
Manual workers	88%	12%	88%	12%

These year-end figures are the net result of the numbers of new hires and terminations that took place in 2019. With respect to the latter, non-voluntary terminations represented 2,5% of the total headcount²⁰. In relation to the distribution of these figures, 86% are men, 67% are between 30 and 50 years of age and 60% are manual workers. These data are in line with the distribution of the Group's headcount considering diversity criteria.

The treatment of the setting and management of remuneration at the CAF Group takes place in accordance with the content of the defined remuneration management policy and is applicable to the Group. The purpose of this corporate regulation is to ensure appropriate treatment of remuneration in terms of internal consistency while taking into account external competitiveness and the alignment thereof with the challenges and needs of the lines of business. In this connection, information prepared by specialised consultants is used.

These general criteria have given rise to appropriate remuneration levels and employees'²¹ average remuneration²² is situated in 36.355,22€ (in 2018 was EUR 34,903.91). The difference with regard to average remuneration, by professional group, is as follows: employees' remuneration is 20% higher than the average, and other employees' remuneration is 18% below the average.

Remuneration by professional group

	2019	2018
Employees	(20%)	(18%)
Manual workers	18%	17%

²⁰ This percentage includes terminations arising from the completion of the contracts, mainly in Brazil and Chile. In 2018 non-voluntary terminations represented 1.2% of the total headcount, not including the collective terminations related to the completion of the activities mainly in Brazil.

²¹ All available annual fixed items for full-time employees were used, related to at least 99% of the Group's total activities, and took into account the annualised remuneration of Solaris Bus & Coach and its subsidiaries. The average exchange rate for the year was used to translate the data to euros.

²² Excluding directors and senior executives, to whom specific reference is made.

The average remuneration by age at the CAF Group discloses a correlation between age and remuneration earned. Employees aged over 50 earn average remuneration more than 20% above the average, employees aged between 30 and 50 earn average remuneration 2,5% above the average, and the remuneration of employees under 30 is 32% below the average.

The average remuneration of women working at the CAF Group is EUR 36.247,12€ (in 2018 was 34.678,25 €) and is 0,3% lower than men's average remuneration. Length of service was identified as the source of the gender pay gap at the Group.

If we analyse the figures by groups of employees, length of service is identified as a cause of the differences in remuneration by gender, both at the CAF Group and in its activities in Europe. From this standpoint, the salary gap is reduced in the various groups of employees.

General gender pay gap by professional group and length of service – CAF Group

	2019		2018	
	Gender pay gap ²³	Difference in length of service ²⁴	Gender pay gap	Difference in length of service
Employees	15%	33%	15%	27%
Manual workers	20%	25%	23%	28%

General gender pay gap by professional group and length of service – Europe

	2019		2018	
	Gender pay gap	Difference in length of service	Gender pay gap	Difference in length of service
Employees	14%	34%	15%	28%
Manual workers	12%	29%	12%	33%

If we analyse the figures by age group, the remuneration of women is higher in every age group. On the one hand, in the "Over 50 years old" age group the remuneration of women is 1% higher; in the "30-50 years old" age group it is 2% higher; and in the "Under 30 years old" age group it is 5% higher.

Gender pay gap by age

	2019	2018
Under 30	(5%)	(14%)
Between 30 and 50 years old	(2%)	(1%)
More than 50 years old	(1%)	6%
Total	0.3%	1%

The reason for this pay gap is the asymmetrical nature of the distribution by gender of the various groups and geographies.

In any case, the collective agreements in force, together with the regulations relating to remuneration applicable at the CAF Group companies guarantee equal treatment by setting salary conditions without taking gender into account.

The treatment of remuneration of the Parent's directors responds to transparency criteria applicable to a listed company. In this connection, the detail and individual breakdown of the directors' remuneration conditions are shown in the Annual Report on Directors' Remuneration, which is prepared for this purpose and published pursuant to current legislation.

²³ (Average remuneration of men by group – average remuneration of women by group)/average remuneration of men by group.

²⁴ (Average length of service of men by group – average length of service of women by group)/average length of service of men by group.

On the other hand, the total remuneration (monetary and in kind) of senior management²⁵ is included in the Annual Corporate Governance Report of Listed Public Limited Liability Companies, and no breakdown is provided of the average figure per gender, as there was only one woman in senior management.

The generation of quality employment also gives rise to the need to organise work in accordance with the legislation in force in each country, such as the workers' statutes and the collective agreements. Thus, each Group company determines matters relating, inter alia, to working hours, rest periods, work calendars, holidays, special leave and leave of absence. This is included in the defined labour relations policy applicable to the Group. Also, each company establishes measures aimed at facilitating the life-work balance, some of which relate to the regulation of the working day, the follow-up of which is generally performed through the register

Social dialogue

With respect to the organisation of social dialogue, mention must be made of the permanent communication between employees, trade unions and the company with a view to ascertaining their interests and expectations, which should enable agreements to be reached that benefit all. The procedures for informing and consulting employees and negotiating vary across the Group, which provides greater flexibility to enable the most appropriate routes to be followed, according to use and custom in each geographical area and legal jurisdiction.

All the employees of the Parent and the Spanish subsidiaries of all the Group's business lines are covered by industry-specific or company-specific collective agreements, which together are generally applicable to all employees. At international level, mention must be made of the collective bargaining processes held in relation to various matters (remuneration, working days and times, etc.) in various geographies (Algeria, Brazil, Chile, Mexico, New Zealand, Poland, UK and Italy), thus covering 84% of the CAF Group's headcount.

Training

The training process is a basic item in people management activities, and this is evidenced both at the Parent and at the domestic and international subsidiaries associated with its main activities²⁶.

In order to ensure that the training plan is efficient and effective, three main blocks of activity have been defined, which are monitored periodically using a series of indicators. The initial phase consists of a diagnosis of training needs integrating the vertical perspective of each function with the horizontal perspective in transversal training matters (e.g. occupational health and safety, quality, product safety, regulatory compliance, etc.). Once this training plan has been approved and announced, it can start to be implemented and assessed on three levels (satisfaction, effectiveness and annual review) so that it can be brought further into line with the activity's priorities and made more effective.

The training process activity and effectiveness indicators were positive at the end of 2019. At Group level, more than 192,000 hours of training were received (2018: more than 196,000), and each employee received an average of 17 hours of training, an average of 4 hours fewer than in 2018. This average is higher in the case of manual workers, who received an average of 19 hours of training, 4 hours more on average than other employees.

²⁵ Senior executives who are not also executive directors.

²⁶ The domestic and international subsidiaries associated with the main activities, represent 84% of CAF's headcount.

Equal opportunities and diversity

One of the cornerstones of CAF's commitment to people, as indicated in CAF's Code of Conduct, Corporate Social Responsibility Policy and Diversity and Director Selection Policy is the respect for diversity and the right of men and women to equal treatment and opportunities. To this end, the Group actively rejects any direct or indirect discrimination, especially gender discrimination, supports the defence and effective application of the principle of equality among men and women at work, and is making progress in the establishment of measures to boost the balance of work and family life.

Accordingly, CAF, S.A.'s collective agreement (for the Beasin, Irún and Madrid centres) expresses the will to promote women's access to employment and the effective implementation of the principle of equal treatment and non-discrimination in working conditions between men and women.

In 2019 women represented 15.3% of the total new hires at the CAF Group, contributing to the increased presence of women in the Group's headcount. In 2018 this proportion was 17%.

The Group is committed to promoting equal opportunities through internal policies and strategy and to ensuring that employees have the same opportunities to develop their potential. Consequently, it will adopt the appropriate measures in response to any action that might constitute or cause gender discrimination.

In order to obtain full control of these commitments and their respective initiatives, all the Group companies comply with legal regulations relating to the preparation of equality plans²⁷ and have constituted various management mechanisms such as the action protocol in the event of sexual harassment or gender harassment, and equality committees on which the company and workers are represented. Noteworthy due to its size at the Parent is the existence of an equality committee that is responsible for the preparation, implementation and monitoring of equality plans and analysing possible measures and actions to contribute to the work-life balance. This commission analyses and monitors equality indicators each year, analysing issues such as periodic monitoring of selection processes, monitoring of staff who request and/or avail themselves of the work-life balance measures that apply to the headcount as a whole, broken down by gender, and monitoring of the promotion system for manual workers and employees.

Likewise, over the last years the company has been taking steps in the internal disclosure of the equality plan and the protocol of sexual and sexual harassment through the usual means and the promotion of the use of egalitarian and inclusive language, both in internal and external communications.

The principles of non-discrimination equal opportunities applied at the CAF Group are included in the Code of Conduct. No cases of discrimination in relation to this framework were detected at the CAF Group in 2019.

With a view to encouraging diversity, CAF respects universal accessibility by taking into account criteria that enable both its working environment and its manufactured products to respect human diversity and to be safe, healthy, functional, understandable and aesthetically pleasing.

CAF boosts physical access to its facilities by ensuring that all new investments in industrial buildings and services, and all new investments and all adaptations of its facilities are carried out according to accessibility regulations and standards of that location.

As regards the accessibility of its products and services, CAF's priority from the design stage is the accessibility of its products and services to guarantee universal use for the entire population. The designs must be usable, without special adaptations or modifications, by disabled and able-bodied people alike.

²⁷ All the companies have implemented the plan in the period subsequent to compliance with the requirements included in the regulation.

All products manufactured by CAF are designed to meet and, in some cases, exceed the accessibility requirements contained in the legislation of each country in which tenders are held, as well as the requirements of reference EU legislation.

In the case of railway rolling stock manufactured by CAF, the requirements of the technical specification for interoperability relating to persons with reduced mobility of the European Union of 2014 are adhered to. City buses are built in accordance with the specifications of Annex IV of Directive 2007/46 establishing a framework for the approval of motor vehicles, recently modified by Regulation (EU) 2017/2400. These provisions include the requirements of Regulation No 107 of the United Nations Economic Commission for Europe (ECE) on uniform provisions concerning the approval of category M₂ or M vehicles with regard to their general construction and in particular their accessibility for passengers with reduced mobility.

CAF's extensive experience in the implementation of accessibility projects enables the Group to offer maximum quality in this regard, guaranteeing facility, since any passenger use such transport without the need for prior experience; usability, as the vehicles' accesses are perfectly signposted and there are mechanisms that ensure that all types of passengers can use them; and simplicity, since passengers' ability or disability does not affect the user experience.

In terms of information accessibility, CAF is firmly committed to the accessibility of its website, and wants it its contents to reach the most users possible, regardless of their disability status. For this purpose, it uses standard technologies established by W3C and follows the WAI 1.0 Accessibility Guidelines. The use of web standards established by the W3C, such as XHTML 1.0 Transitional for valid semantic markup and cascading style sheets (CSS) for design, allows the website to be visualised on various devices and platforms and also enables its content to be printed properly.

Lastly, it must be stated that the CAF Group fulfils the requirements of the legislation relating to the rights of people with disabilities and their social inclusion in each country. This is achieved through direct hiring of workers with a certified disability²⁸ and with the adoption of alternative measures envisaged in current legislation.

Occupational health and safety

The Occupational Risk Prevention Policy approved by CAF management expressly states CAF's firm commitment to maintaining and improving the accident prevention system in order to ensure compliance with current legislation and undertakes to protect employees from occupational hazards.

The Policy includes prevention management in all of the Group's activities and decisions, both in technical processes and in the organisation of the work and in the conditions in which it is performed, boosting integration at all hierarchical levels: executive, management, employee and trade union representative. To this end, the human and material resources necessary to achieve these objectives are made available.

The Group maintains its comprehensive prevention and environmental policy which is applicable to its core activities²⁹, in addition to the occupational risk prevention policies in place at the other main subsidiaries³⁰.

In order to achieve zero accidents and improve occupational health and safety conditions, in addition to the aforementioned policy, CAF has implemented and is fostering the extension of an occupational risk prevention management system. This system is structured to facilitate the development, implementation and monitoring of a series of activities which, together, constitute a system for the prevention of occupational accidents, occupational disease and material damage. This management system establishes the management principles and the system

²⁸ To comply with the legal obligations in this area, as well as the alternative measures, CAF's headcount includes 100 employees with a certified disability.

²⁹ Vehicles activities, Rail Services and MiiRA.

³⁰ CAF T&E, CAF Signalling, CAF P&A and Solaris Bus & Coach.

procedures and processes implementing the prevention activities. In the field of occupational risk prevention, the Group has certifications and assessment and monitoring mechanisms exceeding the legal requirements in all the countries in which the Group has a presence.

In this connection, in 2019 the audit for the renewal of the management system certificate pursuant to the requirements of OHSAS 18001:2007, the required audit of the Beasain and Irún plants and the audit for the renewal of the same certificate for the Zaragoza plant and for the CAF T&E and CAF Signalling subsidiaries were conducted. Also, in order to perform an internal follow-up of the management system implemented in accordance with the requirements of the standard, internal audits were conducted at each one.

In view of the extension of CAF's occupational risk prevention management system to the other Vehicle and Bus manufacturing plants, internal audits were conducted at all of those plants; this included the analysis of the situation in relation to the implementation of the management system and actions and objectives were put in place at each plant, e.g. The certification of the management system at all the Vehicles manufacturing plants³¹ and of Solaris Bus & Coach's management system based on the ISO 45001:2018 standard for 2020.

There is also a social dialogue managed through formal worker-company committees in the health and safety field. Each of CAF's main rolling stock and bus production plants and those of the CAF T&E, CAF Signalling and CAF Rail Services subsidiaries have occupational health and safety committees, on which management, prevention delegates, the prevention service and, where appropriate, those responsible for production activity participate. These committees are responsible for gathering information from the various operating levels and approving occupational risk prevention plans, involving workers in the definition thereof. These committees also adopt the appropriate decisions and follow up the proposed actions, pursuing achievement of the objectives set. The other companies have defined forums for worker consultation and participation which serve as a channel of communication with interested parties and through which proposals and significant matters of interest are gathered. These mechanisms make it possible for all employees in the various business lines who require special attention and 90% of all Group employees to be represented in occupational health and safety matters.

The occupational risk prevention plans of the Group's main plants and lines of business define the planning of preventive measures and the annual objectives in the occupational risk prevention area. With respect to accident targets, three main indicators are measured, namely the frequency rate, the severity rate and the absolute frequency rate. The following table shows these indicators for the CAF Group's³² most significant domestic and international operations and the number of occupational disease cases identified.

	CAF Group			
	2019			2018
Occupational risk prevention in figures	Male	Female	TOTAL	TOTAL
Frequency rate	23.41	4.1	20.89	20.40
Severity rate	0.51	0.17	0.47	0.42
Absolute frequency rate	86.74	28.69	79.16	78.69
Occupational disease rate	11.74	0	10.19	10.28

³¹ CAF France, CAF USA, CAF México, Trenasa and CAF UK.

³² Including the indicators of 89% of the CAF Group's total headcount. The number of hours worked in the indicated scope amounted to 18,671,821. The frequency rates were calculated based on 1,000,000 hours worked, the severity rate based on 1,000 hours worked and the occupational illnesses rate based on 10,000 workers. The estimate of the hours worked per gender category was made considering the distribution of the headcount by gender, enabling the Group to present a breakdown of the statistics of the aforementioned rates.

A common employee indicator at organisations is the absenteeism rate. This indicator measures the hours lost in relation to the theoretical hours. In 2019 this rate was 4.6%³³ at corporate level. In 2018 this indicator was 4%³⁴.

For more information on aspects related to Human Resources, see Chapter 4 "The excellence of our team" of the "Corporate Social Responsibility Report 2019" available on the CAF Group website.

³³ This absenteeism rate relates to 82% of the Group's headcount and takes into account the lost hours relating to occupational accidents or common illnesses. In the case of Euromaint, the data since the company's inclusion in the Group in July were included.

³⁴ This absenteeism rate related to 82% of the Group's headcount in 2018 and took into account the lost hours relating to occupational accidents or common illnesses.

RESPECT FOR HUMAN RIGHTS

In addition to CAF's commitment to strict observance of the legislation in force in all the territories where it operates, its Code of Conduct and Corporate Social Responsibility Policy include its commitment to adopting measures that ensure unwavering respect for fundamental rights, the principles of equal treatment and non-discrimination, as well as any other principles included in the Universal Declaration of Human Rights and the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

The CAF Group adopts the measures that it considers necessary to ensure that employees can exercise their rights to freedom of association and collective bargaining in all the countries where it operates. It also has the required measures in place to prevent child labour, forced or compulsory labour or the assignation of hazardous labour to young people, both in its own operations and upstream among its suppliers, thanks to the collaboration with Ecovadis detailed in the "Social Matters" section, and the oversight activities performed to ensure compliance with the Code of Conduct in CAF's core activity at domestic and international levels. In this connection, in application of the statement against slavery and human trafficking in accordance with the Modern Slavery Act approved in 2015 in the UK, each year CAF publishes a report on the commitments and measures implemented for the prevention and, where applicable, elimination of such practices at CAF and in its supply chain.

The following risks have been identified that might jeopardise the fulfilment of these commitments: (i) violation of the principles of equality and/or non-discrimination in the workplace; (ii) a lack of freedom of association or the right to collective bargaining at own and/or third-party workplaces; (iii) child exploitation at own and/or third-party workplaces; (iv) forced labour at own and/or third-party workplaces; (v) violation of the rights of indigenous peoples; (vi) psychological harassment; and (vii) insufficient integration of people with disabilities.

The impacts resulting from these risks might give rise to fines related to safety at the work place and violation of human rights, in addition to damaging the CAF brand's image and reputation due to such violations being reported in the media. The former has a short-term impact; the latter, however, have an impact in the medium term since they materialise more gradually.

Placing these risks in context, the Group addresses and implements matters relating to respect for human rights from a social responsibility standpoint in order to maximise its contribution to sustainable development. The Group uses ISO 26000:2012 to do so.

That standard shapes the following policies and handbooks: Corporate Social Responsibility Policy, Code of Conduct, Psychological Harassment Prevention Protocol and Corporate Compliance Handbook. These documents specify the basic guidelines, procedures and controls required to address matters relating to the respect for human rights.

In particular, all third parties that enter into contracts with CAF Group companies are required to, inter alia, scrupulously respect the law, human rights, public freedoms and fundamental rights, the principles of equal treatment and non-discrimination, protection against child labour and any other human rights principles included in the UN Global Compact's Universal Declaration of Human Rights.

This framework is supplemented by a corporate risk management and control system that integrates the aforementioned risks and establishes a sequence of activities the sole purpose of which is to manage such risks. This process complies with the requirement to perform the risk and opportunity analysis of the reference framework.

The management and control of human rights risks are included in the framework of the ongoing implementation of this risk management and control system.

In this connection, in 2019 human rights due diligence measures were adopted, and at the reporting date no breach of human rights resulting from the CAF Group's participation in any project had been detected. These measures are adapted to the international benchmark guidelines.

Also, in 2019, as in 2018, no case involving a breach of human rights was detected among the workers employed the Group directly or through business relationships.

The CAF Group has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 93% of the personnel included in the training plan established to this end have participated in these activities.

Lastly, mention should be made of the existence in this area of the Psychological Harassment Prevention Protocol, which is integrated in the occupational risk prevention system. The purpose of this Protocol is to define situations of psychological harassment in the workplace, establish preventive measures to prevent and avoid these situations, and establish procedures so that, should they arise, the Company's personnel know how to act.

For more information on human rights matters, see the "2019 Corporate Social Responsibility Report", which is available on the CAF Group's website.

FIGHTING CORRUPTION AND BRIBERY

The CAF Group carries on its activity bearing in mind the importance of appropriate, transparent management as an essential factor for generating value, enhancing economic efficiency and strengthening the trust of its shareholders and investors, which is implemented through a corporate governance system based on the “good corporate governance” concept.

This corporate governance system is based on the commitment to ethical principles, best practices and transparency, and is organised around the defence of the corporate interests and the creation of sustainable value for the CAF Group’s stakeholders and, at the same time, enables those principles and best practices to pervade the CAF Group’s entire internal regulatory system.

Within this framework, fighting corruption and bribery is part of the primordial good governance and corporate social responsibility objectives, and has given rise to the establishment of preventive measures to ensure strict compliance with the legislation in force in the territories in which the CAF Group carries on its activities, including the approval and implementation of a Code of Conduct and a Corporate Compliance Handbook for the CAF Group.

Since 2011 the CAF Group’s Code of Conduct has defined the series of general rules and principles of corporate governance and professional conduct applicable to all the Group’s professionals and any other entity or party that collaborates or deals with the Group, and also serves as the basis for any other Codes of Conduct on specific matters that might supplement the former.

CAF’s Code of Conduct is available on the CAF Group’s website (www.caf.net) and has been distributed to all employees via the CAF Group’s portal.

In implementing the Code of Conduct, a corporate compliance programme was established, which materialised in the CAF Group’s Corporate Compliance Handbook, the initial version of which was approved by CAF, S.A.’s Board of Directors on 29 April 2015; the Code of Conduct is included in the Handbook as an integral part thereof.

Both documents are adapted, where required, to the local legislation of each country where CAF has subsidiaries.

This Handbook, together with its developments and updates, respond to the need to verify the sufficiency and the effective establishment of the procedures and controls at the Company to prevent, as far as possible, the risk of significant offences being committed in relation to the CAF Group’s activities and the consequences of such offences.

To such end, among other obligations, the CAF Group’s legal representatives and professionals and third parties that enter into agreements with the CAF Group companies are required to respect the general principles of CAF’s Code of Conduct.

The general principles of CAF’s Code of Conduct are obligatory rules of conduct and ethical standards that materialise in the unwavering observance of laws, human rights, public freedoms and fundamental rights, the principles of equal treatment and non-discrimination, the prevention of child labour and any other principle included in the Universal Declaration of Human Rights and the United Nations Global Compact relating to human rights, labour rights, the environment and fighting corruption.

Equally, the CAF Group’s Corporate Compliance Handbook is reviewed regularly (more specifically it was reviewed in 2016 and 2018); the most recent modification was approved by CAF, S.A.’s Board of Directors on 18 December 2018. When any new version or development of the Handbook is approved, the appropriate dissemination and training measures are adopted.

The reassessment of criminal compliance risks was rolled out in 2019.

Risks and activities related to fighting corruption, bribery and money laundering

In order to draw up the Corporate Compliance Handbook, an analysis of criminal risks was performed that enabled the definition, from the catalogue of offences that can be committed by legal persons, of the "significant offences", which are those that to a greater or lesser extent can be related to the purpose of the CAF Group's activity and, consequently, are the offences that warrant greater attention from a corporate compliance perspective.

Of the above list, the following are specifically related to fighting corruption and bribery: (i) corruption between individuals; (ii) bribery; and (iii) corruption in international transactions. Money laundering is also included in the catalogue of significant offences for the CAF Group.

The CAF Group's activities that warrant particular attention for the aforementioned purposes can be summarised as follows: (i) public calls for tender, (ii) performance of public and private contracts; and (iii) integrated projects. However, the CAF Group's Corporate Compliance Handbook, and any pertinent developments, provide a detailed analysis of each of the risk activities and how to manage them.

In relation to the legal obligation to report on contributions to foundations and non-profit entities, in 2019, as in 2018, the CAF Group did not make any significant contribution to such organisations

Management of specific risks related to fighting corruption, bribery and money laundering

Specific management of the risks identified in the CAF Group's Corporate Compliance Handbook is performed: (i) through the application of the conduct policies and the establishment of controls (ii) by raising awareness among all individuals of the CAF Group to whom the Handbook applies through training and dissemination activities; (iii) by managing a whistleblowing channel that enables detection of behaviour that violates the Code of Conduct or the aforementioned Handbook; and (iv) adapting the Handbook to the CAF Group subsidiaries to ensure that, as well as the general guidelines being applied to all the Group companies, local regulations are complied with in those countries that require the establishment of specific guidelines in accordance with their own legislation.

The Compliance Committee or Unit is the CAF Group's body, which has independent powers of oversight and control, that is responsible for overseeing the compliance programme implemented through the Handbook.

The CAF Group's Corporate Compliance Handbook establishes that the Compliance Committee or Unit can designate a Delegate, who will report to the Committee, at those CAF Group subsidiaries or branches in those jurisdictions in which it is either required under the local legislation in force or advisable due to the size or characteristics of the subsidiary or branch.

Similarly, in 2019 a decision was taken for the Group to restructure the Compliance Committee, in light of the need to endow the Compliance body with a multidisciplinary operational function, and separate it from the supervisory function which will be discharged by the directors of the Compliance Committee appointed by the Board of Directors.

The Compliance Operational Committee was set up for such purpose, to act as the functional organisational structure of the Compliance Committee.

Specific conduct policies

The CAF Group's Corporate Compliance Handbook and its pertinent developments specify the risk activities that the Group carries on and links them to potential criminal conduct that might be committed and assigns certain conduct policies that must be observed to avoid the commission of offences.

The classification of an activity as a "risk" does not mean that it is unlawful or criminal, but rather that it is an activity from which, if due precaution is not taken, situations with potential criminal implications might arise.

Also, the conduct policies are protocols or procedures to be followed that are established by the CAF Group to prevent the commission of criminal conduct in the performance of risk activities.

The impacts arising from those risks are regulatory breaches that might result in court proceedings that could conclude with the imposition of fines or other more serious penalties related to the aforementioned offences, in addition to damaging the CAF brand's image or reputation. The foregoing has a direct impact on the Group's activity in the medium- and long-term.

Corporate Compliance Handbook dissemination and training

Employees have permanent access to the Corporate Compliance Handbook through CAF's intranet portal; nevertheless, they are also expressly notified of new versions immediately after approval of any change to the Handbook.

Notwithstanding the foregoing, a specific Compliance section was set up in the CAF Group's corporate app, with a Crime Prevention and Code of Conduct subsection and another subsection concerning Competition. Accordingly, all CAF Group employees have been granted access, in a single, shared space, to all the most relevant regulations in each of these matters and can access them from any device.

In 2019 the Group continued to provide to the CAF Group's personnel the training activities commenced in 2016 aimed at raising awareness of, disseminating and applying the Corporate Compliance Handbook.

At the date of preparation of this document, 94,4% of the personnel at the Parent and Spanish subsidiaries included in the corporate compliance training plan had completed the training. Significant progress was made at international level in 2019; training programmes were launched at 97% of the companies within the scope of consolidation. More than 4,762 people (93% of eligible employees) have received training in this connection. The training programme is currently being studied by 386 employees. Similarly, a training system is in place for new recruits that includes this programme in the on-boarding plans. The training materials are kept up to date. These figures do not take into account the inclusion of the Swedish company Euromaint, as it was a recent acquisition by the CAF Group.

Also, the 100% of the CAF Group's business partners in all regions where it operates are informed of the existence of, and their mandatory compliance with, the CAF Group's General Principles of the Code of Conduct.

Whistleblowing channel

The Corporate Compliance Handbook establishes a single whistleblowing channel to report complaints, which is supervised by the Compliance Committee or Unit. This body regularly analyses the complaints received and, where applicable, takes the appropriate steps based on the specific circumstances of each complaint. If it considers that the complaint warrants greater attention, the Compliance Committee or Unit can send the documentation to the relevant department in order to perform a joint assessment of the facts and determine the measures to be adopted.

The Compliance Committee or Unit reports the complaints and, in general, the detected breaches of the Corporate Compliance Handbook and the Code of Conduct to the Board of Directors, the Audit Committee or General Management, depending on the circumstances and nature of the purported infringements detected.

An appropriate record is kept of all the complaints received, which ensures the confidentiality of the whistleblower and the content thereof.

The Handbook also establishes the possibility of other means of receiving complaints being enabled in those jurisdictions where so required under local legislation.

Two complaints were received via the Whistleblowing Channel in 2019, and one more was received via an alternative channel; all of these complaints related to employment matters and were duly internally investigated, processed and resolved. No complaints were made through the channel in 2018.

Adaptation of the CAF Group's Corporate Compliance Handbook at subsidiaries

The CAF Group's Corporate Compliance Handbook is binding for all the Group's Spanish and international subsidiaries and must also be adapted to the specific features and requirements of the legislation applicable to the international subsidiaries. Consequently, in accordance with the foregoing, a basic adaptation is produced for the international subsidiaries in all cases and a more detailed adaptation produced based on the identified needs.

At 31 December 2019, the CAF Group had 74 foreign subsidiaries in 38 countries around the world.

The basic adaptation of the Corporate Compliance Handbook was fully completed in 2017 for all subsidiaries that were already part of the CAF Group and included: (i) the legal formalities relating to the adoption of the CAF Group's Corporate Compliance Handbook; (ii) the acknowledgement of the Compliance Committee or Unit; and (iii) the training and information provided to governance bodies. Henceforth, that basic adaptation is produced systematically, both when the new subsidiary is incorporated and in the context of the integration plan in the case of a pre-existing company joining the CAF Group.

Crime prevention adaptation at international level can be made for a specific country -and in certain cases for a specific subsidiary- through, on the one hand, adaptation of the content of the general guidelines contained in the Handbook and, on the other, through the implementation of a Compliance sub-programme, which will depend to a large extent on the existing legislation in the country in question and on the degree of flexibility provided by such regulations to either maintain the common corporate model or not.

More specifically, in 2019 the following set of internationally implemented criminal compliance regulations were in place: (i) six countries in which the general guidelines of the Crime Prevention Handbook have been adapted, (ii) two countries in which a complete Criminal Compliance sub-programme is in place, with specific guidelines, and (iii) two more countries in which a sub-programme of these characteristics is being implemented.

For more information on combating corruption and bribery matters, see Chapter 2 "Good Corporate Governance" in the "2019 Corporate Social Responsibility Report", which is available on the CAF Group's website.

SOCIAL MATTERS

The CAF Group fosters corporate social responsibility principles in its activities and at its Group companies, reconciling how it engages in its activities to the interests of the surrounding community and the various stakeholders on a sustainable, long-term basis.

This commitment materialises in various ways, such as: (i) developing initiatives aimed at improving the quality of life in the communities where it operates and the environment of its activity; (ii) fostering responsible practices in the value chain and pursuing competitiveness and quality when selecting suppliers; (iii) offering projects, products and services that best adapt to customers' needs at any given time, providing the best quality and confidence in them; (iv) generating trust and distributing value in the Spanish and international market through responsible action, in particular in relation to tax, employing in order to do so committed personnel who act in good faith, loyally and transparently.

The social matters-related risks are detailed below in each area. However, the Group addresses and implements all social matters from a social responsibility standpoint in order to maximise its contribution to sustainable development. The Group uses ISO 26000:2012 to do so.

This social responsibility framework materialises in a Corporate Social Responsibility Policy that establishes the principles of conduct, commitments to the various stakeholders and monitoring methods and systems.

This framework is supplemented by a corporate risk management and control system that incorporates the risks identified and establishes a sequence of activities intended for their exclusive management. This process complies with the requirement to perform the risk and opportunity analysis of the reference framework.

The Company's commitment to sustainable development

The CAF Group engages in activities that contribute to the wellbeing and improvement of the communities in which it operates; certain of these are intrinsic to the Group's own activities, such as investments in sustainable transport networks, while others relate to collaborative and participatory initiatives that are categorised in four areas: the economic environment, knowledge generation, collaboration with educational and training institutions, and social and cultural matters.

Associated with these undertakings, in addition to respecting the social, economic, cultural and linguistic environments in which it carries on its activity, are the following risks: (i) the adverse impact of its activities on local communities; (ii) lack of alignment between the corporate objectives of the CAF Group and the various communities; (iii) difficulty of establishing sustainable, enduring relationships with local communities; (iv) ineffective cooperation with public authorities and local entities; and (v) lack of respect for social, economic, cultural and linguistic environments.

CAF is committed to supporting quality employment wherever it carries on its activities, both in Spain and abroad. This commitment manifests itself in the creation and conservation of direct employment, through the encouragement of the recruitment of local staff in the geographical areas in which the CAF Group carries on its activities, and of indirect employment, through the contracting of products and services from local suppliers

Evidence of the former is the fact that in 2018 and 2019 more than 90% of the workers were local³⁵, working under general conditions aligned with the Remuneration and Labour Relations Policies applicable at the Group companies.

³⁵ Including available data relating to the Group's employees, understanding local to mean located in the same country of birth.

In relation to the creation and conservation of indirect employment, it should be noted that in 2019 the proportion of spending on local suppliers amounted to 58%³⁶ (2018: 64%³⁷). Also, through its purchasing process CAF helps these suppliers to respect the ethical principles included in the Code of Conduct and in the Suppliers Code of Conduct.

The CAF Group contributes to the promotion of industrial transformation and competitiveness in the area by collaborating with a different intensity and scope with specific initiatives and actions that can affect the economy of the places in which it operates at local and international level. Sticking with indirect activities, mention should also be made of the collaboration at regional level initiated more than ten years ago which resulted in the creation of Goierri Valley and CAF's participation in the project as a driving force and a member of the executive committee. With a different level of intensity and a broader scope, CAF continues to participate in the activities of entities from the economic world which are relevant in business or industry terms: ADEGI (*Guipúzcoa Businessmen's Association*), *Confebask (Basque Employers' Association)*, FEMZ (*Zaragoza Metal Federation*), CEOE (*Confederation of Employers and Industries of Spain*), UITP (*International Association of Public Transport*), Electric Vehicles Promotion Foundation and UNIFE (*Association of the European Rail Industry*).

As in previous years, the CAF Group continues to collaborate in order to generate knowledge where it carries on its activities.

CAF participates on the ruling or management bodies of various associations aimed at innovation and knowledge centres, including CEIT, CiC Nanogune, Lortek and the Tecnalia Research & Innovation Foundation. Also worthy of mention are the collaboration with Innobasque, through participation on the Board of Directors, and the cooperation with Donostia International Physics Center, as founding member of the Board of Trustees.

CAF is also a member of various research and innovation committees such as, for example, the committee organised by the Confederation of Employers and Industries of Spain (CEOE) or that promoted by the Chamber of Commerce, in which discussions are held on the research, development and innovation situation and talks are held with the public authorities and various bodies and entities in relation to R&D+i activities and policies.

Also, in order to promote knowledge among students and investigators, the Group collaborates with universities and research centres. In this connection, of note at international level is the collaboration with the CEIT technology centre, the Tecnun School of Engineering and the Mondragón University Faculty of Engineering, to design syllabuses, provide training and collaborate in the definition of projects or design work experience at companies. At international level, specifically the US, CAF collaborates with "Boards of Cooperative Educational Services of New York" to identify and develop professionals' evolving educational and competency needs. Also, of note in Poland is the doctoral thesis programme implemented by Solaris Bus & Coach together with AGH University of Science and Technology in Krakow, the aim of which is to create the conditions for collaboration between the scientific community and the socioeconomic environment, thereby enabling various employees to complete their doctoral thesis under an agreement between the employees, the university and the company.

Similarly, the Group remains committed to training future professionals and with this in mind establishes agreements to collaborate with educational institutions or entities that foster youth employment in the area in which it operates. It has in-force agreements with the main universities and professional schools. Of note in 2019's international activity is the Group's promotion of internships for graduates at CAF Group headquarters in countries such as Sweden, Finland, The Netherlands, Germany, Chile, Mexico, Hungary or Saudi Arabia, among others.

³⁶ Including the data relating to purchases made at the Group's significant establishments, which represent 90% of CAF's headcount. In the case of Euromaint, the data since its inclusion in the Group in July were included. A provider or supplier is deemed to be local when it is located in the same country.

³⁷ In 2018 including the data relating to purchases made at the Group's significant establishments, which represent 85% of CAF's headcount. For the bus business, data since its inclusion in the Group in September were included.

Lastly, the CAF Group collaborates with public and/or private entities to support social, knowledge and cultural projects that have a positive impact on the communities where it is located.

The main institutions with which CAF actively collaborated in 2019, thereby contributing to their domestic and international development, are as follows: the Goierri Eskola Foundation, which is an educational project based on comprehensive training of individuals, thereby contributing to local social and cultural development; the SuEskola Foundation, which provides fire prevention and extinguishment training using innovative technology that incorporates actual fire; the Green Dachshund Foundation, created in 2012 by Solaris Bus & Coach to help the most needy.

CAF also sponsors, mainly at local level, events and trade fairs related to the industries in which it operates, sporting activities (running races, cycling, chess, etc.) and promotes cultural areas as food bank and exhibitions.

To conclude this section, among these activities, mention should be made of the use of Basque in the Beasain and Irún workplaces; of note is the obtainment of the Silver Bikain certificate. This certificate recognises the quality of the use of Basque in a professional environment. Also, each year CAF, together with the Elhuyar Foundation, gives the CAF-Elhuyar Award for fostering scientific culture in the Basque Language. These awards are aimed at encouraging, rewarding and recognising the dissemination of scientific and technological projects performed the Basque language. In 2019, for the 25th anniversary of the initiative, the awards ceremony was organised at CAF's facilities.

Integration of sustainability in the supply chain management strategy

The suppliers, as the Group's main stakeholder, play a decisive role in the Group's capacity to deliver quality products and services to its customers.

The CAF Group requires that all its suppliers and subcontractors comply with the ethical principles contained in CAF's Code of Conduct, which is published on the corporate website (www.caf.net), and includes social, gender equality and environmental commitments³⁸.

Also, in 2019 the Suppliers Code of Conduct became corporate in scope following its approval by the Suppliers Forum and ratification by the Executive Committee and is available via the usual means of internal communication and on CAF's website. This Code implements the commitments for compliance with the general principles of the Code of Conduct and working, health and safety, environmental, commercial ethics and confidentiality conditions. Also, CAF reserves the right to verify its direct suppliers' compliance with the Suppliers Code of Conduct. This verification can be performed by various means, for example, self-assessment surveys or audits at supplier facilities.

The following risks were identified in relation to the Procurement Policy and social, gender equality and environmental matters: (i) violation of business ethics by suppliers; (ii) violation of laws and regulations by suppliers; (iii) disregard for protection of human rights; and (iv) corrupt conduct (bribes).

These risks might result in the loss of suppliers and penalties/breaches of contracts with customers and damage to the CAF brand's image or reputation. They both have a direct short-term impact; however, they may spill over into the medium-term due to the need to find replacement suppliers.

In order to evaluate suppliers' compliance with the Code of Conduct, in 2019 the CAF Group performed the following activities which resulted in a significantly stronger Responsible Purchases Programme:

³⁸ Representative figure of 65% of purchases made at Spanish and international subsidiaries in relation to the main lines of business in 2019 (Rolling Stock, Railway Services, Components, Signalling, Power and Traction Equipment, and Engineering and Buses). In the case of Euromaint Rail AB, the data since its inclusion in the Group in July were included.

The assessment is performed through Ecovadis, a world leader in this area and a sustainability assessment platform chosen by the members of the Railsponsible initiative to manage the CSR of suppliers. Ecovadis adjusts the assessment survey to each supplier based on the locations in which it operates, its industry and its size in order to assess 21 sustainability aspects aligned with the strictest international rules, regulations and standards, including those of the Global Reporting Initiative (GRI), the International Labour Organization (ILO), the UN Global Compact e ISO 26000. Suppliers' responses are assessed by specialised analysts who pay particular attention to whether the documentary evidence is consistent and recent, and whether it shows that actions have been taken in reviewing the policies, actions and outcomes in the various areas. This analysis results in a general rating of up to 100 points, which represents excellent CSR management. When the outcome of an assessment does not meet the requirements established by CAF, the supplier is requested to implement an action plan to improve any weaknesses identified.

The outcomes of the CAF Vehicles Responsible Purchases Programme are detailed as follows:

- The number of assessed suppliers rose from 23 in 2018 to 39 in 2019.
- The sustainability assessments' coverage of the amount of Materials and Equipment purchases increased from 35% to 55% in the last year.
- The general supplier sustainability indicator for the Vehicles activity is 52.9 points, 10 points above the average for all the suppliers assessed at Ecovadis worldwide.
- 50% of the suppliers of CAF Vehicles improved their assessed rating in 2019 and 20% maintained a stable rating.
- 7% of Materials and Equipment purchases were made from suppliers with an Ecovadis rating of between 45 and 25, and these suppliers were requested to improve their results.
- No purchases were made from suppliers with an Ecovadis rating of under 25, which would be considered to represent a risk.

Excellence in customer and user relationships

The Group's Management Model, personalised attention and ongoing improvement guide the Group to meet its customers' needs and expectations, and make each delivery into a recommendation for future business; this was evidenced by the more than 180 projects and orders awarded in over 48 countries in recent years, which represent a record backlog. A close relationship with customers allows the Group to produce more efficiently and provide an excellent range of assistance and maintenance services.

The following risks were identified in relation to the product quality and safety policy and customer and user claims: (i) breach of contract with the customer and possible customer claims and (ii) customer's dissatisfaction with the CAF product and experience.

These risks may result in claims relating to the projects agreed upon with customers and customers potentially dissociating themselves from future contracts for projects. The foregoing would have a direct impact in the short- and medium-term, respectively.

Product quality and safety

Based on the commitments to customers defined in the Corporate Social Responsibility Policy, CAF's Management Model describes, inter alia, the entire customer life cycle, from the way in which the marketing strategy is established and offers are prepared to the management of projects or orders awarded and the ongoing relationship with the customer.

Defining and ensuring the roll-out of the aforementioned Model through the Corporate Structure (Corporate Processes and Forums) to the Group's main activities is the aim of the Management Model Committee, led by the Quality, Safety and Approvals Department, with the participation of other members of the Executive Committee.

As the Group operates in an environment of increasingly demanding customers and carries on its activities in various locations, it must stand out from the competition through the quality and safety associated with the products and services that it offers.

In order to do this, the Group's activities are performed in line with a Quality and Safety policy, in general, available on its website, the central pillar of which is the customer. Certain of the most significant principles specified in the policy include the prevalence of safety over all other aspects of goods and services, effective safety management in relation to all products and services throughout the entire organisation and throughout the product or order life cycle and the duty to eliminate safety risks or reduce them to an acceptable level in accordance with industry standards and with the applicable contractual safety regulations and requirements.

To meet customers' expectations throughout the lifecycle and ensure satisfaction of the applicable legal requirements, proprietary quality and safety management systems have been put in place that assess all of the CAF Group's significant product and service categories.

The Quality Management System enables the organisation's effectiveness and the quality of the products and services to be monitored, thereby aiding achievement of the desired quality levels at an optimal cost and increasing customers' satisfaction and trust in CAF's products and services. The Group's various geographic locations have the most cutting-edge technology in the market and use the most advanced techniques to optimise production, in accordance with the ISO 9001:2015 and ISO TS 22163 (IRIS v3). Various of the Group's businesses are ISO 9001:2015 and ISO TS 22163 (IRIS v3) certified.

Furthermore, CAF's businesses' Safety Management System ensures safety throughout the organisation and throughout the entire lifecycle of a project, from the tender process, to development and manufacture of the product, up to the end of the contractual warranty period, including contractors and suppliers. The various CAF businesses' Safety Management Systems are certified. The Safety Management System certificate verifies that the Group satisfies the requirements under Regulations (EU) 402/2013 and 445/2011 on the adoption of a common safety method for risk evaluation and assessment and the benchmark safety standard EN 50126 1:1999 Railway applications - The specification and demonstration of Reliability, Availability, Maintainability and Safety (RAMS).

Customer satisfaction

Customer satisfaction is an indicator deployed across the entire organisation and which forms part of the scorecard at the highest corporate level, which means that it is followed up by the Executive Committee and the Board of Directors.

The Group's process management model positions the organisation to satisfy customers' requirements and meet their expectations, in order to build loyalty and increase its value proposition to the market, which materialises as backlog.

To do so, the Safety and Quality Management Systems include the processes defined to initiate claims and complaints by customers and describe the follow-up and resolution mechanisms.

Also, of note are the meetings held with potential customers (trade fairs, visits, etc.) defined as marketing activities, as well as the customer satisfaction surveys distributed to measure customers' direct perception of the elements of CAF's value proposition and identify factors that enable the Group to improve competitiveness. . It should be noted that the satisfaction rate in the 2019 satisfaction survey remained stable at significantly high levels, indicating that the actions taken were well guided and that the Group responds positively to customer needs and expectations.

Tax information

CAF's objective vis-à-vis taxes, as reflected in the Corporate Tax Policy, consists of ensuring compliance with the tax legislation in force in each territory where it operates, avoiding tax contingencies and fostering cooperation with the tax authorities.

CAF's ultimate objective is to create trust and distribute value in the Spanish and international market through responsible action, particularly with regard to taxes; this objective also makes it possible to design a corporate strategy and ensure the tax policy is consistent throughout the organisation, which ultimately makes it possible to: (i) satisfy the stakeholders; (ii) maintain a relationship based on mutual trust with the tax authorities; and (iii) contribute to improving communities by paying taxes.

CAF's Tax Policy includes its tax principles, which are based on the Code of Conduct, the Corporate Social Responsibility Policy and the General Risk Management and Control Policy, and must act as a blueprint for the conduct of all the personnel and entities to which it applies.

In general, the Audit Committee and, ultimately, the Board of Directors are responsible for ensuring compliance with the Tax Policy by the entire CAF Group. To do so, the Tax Policy expressly establishes internal control mechanisms and envisages the flow of information from the Economic and Financial Department to the Audit Committee, for it to be subsequently relayed to the Board.

As regards income tax, the implementation since 2018 of the Country by Country Report in the various tax jurisdictions where the CAF Group operates should be highlighted. The Country by Country Report provides details on key elements of the financial statements in each of the jurisdictions where the Group operates, and provides visibility on earnings, taxes paid, employees and other relevant information on the business for the local tax authorities.

Significant information on the profits earned country by country and the income tax paid grouped into the main geographic locations where the CAF Group operates is presented below:

	2019 (Thousands of euros)		2018 (Thousands of euros)	
	Profit/Loss before tax⁽¹⁾	Income tax paid⁽²⁾	Profit/Loss before tax	Income tax paid
Spain	25,088	4,928	17,534	1,880
Western Europe	(1,682)	3,117	1,138	2,379
Eastern Europe	1,811	823	(6,582)	630
Middle East	1,663	745	4,191	894
Africa	1,176	52	297	13
North America	44,190	15,446	47,791	27,526
South America	(12,477)	8,182	15,731	6,625
Asia and Oceania	1,369	565	475	407
Total	61,138	33,858	80,575	40,354

(1) Profit/Loss before tax in each country includes additional consolidation adjustments to eliminate dividends, internal margins and provisions of investees, among others.

(2) Income tax paid in 2019 is drawn from the consolidated statement of cash flows in the consolidated financial statements.

In relation to grants received, mention should be made of the support received by the Group from the public authorities, especially in research and development and innovation activity, as indicated in the corresponding section of the directors' report. The grants related to income recognised in the accompanying consolidated statement of profit or loss for 2019 amounted to EUR 4,633 thousand (in 2018 EUR 4,495 thousand).

For more information on social matters, see Chapter 6 "The Social Value of Our Activity" in the "2019 Corporate Social Responsibility Report", which is available on the CAF Group's website.

REFERENCE TABLE OF THE NON-FINANCIAL INFORMATION STATEMENT AND GRI DISCLOSURES

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³⁹ This content is not material in relation to the CAF Group's business activity, as concluded from the 2016 materiality analysis.

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⁴⁰ This content is not material in relation to the CAF Group's business activity, since none of the Group's sites are located in protected spaces in which biodiversity might be particularly damaged.

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(1) This content is reported on the basis of Law 11/2018, of 28 December, amending the Spanish Commercial Code, the Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July, in the area of non-financial and diversity information, without making reference to the GRI Standards.

Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries (the Group)

Independent limited assurance report
on the consolidated Non-Financial
Information Statement (NFIS) for the year
ended 31 December 2019

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND SUBSIDIARIES FOR 2019

To the Shareholders of Construcciones y Auxiliar de Ferrocarriles, S.A.:

In accordance with Article 49 of the Spanish Commercial Code, we have performed the verification, with a scope of limited assurance, of the accompanying Consolidated Non-Financial Information Statement ("NFIS") for the year ended 31 December 2019 of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries ("the Group"), which forms part of the accompanying Directors' Report of the Group.

The content of the Directors' Report includes information, additional to that required by current Spanish corporate legislation relating to non-financial reporting, that was not the subject matter of our verification. In this regard, our work was limited solely to verification of the information identified in the "Non-financial information statement content and GRI content reference table" in the accompanying Directors' Report.

Responsibilities of the Directors

The preparation and content of the NFIS included in the Group's Directors' Report are the responsibility of the Board of Directors of CAF. The NFIS was prepared in accordance with the content specified in current Spanish corporate legislation and with the criteria of the selected Global Reporting Initiative Sustainability Reporting Standards (GRI standards), as well as other criteria described as indicated for each matter in the "Non-financial information statement content and GRI content reference table" of the Directors' Report.

These responsibilities of the Board of Directors also include the design, implementation and maintenance of such internal control as is determined to be necessary to enable the NFIS to be free from material misstatement, whether due to fraud or error.

The directors of CAF are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 (ISQC 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement team consisted of professionals who are experts in reviews of non-financial information and, specifically, in information about economic, social and environmental performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed.

We conducted our review in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information, currently in force, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines published by the Spanish Institute of Certified Public Accountants on attestation engagements regarding Non-Financial Information Statements.

The procedures performed in a limited assurance engagement vary in nature and timing form, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance provided is also substantially lower.

Our work consisted in requesting information from management and the various units of CAF that participated in the preparation of the NFIS, reviewing the processes used to compile and validate the information presented in the NFIS, and carrying out the following analytical procedures and sample-based review tests:

- Meetings held with Group personnel to ascertain the business model, policies and management approaches applied, and the main risks relating to these matters, and to obtain the information required for the external review.
- Analysis of the scope, relevance and completeness of the contents included in the 2019 NFIS based on the materiality analysis performed by the Group and described in the "Introduction" section of the NFIS, also taking into account the contents required under current Spanish corporate legislation.
- Analysis of the processes used to compile and validate the data presented in the 2019 NFIS.
- Review of the information relating to risks and the policies and management approaches applied in relation to the material matters presented in the 2019 NFIS.
- Verification, by means of sample-based tests, of the information relating to the contents included in the 2019 NFIS and the appropriate compilation thereof based on the data furnished by CAF's information sources.
- Obtainment of a representation letter from the directors and management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, nothing has come to our attention that causes us to believe that the Group's NFIS for the year ended 31 December 2019 was not prepared, in all material respects, in accordance with the content specified in current Spanish corporate legislation and with the criteria of the selected GRI standards, as well as other criteria described as indicated for each matter in the "Non-Financial Information Statement content and GRI content reference table" of the Directors' Report.

Use and Distribution

This report has been prepared in response to the requirement established in corporate legislation in force in Spain and, therefore, it might not be appropriate for other purposes or jurisdictions.

DELOITTE, S.L.



Pablo Mugica
27 February 2020

**15. ANNUAL
CORPORATE GOVERNANCE
REPORT FOR 2019**



ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER IDENTIFICATION

Year-end date:

[31/12/2019]

Tax Identification No. [C.I.F.]:

[A20001020]

Company Name:

[**CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.**]

Registered Office:

[JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA]

A. CAPITAL STRUCTURE

A.1. Complete the table below with details of the share capital of the company:

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
04/08/1999	10,318,505.75	34,280,750	34,280,750

Please state whether there are different classes of shares with different associated rights:

[] Yes
[v] No

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
CARTERA SOCIAL, S.A.	24.87	0.00	0.00	0.00	24.87
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0.00	14.06	0.00	0.00	14.06
INDUMENTA PUERI, S.L.	0.00	5.02	0.00	0.00	5.02
EDM GESTIÓN, S.A. S.G.I.I.C.	0.00	3.02	0.00	0.00	3.02
INVESCO LIMITED	0.00	1.02	0.00	0.00	1.02

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	14.06	0.00	14.06
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	5.02	0.00	5.02

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
EDM GESTIÓN, S.A. S.G.I.I.C.	GROUP'S COMPANIES	3.02	0.00	3.02
INVESCO LIMITED	GROUP'S COMPANIES	1.02	0.00	1.02

State the most significant shareholder structure changes during the year:

Most significant changes
On 5 September 2019, the ownership interest of TEMPLETON INVESTMENT COUNSEL, LLC dropped below the threshold of 3% of the share capital.
On 21 October 2019, the ownership interest of CARTERA SOCIAL, S.A. dropped below the threshold of 25% of the share capital.

A.3. In the following tables, list the members of the Board of Directors (hereinafter “directors”) with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
JUAN JOSÉ ARRIETA SUDUPE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ANE AGIRRE ROMARATE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total percentage of voting rights held by the Board of Directors						0.00	

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
No data					

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A-6:

Name of related Party	Nature of relationship	Brief description
No data		

A.5. If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Name of related Party	Nature of relationship	Brief description
CARTERA SOCIAL, S.A	Contractual	Workers' share instrument in CAF's share capital
KUTXABANK, S.A.	Corporate	Creation of an Economic Interest Grouping for projects with metro of Barcelona

A.6. Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders:

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
JOSE ANTONIO MUTILOA IZAGUIRRE	KUTXABANK, S.A.	KUTXABANK, S.A.	--

Mr. Jose Antonio Mutiloa Izaguirre had been appointed director by co-option, by proposal of the significant shareholder KUTXABANK, S.A., on 28 October 2015, and his appointment was ratified by the General Meeting on 11 June 2016.

Prior to his appointment, Mr. Jose Antonio Mutiloa was the natural person representative of the board member KUTXABANK, S.A. and, previously, of KUTXA (one of the three entities comprising the current KUTXABANK, S.A.), where he has filled the role of Director, Secretary and Vice-Chairman of the Board.

- A.7.** State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

☐ Yes
☒ No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

☐ Yes
☒ No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

- A.8.** State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

☐ Yes
☒ No

- A.9.** Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
		0.00

(*) Through:

Name of direct shareholder	Number of direct shares
No data	

A.10. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares:

The CAF General Meeting held on 13 June 2015 resolved to authorise the derivative acquisition of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. for five years and under the following terms: a) Acquisitions may be executed by CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. directly, or indirectly through its affiliates. b) Acquisitions shall be performed through purchase or exchange transactions or any others permitted by law. c) Acquisitions shall be done, at each given time, up to the maximum amount provided by law. d) Acquisitions shall be done at market price. e) Acquisitions performed within the scope of this authorisation shall fulfil the legal requirements in force. f) This authorisation shall be valid for a five-year term.

Also, the Annual General Meeting held on 2 June 2018 resolved to empower the Board of Directors to increase the share capital through the issuance of new shares against monetary contributions over a period of five (5) years and up to half of the amount of the share capital, pursuant to Article 297.1.b) of the Spanish Limited Liability Companies Law.

A.11. Estimated working capital:

	%
Estimated working capital	52.01

A.12. State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

☐ Yes
☒ No

A.13. State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

☐ Yes
☒ No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14. State if the company has issued shares that are not traded on a regulated EU market.

☐ Yes
☒ No

If so, please list each type of share and the rights and obligations conferred on each:

B. GENERAL SHAREHOLDERS' MEETING

B.1. State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

☐ Yes
☒ No

B.2. State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

☐ Yes
☒ No

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The regime for modifying the Company Bylaws does not present differences with respect to the provisions of Articles 285 et seq of the Consolidated Text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July, which require the approval of the Annual General Meeting with the majorities indicated in Articles 194 and 201 of that Law.

Therefore, section eight of Article 13 of the Bylaws empowers the Annual General Meeting to resolve upon the modification thereof. Article 20 of those Bylaws provides that, in order to adopt resolutions on the issuance of convertible debentures or of bonds that give bondholders a share in company profits, the increase or reduction of capital, the suppression or limitation of the pre-emption rights of new shares, the transformation, merger or spin-off of the Company or the transfer en bloc of assets and liabilities, the transfer of the registered address abroad and, in general, any modification of the Bylaws, it will be necessary, on first call, that the shareholders in attendance, in person or by proxy, account for at least 50% of the share capital with voting rights. On second call, the attendance of shareholders accounting for 25% of the share capital will be sufficient. On second call, when the shareholders in attendance account for 25% or more of the share capital with voting rights but less than 50%, the aforementioned resolutions may be adopted validly with the vote of two thirds of the capital present either in person or by proxy at the Meeting. Also, in compliance with the provisions of Article 286 of the LSC, when the Ordinary or Extraordinary General Meeting has to resolve on the modification of the Bylaws, the notice of call must with due clarity express the matters to be modified and the rights of every shareholder to examine at the registered office the full text of the proposed modification and the report thereon, as well as to request that these documents be delivered or sent (Article 16 of the Bylaws).

Pursuant to Article 21 of the Bylaws, the shareholders that hold a thousand or more Company shares may attend the Annual General Meeting and take part in its deliberations with a right to speak and vote. Shareholders that have fewer shares may group together and give their representation to another shareholder in order to reach a thousand or more shares. Any shareholder entitled to attend may be represented at the Annual General Meeting by another person, even if that person is not a shareholder.

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

	Attendance data				
Date of General Meeting	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Other	
11/06/2016	45.10	27.92	0.00	0.00	73.02
Of which, free float:	0.23	24.69	0.00	0.00	24.92
10/06/2017	27.60	43.52	0.00	0.00	71.12
Of which, free float:	0.09	23.08	0.00	0.00	23.17
02/06/2018	25.53	49.17	0.00	0.00	74.70
Of which, free float:	0.23	28.82	0.00	0.00	29.05
15/06/2019	37.52	34.54	1.64	1.66	75.36
Of which, free float:	2.29	26.54	1.64	1.66	32.13

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason:

☐ Yes
☒ No

B.6. State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

☒ Yes
☐ No

Number of shares required to attend General Meetings	1,000
Number of shares required for distance voting	1

The Bylaws contain no restrictions on the minimum number of shares needed to exercise the remote vote.

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting:

☐ Yes
☒ No

- B.8.** State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website:

The corporate information is available under "Shareholders and investors" of the corporate web site (www.caf.net). The complete path is <http://www.caf.es/es/accionistas-inversores/index.php>.

This link includes, in a structured format, the information required by Royal Legislative Decree 1/2010, of 2 July, which approved the Consolidated Spanish Capital Companies Act, the Consolidated Securities Market Act, approved by Royal Decree-Law 4/2015, of 23 October, the Circular 3/2015, of 23 June, from the National Securities Market Commission, on technical and legal specifications and information to be contained in the web sites of listed companies and savings banks issuing securities admitted for trading in official secondary stock markets.

Apart from current by-laws, specifically subsection "Corporate Governance" contains the most important information on this matter (General Shareholders' Meeting and Board of Directors Regulations; the Company's Internal Code of Conduct within the sphere of Securities Markets; the membership of the Board of Directors and its committees; Annual Corporate Governance Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, other Regulations and Codes, Reports on the operation of the committees, Report on the Auditor's Independence, Report on the "Modern Slavery Act 2015" and the Corporate Responsibility Report).

In addition, the subsection on "General Shareholders' Meeting" contains information on this body, including the announcement of the agenda and call, the proposed related agreements, the documents subject to the approval of the General Shareholders' Meeting, explanations related to the exercise of the right to information and attendance, procedures and means for voting delegation and remote voting, requests for information and clarifications, as well as information on the Meeting's performance and the resolutions adopted after it was held.

In addition, in compliance with article 539.2 of the Companies Law, simultaneously with the call to each general meeting, direct access to the Electronic Shareholders Forum is enabled to facilitate communication among shareholders regarding the call and the meeting itself.

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	15
Minimum number of directors	7
Number of directors set by the general meeting	10

C.1.2 Please complete the following table on directors:

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
ANDRÉS ARIZKORRETA GARCÍA		Executive	CHAIRMAN AND CEO	26/12/1991	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JUAN JOSÉ ARRIETA SUDUPE		Independent	COORDINATING DIRECTOR	07/06/2008	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JAVIER MARTÍNEZ OJINAGA		Independent	DIRECTOR	13/06/2015	15/06/2019	AGREEMENT GENERAL SHAREHOLDERS' MEETING
LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
CARMEN ALLO PÉREZ		Independent	DIRECTOR	11/06/2016	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
ANE AGIRRE ROMARATE		Independent	DIRECTOR	19/12/2017	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JULIÁN GRACIA PALACÍN		Independent	DIRECTOR	10/06/2017	10/06/2017	AGREEMENT GENERAL SHAREHOLDERS' MEETING
DON IGNACIO CAMARERO GARCÍA		Independent	DIRECTOR	15/06/2019	15/06/2019	AGREEMENT GENERAL SHAREHOLDERS' MEETING
MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR – SECRETARY OF THE BOARD	22/01/2016	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING

Total number of directors	10
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State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
ALEJANDRO LEGARDA ZARAGÜETA	Other Extern	13/06/2015	15/06/2019	None	No

Reason of resignation and other observations
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Alejandro Legarda Zaragüeta resigned as a member of the Company's Board of Directors after the Annual General Meeting held on 15 June 2019, at the end of the four-year term for which he was appointed director pursuant to a resolution of the Annual General Meeting of 13 June 2015.

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisational chart of the company	Profile
ANDRÉS ARIZKORRETA GARCÍA	Chairman and CEO	Holds a degree in Economics and Business Administration from the University of Deusto and has spent his entire professional life at CAF, where he was appointed General Manager of the company in 1992. He has been a Director of CAF since 1991. On 26 July 2006, he was appointed Chief Executive Officer, a post he has held ever since. Since 29 December 2015, he has been Chairman of the Board of Directors of CAF.
MARTA BAZTARRICA LIZARBE	Director – Secretary of the Board	Holds a Degree in Law and in Economic and Business Sciences from Comillas Pontifical University (ICADE E-3) and an Executive Master Degree in Business Management from ICADE. She has developed her professional career at CAF and holds the position of Director of the Group's Legal department. She is Secretary of the Board of Directors of CAF and its Committees.

Total number of executive directors	2
Percentage of Board	20.00

EXTERNAL PROPRIETARY DIRECTORS		
Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
JOSE ANTONIO MUTILOA IZAGUIRRE	KUTXABANK, S.A.	Industrial engineer. He has spent his professional career within the industrial and financial sectors, mostly at Caja de Ahorros de Gipuzkoa y San Sebastián (KUTXA), one of the three entities that make up the current KUTXABANK, S.A., where he has filled the role of Director, Secretary and Vice-Chairman of the Board. Since 2015, he has been a Proprietary Director, by proposal of the significant shareholder KUTXABANK, S.A.

Total number of proprietary directors	1
Percentage of the Board	10.00

INDEPENDENT EXTERNAL DIRECTORS	
Name of director	Profile
JUAN JOSÉ ARRIETA SUDUPE	PhD in Economic and Business Sciences from the University of Deusto. He has extensive experience in the management of financial entities and currently holds the position of Deputy General Manager of the Deusto Business School.
JAVIER MARTÍNEZ OJINAGA	Lawyer and Economist from the University of Deusto, holds an MBA from the University of Glasgow. He has developed his professional career in companies within the electric sector as well as in project management and interim management.
CARMEN ALLO PÉREZ	Graduate in Exact Science and holder of a Master's Degree in Business Management from "Instituto de Empresa". Most of her professional career has been spent in the financial industry, occupying various management positions. She has been an independent director and Chairwoman of the Audit Committee of other listed companies.
JULIÁN GRACIA PALACÍN	Industrial engineer and MBA from ICADE. He has spent his professional career in the telecommunications, logistics and consulting sectors. He is also the sole director of Samuelson Consulting, S.A. and Samuelson Logistics, S.A. and a board member of CITYNET, S.A.
ANE AGIRRE ROMARATE	Degree in Business and Economics and Master in Advanced Management from Deusto University. She has vast experience in the area of analysis and strategic assessment of human resources. She is also a partner of the consulting firm Vesper Solutions.
IGNACIO CAMARERO GARCÍA	Graduate in Physics from Universidad de Valladolid. During his professional career he has worked in the Telecommunications and Information Technology industries, and held various senior executive positions. He is currently a member of the Advisory Committee of Ericsson España and Accenture.

Total number of independent directors	6
Percentage of the Board	60.00

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of the director	Description of the relationship	Statement of the Board
No data		

No Independent Director has received any amount or benefit other than the director's remuneration, nor have they established a business relationship with the Company or with any Group company.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Name of director	Reason	Company, director or shareholder to whom the director	Profile
LUIS MIGUEL ARCONADA ECHARRI	Director Luis Miguel Arconada Echarri holds no relationship whatsoever either with the Company or its management and shareholders. However, he cannot be considered as independent since he has been Director for more than twelve years.	LUIS MIGUEL ARCONADA ECHARRI	Mr. Luis Arconada has broad experience and knowledge in the corporate and business sectors. He is also well renowned in various social and economic circles, due to his success in the sports world.

Total number of other external directors	1
Percentage of the Board	10.00

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
No data			

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	2019	2018	2017	2016	2019	2018	2017	2016
Executive	1	1	1	1	50.00	50.00	50.00	50.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	2	2	1	33.33	40.00	40.00	33.33
Other external					0.00	0.00	0.00	0.00
Total	3	3	3	2	30.00	30.00	30.00	22.22

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

- [☒] Yes
[☐] No
[☐] Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

In light of the most recent regulations on diversity with regard to the selection criteria of directors, the Board of Directors of the Company, by proposal of the Appointments and Remuneration Committee, has agreed to update the Directors Selection Policy, with the approval of the latest Director Diversity and Selection Policy at a meeting held in 2018, which has replaced the previous version.

The Director Diversity and Selection Policy of CAF (the "Policy"), which is specific and verifiable in nature, is intended to ensure that any proposals for the appointment and re-election of directors are based on a prior needs assessment of the Board of Directors, as well as to enrich the diversity of knowledge, experiences and gender from among the Board membership, by following criteria that ensures the existence of adequate diversity among its members as well as the absence of any implicit biases that may lead to discrimination based on age, gender, disability or any other personal circumstance or situation.

This Policy is essentially applicable to the selection criteria of candidates to become CAF board members that are natural persons. Also, for board member candidates that are legal persons, this policy is applicable to the natural persons who are to represent them.

The diversity criteria serve as an important aspect in the needs assessment of the Board of Directors and of the Company, which must be paramount during the selection of any board member.

Specifically, diversity criteria may restrict the selection of board members when the assurance of a diverse membership is required so as to benefit the Company by offering a broad range of experiences and perspectives that add value in the decision-making processes of the Board of Directors.

Specifically, diversity criteria have been adopted with regard to the following

Categories:

Training and professional experience:

Efforts will be made to ensure that the candidates have the necessary skills and proficiencies that either complementary those of the other members of the Board of Directors or that substitute those of any directors that have been replaced.

In this respect, the professional expertise of a candidate will be assessed, either because of his or her academic background or professional experience, or based on a combination of both, allowing for a diversity of profiles to be present on the Board of Directors so as to offer differing perspectives to assist with multidisciplinary and constructive discussions required to make a decision and, ultimately, to enhance the performance of the Board as a whole.

Age:

Directors of differing ages will also be valued, so that this difference can help to provide a healthy range of perspectives and approach when discussing any issues that must be addressed and agreed upon by the Board of Directors.

Disability:

Disability cannot constitute any bias that may imply a reason for discrimination during the Board Member selection process.

Gender:

During the director selection process, the criterion on gender diversity will be taken into account to ensure that there is a balanced presence of women on the Board of Directors.

Accordingly, the Policy promotes the aim of having a number of female directors that makes up at least thirty percent of all Board Members.

The application of the policy described above was made effective in the proposals for the re-election and appointment of two directors, submitted by the Appointments and Remuneration Committee to the Board for presentation at the Annual General Meeting, which, once approved by the latter, gave rise to the renewal of one director and the appointment of another, both independent, to cover the vacancies arising from the expiry of the four-year term of office of two members of the Board.

As a result of these new appointments, the diversity and balance of the composition of the Board of Directors has been enhanced from the standpoint, among others, of the profiles of its members, who contribute skills and knowledge in areas of great value for the Company; especially noteworthy is the increase in the already significant level of independent directors (60% of the total).

With respect to the promotion of gender diversity, it is noteworthy that the Company continued to have three female Board members in 2019. The target established for 2020 in Recommendation 14 of the Spanish Code of Good Governance for Listed Companies (CBGSC), whereby at least 30% of the Board of Directors should be female, has thus been consistently met since 2017.

The result is a balanced Board of Directors, comprised of members of different ages and genders, who possess diverse knowledge, are highly skilled and have a high level of professional experience in line with the business' needs, and of whom 60% are independent directors, in keeping with Corporate Governance best practices.

From the perspective of the Board Committees, the gender diversity targets were bolstered in 2019 by the appointment of a woman to chair the Audit Committee when this position was due for rotation. This appointment was resolved in accordance with Article 529 quaterdecies 2 of the Spanish Limited Liability Companies Law.

- C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of means

CAF's Appointments and Remuneration Committee ensures that when covering new vacancies, the selection processes being utilised are not implicitly impartial and do not hinder the selection of female directors, thus it includes women with the expected profile among potential candidates and under the same conditions to balance the men and women representation. This objective is stipulated in point 4 of the Company's Director Diversity and Selection Policy.

As indicated in section C.1.5, the Company has taken the best gender diversity recommendations on board by continuing to have three women among the ten members of its Board of Directors. By doing so, the company has met the 30% target established in Recommendation 14 of the CBGSC for 2020 for the third year in a row.

With respect to the Board Committees, it should be noted that the Audit Committee has had a female chair since 8 October 2019. Meanwhile, one of the three members of the Nomination and Remuneration Committee is female.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of means

--

- C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

On 17 December 2019, the Appointments and Remuneration Committee issued its Annual Report on the compliance with the Director Diversity and Selection Policy.

As indicated previously in sections C.1.5 and C.1.6, in 2019 the shareholders at the Annual General Meeting approved the re-election and appointment, respectively, of two independent directors to fill the vacancies arising from the expiry of the term of office of two Board members.

In accordance with the drawn conclusions contained in its Report, the Appointments and Remuneration Committee of CAF deemed that the provisions of the Director Diversity and Selection Policy of CAF had been appropriately complied with for all cases, as per the first approved version in 2015 and effective at the time of these appointments. Specifically, this Policy is explicit in that the Company is committed to eliminate any implicit biases that could hamper the selection process for female directors, which currently represent 30% of the Board membership, having surpassed the 2020 target.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason
No data	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

☐ Yes
☒ No

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director	Brief description
ANDRÉS ARIZKORRETA GARCÍA	Delegation of all Board powers, pursuant to law and the Company Bylaws save for those which the law stipulates that cannot be delegated.

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of group member	Position	Does the director have executive powers?
ANDRÉS ARIZKORRETA GARCÍA	CAF BELGIUM, S.P.R.L.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF INDIA PRIVATE LTD	Managing Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF NEW ZEALAND LIMITED	Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF RAIL AUSTRALIA PTY LTD	Managing Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF CHILE S.A.	Chairman	NO
ANDRÉS ARIZKORRETA GARCÍA	CAF ARGELIA EURL	Sole Director	YES

Name of director	Name of group member	Position	Does the director have executive powers?
ANDRÉS ARIZKORRETA GARCÍA	CAF NETHERLANDS B.V.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF INVESTMENT PROJECTS, S.A.U.	Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF DEUTSCHLAND GmbH	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF FRANCE SAS	Chairman	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF HUNGARY Korlátolt Felelősségű Társaság	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF SISTEME FERROVIARE, S.R.L.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF NORWAY AS	Sole Director	YES
MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇÃO, S.A.	Director	NO
MARTA BAZTARRICA LIZARBE	PROVETREN, S.A. de C.V.	Director	NO

C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
No data		

There are no directors who are members of, or representatives of legal-person directors on, the Boards of Directors of other non-CAF Group companies that are listed on official securities markets, as disclosed to the Company.

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

[☒] Yes
[☐] No

Explanation of the rules and identification of the document where this is regulated

Article 23.2.b) of the Regulations of the Board of Directors states that no director shall belong simultaneously to more than four boards of directors in listed companies other than the Company or its group.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	1,907
Amount of vested pension interests for current members (thousand euros)	2,530
Amount of vested pension interests for former members (thousand euros)	

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position
JOSU IMAZ MURGUIONDO	GENERAL CHIEF OF VEHICLES
JESUS ESNAOLA ALTUNA	GENERAL CHIEF SALES OFFICER
AITOR GALARZA RODRÍGUEZ	CHIEF FINANCIAL, CONTROLLING AND STRATEGY OFFICER
EDUARDO GÁLVEZ LISON	CHIEF QUALITY, SAFETY AND APPROVALS OFFICER
IÑIGO ONA LARUMBE	CHIEF CORPORATE DIGITAL OFFICER
GORKA ZABALEGI AGINAGA	CHIEF HUMAN RESOURCES OFFICER
IBON GARCÍA NEILL	CHIEF RAIL SERVICES OFFICER
JESUS MARÍA IBARBIA IRIONDO	CHIEF OFFICER, BUSINESS AND TECHNOLOGY
JOSU VILLAR ELORZA	CHIEF OPERATING OFFICER
FÉLIX FERNÁNDEZ LOPETEGUI	CHIEF PROJECT OFFICER
IRUNE LÓPEZ FERNÁNDEZ	INTERNAL AUDITOR
Total senior management remuneration (thousand euros)	3,008

C.1.15 State whether the Board rules were amended during the year:

☐ Yes
☒ No

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

The Board of Directors shall be composed of no less than seven and no more than fifteen members freely appointed by the General Annual Meeting or, in case of early vacancy, by the same Board through co-option. The director does not need to be a shareholder. Disqualification according to legal grounds shall apply (Article 29 of the bylaws). Should a vacancy occur during the Directors were appointed, the Board of Directors may cover them until the first General Meeting is held. Should the vacancy take place once the General Meeting has been called but before it is held, the Board of Directors may appoint a director until the following General Meeting is held. Should the vacancy be for the position of Chairman or Chief Executive Officer, the Board of Directors may cover the vacancies and temporarily appoint a Chairman. The Board may also appoint a Chief Executive Officer with the favourable vote of two thirds of its members. Such appointments shall be fully effective until the first General Shareholders' Meeting (Article 33 of the bylaws). Additionally, in exercising its powers to submit proposals at the General Meeting and of co-option in case of vacancies, the Board shall ensure the balance of the Board membership, with a broad majority of non-executive directors and an adequate proportion between proprietary and independent directors, these last being at least one third of the total Board membership (Art.7 of the Board Regulations).

Additionally, Board Regulations establishes the following rules related to directors appointment: Any appointment or re-election proposal submitted by the Board of Directors to the General Meeting for approval and any appointments made by the Board by its legally stipulated powers of co-option shall be preceded by the corresponding proposal by the Appointments and Remuneration Committee, in the case of Independent Directors and by the Board for the rest of the cases. The proposal shall be accompanied with an explanatory report issued by the Board of Directors, assessing the competence, experience and merits of the proposed candidate, to be attached to the General Meeting or Board of Directors' Meeting minutes. The proposal for the appointment or re-election of any non-independent director shall also be preceded by a report from Appointments and Remunerations Committee. The abovementioned shall also apply to natural persons appointed representatives of an artificial person acting as director. The natural person proposed to be a representative shall be subject to the report from the Appointments and Remuneration Committee. Should the Board decide not to follow the proposals of the Appointments and Remuneration Committee, it shall submit and minute its reasons for such decision. The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance scheme. Likewise, Directors should also be offered refresher programmes when circumstances so advise (Article 15 of the Board Regulations).

With regard to the appointment of Non-executive Directors, the Board of Directors shall ensure that the elected candidates are people of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. Independent directors will be considered to be those that are appointed on the basis of their personal and professional qualities and who can perform their duties without being conditioned by any relations with the Company or its group, its significant shareholders or its executives. Under no circumstances it will be deemed as Independent Directors those who: a) Have previously been Group company employees or Executive Directors, except after 3 or 5 years since their resignation, respectively. b) Are receiving any amount or benefit from the Company or its Group other than the remuneration as Director, except when such amount is not considered significant. Dividends or supplementary pension payments received by a Director for his/her former professional or labour relationship will not be taken into account for the purposes of the foregoing paragraph, insofar as such supplements are unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company. c) Are or have been partners of the external auditor over the last 3 years or the person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company. d) Are Executive Directors or senior executives of a company other than one in which an Executive Director or senior executive of the Company is also a Non-Executive Director. e) Maintain or have maintained an important business relation with the Company or Group companies over the last year, whether on his/her behalf or as a significant shareholder, director or Senior Executive of an entity maintaining such relation, either at present or in the past. Business relations shall be those of supplier of goods or services, including financial ones, or of advisor or consultant.

C.1.17 Explain how the annual evaluation of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes

The Board of Directors, on the basis of previous reports issued by Committees on their respective reviews and on the previous report raised by the Appointments and Remuneration Committee on the performance of the Board, has positively evaluated the performance of the Board and its Committees in 2019 and has verified that all Action Plans scheduled for that year had been fulfilled.

Furthermore, within the scope of this evaluation process, the Board of Directors has established various Action Plans for the 2020 fiscal year, however, they do not led to any significant changes to the internal organisation or in the procedures concerning its activities.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

In accordance with Article 5.5 of the Board Regulations, the Board of Directors must perform an annual assessment of its functioning and that of its Committees, and it must propose, on the basis of its findings, an action plan to correct any deficiencies found. To this end, the Board uses the reports prepared by the Committees relating to their own assessment and, in the case of the Nomination and Remuneration Committee, the report relating to the Board assessment.

In accordance with the rules established in the Spanish National Securities Market Commission (CNMV) Technical Guide 1/2019 on Nomination and Remuneration Committees published on 27 February, the following main areas were analysed in relation to 2019:

- Quality and efficiency of the functioning of the Board, including the degree to which the contributions of its members are exploited effectively.
- Size, composition and diversity of the Board and its Committees.
- The performance of the Chairman of the Board and the Chief Executive of the Company.
- The performance and contribution of each director, placing particular emphasis on the persons responsible for the various committees of the Board.
- Frequency and duration of the meetings.
- Contents of the agenda and adequacy of the time devoted to discussing the various topics according to their importance.
- Quality of the information received.
- Breadth and openness of the debates.
- If the decision-making process is dominated or strongly influenced by one member or a small group of members.

From the methodological standpoint, the indicators taken into consideration included, among others, the degree to which the Board and the Committees comply with applicable regulatory requirements and guidelines in the area of corporate governance and the level of achievement of the plans and goals set for the year in question.

As a result of this process, the Board of Directors' assessment of its work and that of its members and Committees in 2019 was positive, in line with the favourable conclusions given in the preliminary reports prepared by the Committees on their respective assessments and on the assessment of the Board, which the Board of Directors approved at the meeting held on 29 January 2020. Specifically, the Board verified that all the action plans established for the year analysed were completed satisfactorily. However, the Board has identified opportunities for improvement, and defined new action plans for the current year.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

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C.1.19 State the situations in which directors are required to resign.

Directors must tender their resignation to the Board of Directors and, if the latter sees fit, resign in the following cases: a) The proprietary director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires a reduction of the number of proprietary directors. b) If they are found to be in a situation of incompatibility due to a conflict of interest or any other legal reason. c) Should they be processed for any alleged crime or when subject to disciplinary measures for a serious or very serious breach as determined by the supervising authorities. d) When seriously reprimanded by the Appointments and Remuneration Committee when not upholding director obligations. e) When involved in a situation that creates a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement. In any case, directors are to inform and, if applicable, resign during any such events that may be detrimental to the Company's name and reputation (article 18 of the Regulations of the Board of Directors).

C.1.20 Are qualified majorities other than those established by law required for any specific decision?

☐ Yes

☒ No

If so, please describe any differences.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors:

[] Yes
[v] No

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

[] Yes
[v] No

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

[] Yes
[v] No

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

Article 31 of the Company's Bylaws and article 14 of the Board of Directors' Regulations determine that Directors shall make every effort to attend Board sessions and, when they cannot do so personally, may confer their representation to another Director in writing to the Board Chair, without limiting the number of representations that each can bear for Board assistance. Proxy may be granted in writing through any means and shall include the corresponding direction of the vote for each of the matters mentioned in the agenda.

Additionally, these same rules require that non-executive Directors may only confer their representation on a non-executive Director.

C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	8
Number of Board meetings without the chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0
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Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Audit Committee	12
Number of Meetings held by the Appointments and Remuneration Committee	5

In addition to the 8 above-mentioned meetings, the Board adopted written and non-session agreements dated 18 November 2019, in accordance with Article 248 of the Spanish Limited Liability Companies Law and Article 13 of Board of Directors Regulations.

C.1.26 State the number of meetings held by the Board of Directors during the year and the data about the attendance of their members:

Number of meetings in situ of at least 80% of directors	8
% of attendance over total votes during the year	100.00
Number of meetings in situ or representations made with specific instructions of all directors	8
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

In addition to the 8 above-mentioned meetings, the Board adopted written and non-session agreements dated 18 November 2019, complying with all legal and regulatory requirements.

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

[☒] Yes
[☐] No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

Name	Position
ANDRÉS ARIZKORRETA GARCÍA	CEO
AITOR GALARZA RODRÍGUEZ	Financial and Strategy Manager

- C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

The Board of Directors delegates on the Audit Committee the monitoring of financial balances and auditing services in order to avoid any qualifications. Financial statements for the year ended 31 December 2018 as well as previous years were approved without qualifications.

- C.1.29 Is the secretary of the Board also a director?

[☒] Yes
[☐] No

If the secretary is not a director, please complete the following table:

- C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

Mechanisms to preserve the independence of financial analysts:

In addition, according to the Company's Bylaws, the Audit and Compliance Committee is responsible for managing the relationships with the external auditors in order to gather information on matters that may call the auditor's independence into question, to be analysed by the Committee, as well as any other matters related to the auditing process, and any other disclosures set forth in accounting and auditing legislation and auditing standards. In any case, they must receive, on an annual basis from the external auditor, a statement affirming its independence in relation to the Company or companies directly or indirectly connected to such, as well as the information of any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. Similarly, according to by-laws, every year the Audit Committee is required to issue, prior to the issuance of the audit report, an annual report containing an opinion on the auditor's independence (Article 37 a of the by-laws).

Pursuant to the foregoing, the Company's Board of Directors Audit Committee has its own Regulations ruling its nature, composition, functions, operating standards and powers. Pursuant to such Regulations, the Audit Committee is responsible for the following functions linked to the external auditor and to preserve its independency (i) Submit to the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, pursuant to article 16, sections 2, 3, 5 and 17.5 of the Regulations (EU) 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. The Committee must carry out the final evaluation of the auditor's performance and its contribution to the quality of the audit and the integrity of the financial information. (ii) Establish the appropriate relations with the external auditor in order to gather information on issues that may prejudice the independence of the auditor, to be assessed by the Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established under article 5, sections 4 and article 6.2.b) of Regulation (EU) 537/2014 of 16 April and under paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July on statutory audit, regarding the principles of independence, as well as establishing, with the external auditor, any other notifications pursuant to the legislation and audit requirements. In any case, they must receive, on an annual basis from the external auditor, a statement affirming its independence in relation to the Company or companies directly or indirectly connected to such, as well as detailed information and a breakdown for any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. (iii) Issue, prior to the issuance of the audit report, an annual report stating its opinion on the auditors' or audit companies' independence is issued. Such report must contain, in any case, an assessment on the provision of each and every additional service referred to in the foregoing section, reviewed individually and as a whole, apart from the various legal auditing and in relation to the regime of independence and governing regulations on audit activities. (iv) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. Ensure that the Company notifies any change of auditor to the National Securities Market Commission (CNMV) as a significant event, accompanied by a statement of any discrepancies arising between the outgoing auditor and the reasons behind it. iv. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence (Article 3 of the Audit Committee Bylaws and Regulations). As for relations with the auditors, the same Regulation of the Audit Committee in article 13 determines that (i) any communications between the Committee and the auditors will be fluent, ongoing and in accordance with the obligations under the governing regulations regarding the activity of the audit of accounts, without compromising the independence of the auditor or the effectiveness of the audit process and procedures, (ii) any communication with the auditor must be planned for in a schedule of annual meetings, where most of these are not to be attended by the entity's senior management; and (iii) the Audit Committee will regularly receive information on the audit process from the auditors and specifically on any discrepancies that may arise between the auditors and the entity's senior management. When the audit has been finalised the Committee will review, along with the external auditor, any significant findings brought to light from these tasks, as well as the content of its mandatory reports.

With regard to the fiscal year 2019:

- The auditor reported the Audit Committee on various matters concerning the auditing process during the year..
- On 27 February 2019, the external auditor submitted before the Audit Committee a written statement confirming its independence with regard to the audit of the consolidated financial statements of the CAF Group for the year ended 31 December 2018.
- On the same date, the Committee issued its own report on the independence of the auditor for the Board of Directors, in which it concluded that no aspect had been identified, at the time, that could jeopardise regulatory compliance of the audit process regarding matters of the independence of the auditor.
- At its December meeting, the Committee approved the budget for non-audit services for the fiscal year 2020.

Mechanisms to preserve the independence of financial analysts:

CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for the following duties regarding the relationships with the Markets (Article 33): (i) The Board shall guarantee the fulfilment of the obligation to deliver information to Markets pursuant to the legislation in force at each given time. ii) The Board shall also guarantee that periodic financial information, other than Financial Statements and, in general, any other information disclosed to the Markets, is prepared pursuant to the same professional principles, criteria and practices applied to the Financial Statements and that such information is as reliable as the latter.

The guiding principles governing relationships between the Company and financial analysts, investment banks and rating agencies are included under the Communication and Agreements Policy with Shareholders, Institutional Investors and Proxy Advisors and foster transparency, non-discrimination, veracity and symmetry during the exchange of information, so as to adhere strictly to the regulations on market abuse. The Company's Code of Good Conduct explicitly states its commitment to make available any information relating to the company in a complete and accurate manner, in a way that can allow analysts and other stakeholders to form an objective opinion on CAF. The Economic-Financial and Strategy Department, by means of the Investor Relations Area, manages the requests for further information.

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

- ☐ Yes
☒ No

In 2019 CAF's Board of Directors resolved to submit to the Company's Annual General Meeting, at the appropriate time, the appointment of EY as the auditor of CAF and its consolidated group for 2021, 2022 and 2023, in accordance with the recommendation issued by the Company's Audit Committee as a result of the auditor selection process performed.

If there were any disagreements with the z No

- ☐
☒

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

- ☒ Yes
☐ No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	0	165	165
Amount invoiced for non-audit services/Amount for audit work (in %)	0.00	25.04	25.04

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

[] Yes
[v] No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	30	19

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	71.43	100.00

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

[v] Yes
[] No

Explanation of procedure

The Board approves, at its December meetings, the Board calendar for next year, so that the Directors know the dates of meetings early enough to prepare some of the subjects to be dealt with on them as a guiding plan is established on the subjects to be addressed in every Board Meeting. A schedule is approved containing eight sessions per year, spread out with sufficient time in between them to study and prepare the necessary information. On the other hand, ordinary Board meetings shall be convened at least 5 days in advance, although in practice this is done earlier. The call also includes the meeting's agenda, and the documents that must be previously and early enough reviewed by the Directors. In any case the Directors have the right to request all the information they may reasonably need regarding the Company and its group in furtherance of their duties. Such right to information should be channelled via the Chairman of the Board who, with the assistance of the Secretary to this end, shall facilitate the information, identify the Company's appropriate interlocutors or decide on the suitable measures for the requested inspection or examination.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

[v] Yes
[] No

Explain the rules

As established in Article 18 of the Board Regulations, Directors must place their position at the Board's disposal in certain cases, and particularly when they are prosecuted for an alleged criminal offense or subject to breach determined by supervising authorities.

In turn, Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any of the crimes stated in Article 213 of the Companies Law, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such determinations in the Annual Corporate Governance Report. In any case, Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

☐ Yes

☒ No

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

There are no such agreements.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	1
Type of beneficiary	Description of agreement
Executive Director	Termination benefit due to termination ordered by the Company for reasons not related with the Director

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the severance clauses	✓	
	Yes	No
Are these clauses notified to the General Shareholders' Meeting?	✓	

The content of these clauses are shown in the Annual Report on Director Remuneration, which is subject to consultative voting at the General Shareholders' Meeting.

C.2. Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

AUDIT COMMITTEE		
Name	Position	Category
CARMEN ALLO PÉREZ	CHAIRWOMAN	Independent
JAVIER MARTÍNEZ OJINAGA	MEMBER	Independent
JUAN JOSÉ ARRIETA SUDUPE	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

Organisation:

The Audit Committee shall be made up of three (3) non-executive directors, appointed by the Company's Board of Directors. At least the majority of them shall be independent Directors and one of them shall be appointed considering their knowledge and experience on accounting, auditing or both. The Board of Directors shall also appoint the Chairman among members acting as independent directors of the Committee. The Chairman shall be replaced every four years and may be re-elected after stepping down for one year. The Board of Directors shall appoint its Secretary, who shall not necessarily hold the office of Director. (Article 2 of the Audit Committee Bylaws and Regulations).

Functions:

Its main functions are: a) Advising the General Shareholders' Meeting on any matter within the Committee's competence, namely on the audit's result, and explaining its contribution to the financial information's integrity and the function performed by the Committee within that process. b) Supervising the efficiency of the Company's internal control, the internal audit and the risk management systems, discussing with the auditor any significant shortcomings detected in the internal control system during performance of the audit without committing its autonomy. To this end, it may submit recommendations or proposals to the Board of Directors and the corresponding period for its monitoring. c) Supervising the process for preparation and filing of mandatory related financial and non-financial information and submitting proposals to the Board of Directors, in order to preserve its integrity. d) With regard to internal control and reporting systems: i. Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, verifying the fulfilment of legal requirements, the accurate demarcation of the consolidation scope, and the correct application of accounting principles. ii. Review that the financial information published on the Company's web site is constantly updated and reflects the one prepared by the Board of Directors, which has been published, when appropriate, in the CNMV's web site. If after the review the Committee is not satisfied with any aspect, it will then submit its opinion before the Board of Directors. iii. Monitor the independence of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic information on its activities; and check that senior management is considering its recommendations and conclusions. As a part of the supervisory review, the Committee must assess the function of the internal audit and the performance of the senior person in charge. iv. Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm. After the information has been made available through this mechanism and reviewed, and should it be deemed necessary, the Committee must propose any appropriate actions to improve its performance and reduce the risk of any irregularities in the future.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	CARMEN ALLO PÉREZ / JAVIER MARTÍNEZ OJINAGA / JUAN JOSÉ ARRIETA SUDUPE
Date of appointment of the chairperson	08/10/2019

NOMINATION AND REMUNERATION COMMITTEE		
Name	Position	Category
JUAN JOSÉ ARRIETA SUDUPE	CHAIRMAN	Independent
LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other external
ANE AGIRRE ROMARATE	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	66.67
% of other external directors	33.33

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

Organisation:

In accordance with Article 37 ter of the Bylaws, Article 12 of the Board Regulations and Article 4 of the Committee regulations, the Committee shall be composed of three non-executive Directors, two of which shall be independent. The Chairman of the Committee shall be elected by the Board of Directors among Committee members who are Independent Directors. The Board shall appoint its Secretary, who shall not necessarily hold the office of Director. Committee members will be appointed for a term of four years, and may be re-elected. They will cease to hold office as directors in accordance with a Board resolution, when they resign or for failing to comply with the Regulation requirements or the legal provisions. Also, Committee members who are re-elected as directors in accordance with a resolution of the Annual General Meeting will continue to discharge their functions on the Committee, without the need for new appointment, unless the Board of Directors resolves otherwise (Articles 5 and 6 of the Appointments and Remuneration Committee Regulations).

Functions:

Articles 37 ter of the Bylaws and 3 of the Appointments and Remuneration Committee has the following basic responsibilities: i) Evaluate the balance of skills, knowledge and experience on the Board. For this purpose, it shall define the functions and skills required for candidates to cover each vacancy and shall evaluate the time and dedication required to attain goals effectively. ii) Set a representation goal for the gender with less representation at the Board of Directors and preparing recommendations on how to achieve that goal. iii) Bring to the Board of Directors the proposals for the appointment of independent directors by co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. iv) Report the proposal for appointment of the remaining directors by co-option or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. (v) Report the proposal for appointment of the Chairman of the Board of Directors and the Secretary, as well as of the Deputy Chairmen. vi) Report the proposal for appointment and removal of high executives and the basic conditions of their contracts. vii) Examine and organise the plan for the succession of the Board of Directors' chairman and the Company's Managing Director and, as applicable, make proposals to the Board of Directors for make such succession to occur in an orderly and planned manner. (viii) Issue a report before the Board of Directors warns a director regarding non-fulfilment of his obligations as a director. (ix) prepare, in advance, a report on proposals for the resignation of independent directors made by the Board of Directors prior to the end of the statutory period, in order to enable the Board of Directors to assess whether there is just cause. x) Propose to the Board of Directors the remuneration policy for directors and general managers or those who carry out their senior management functions under direct control of the Board, Executive Committees or Managing Directors, as well as the individual remuneration and other contractual conditions of Executive, ensuring compliance. xi) Review periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives. xii) Ensure that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee. (xiii) Verify the information on the compensation provided to directors and high executives, as contained in the different corporate documents, including the annual report on directors' compensation.(xiv) Furthermore, the Commission is entrusted with the following responsibilities regarding the supervision of the compliance of corporate governance rules, the internal codes of conduct and the corporate social responsibility policy: 1. Supervising compliance with internal codes of conduct and the corporate governance rules of the Company; 2. Evaluating, on a regular basis, the adequacy of the Company's corporate governance rules and procedures, so it can accomplish its mission of promoting social interest, considering, accordingly, the legitimate

interests of the remaining stakeholders; 3. Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value; 4. Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance; 5. Supervising and evaluating the relations with the different stakeholders.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors							
	2019		2018		2017		2016	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	1	33.33	1	33.33	0	0.00	0	0.00
NOMINATION AND REMUNERATION COMMITTEE	1	33.33	1	33.33	1	33.33	1	33.33

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

AUDIT COMMITTEE: An up-to-date version of the Regulations is available on CAF's website (www.caf.net), in the subsection on Corporate Governance, in the Shareholders and Investors section. The Audit Committee Regulations were not amended in 2019. An annual report was prepared on this Committee's activities in 2019, which will be published in accordance with the terms of Recommendation 6 of the CNMV Code of Good Governance for Listed Companies.

APPOINTMENTS AND REMUNERATION COMMITTEE: The up to date version of the resolution is available in the CAF web site (www.caf.net), under section Information for Shareholders and Investors.

The Nomination and Remuneration Committee Regulations were amended on 7 May 2019 for the purpose of including: (i) the recommendations on the content of these Regulations made by the independent expert who assessed this Committee's performance in 2017; (ii) the powers attributed to this Committee by the Board of Directors within the framework of Recommendation 53 of the CBGSC; (iii) the most noteworthy guidelines envisaged in Technical Guide 1/2019 of the Spanish National Securities Market Commission (CNMV) regarding Nomination and Remuneration Committees, published on 27 February 2019; (iv) the necessary adjustments to harmonise the wording of the Regulations of the Board and its Committees; and (v) other technical improvements.

Also in relation to this Committee, an annual report has been prepared on its activities in 2019, which will be published in accordance with Recommendation 6 of the CNMV's CBGSC.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

The Board of Directors has been attributed, but without the capacity to delegate, the duty to approve, prior report from the Audit Committee, the transactions made by the Company or group companies with the Directors under the rules of the Capital Companies Law, or with shareholders holding a significant equity interest, either individually or jointly, including shareholders represented on the Board of Directors of the Company or other companies forming part of the same group or with their related persons. This approval shall not be applicable for any transaction meeting all of the three following conditions: 1.º they are governed by standard form agreements applied on an across-the board basis to a large number of clients, 2.º they are performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and 3º. they contain amounts not exceeding one percent of the Company's annual revenue. (Art. 5 of the Board Regulations).

D.2. Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:

Name of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)
No data				N.A.

D.3. Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand euros)
No data				N.A.

- D.4.** Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
Metro CAF Mauritius, Ltd.	Assignment of the scope of the train supply agreement	8,567

The company Metro CAF Mauritius, Ltd. has been incorporated in Mauritius, exclusively for the performance of an agreement for the supply of trams in the country. The work assigned to the subsidiary for the most part corresponds to the installation of track systems and warranty services.

- D.5.** State the amount of any transactions conducted with other related parties that have not been reported in the previous sections:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
No data		N.A.

Note 10 of the consolidated Notes to the Financial Statements for fiscal year 2019 includes the details on balances and transactions with associated companies that have not been removed during the consolidation process.

- D.6.** Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

Section 229 of the Capital Companies Law and Articles 24 and 25 of the Board of Directors' Regulations require directors to communicate to the Board of Directors any conflict, either direct or indirect, that may arise as regards the interest of the company. In addition, in case of conflict of interests, the affected director should refrain from intervening in the discussion and voting of the decisions and resolutions causing such conflict. Any conflict of interest should be mentioned in the Notes to the Financial Statements. In turn, the Board of Directors' Regulations closely regulate the non-compete obligations and the duty to avoid the conflicts of interest, and state a series of prohibited behaviour for Directors, as well as the consequences for breaching. In its Article 18, the Board of Directors' Regulations expressly states that Directors should also tender their resignation to the Board and formalise the corresponding resignation, should the latter consider it appropriate, if they are disqualified on the grounds of conflict of interest or fail to comply with the duties to provide information, abstention or the non-competition agreement. Finally, the Control and Monitoring body, regulated by the Internal Code of Conduct within the securities markets area, helps the Board of Directors control possible conflicts of interest with the Company.

- D.7.** Is there more than one company in the group listed in Spain?

[] Yes
[v] No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk:

CAF Group's Comprehensive Risk Management System works in a continuous manner, consolidating its management at a corporate level for all businesses and geographic areas in which it operates.

The undertaking of the Board of Directors' of CAF in establishing the mechanisms and basic principles for adequate control and risk management is reflected in the General Risk Control and Management Policy, whose essential principles rest upon the previously mentioned Comprehensive Risk Control and Management System. This policy covers part of the Group's internal regulations and can be found in the corporate policies section at www.caf.net.

The General Risk Control and Management Policy covers all the companies comprising the CAF Group in all jurisdictions where CAF operates, being applicable to all Group employees. In those non-CAF Group companies, the Company seeks to ensure that the principles, guidelines and risk limits are consistent with those established through this General Risk Control and Management Policy.

The purpose of the aforementioned Policy is to establish the basic principles and guidelines for the control and management of risks of any nature affecting the Company and the CAF Group, through the identification of the main risks and by employing appropriate internal control and information systems, while conducting periodic monitoring on the performance of these mechanisms.

In practice, the Comprehensive Risk Control and Management System is based on a range of strategic and operational actions in order to manage risks and meet the objectives set by the Board of Directors. The diversity and complexity of the activities carried out by the Group involve a variety of risks, with the Company defining the basic guidelines in order to standardize the operating criteria in each of the divisions to ensure an adequate internal control level.

The Comprehensive Risk Control and Management System of the CAF Group is an interlinked system of rules, processes, procedures, controls and information systems where the global exposure is determined after assuming all the risks that the Company is exposed to and it takes into consideration their impacts on mitigation. This system allows the consolidation of the risk exposures of the business divisions and areas of the Group and their valuation, as well as the preparation of the corresponding management information for decision making on risk and expected profitability, which is subject to a continuous improvement process allowing it to be strengthened over time.

In order to respond to the need for global and homogeneous risk management, CAF Group assumes a corporate risk control and assessment model under the following basic assumptions:

- Defining maximum risk limits that can be assumed for each business according to its characteristics and expected profitability.
- Establishing procedures for the identification, analysis, evaluation, treatment, monitoring, control and information of the various risks.
- Coordination and communication so that the procedures of the different businesses/projects are consistent with this General Risk Control and Management Policy and the Comprehensive Risk Control and Management System implemented in the Group.

Likewise, the Corporate Fiscal Policy expressly covers the basic principles regarding tax matters for the Group, including, wherever possible, the prevention and reduction of the fiscal risks during the development of its activities, while maintaining a prudent risk profile at all times. Fiscal risk management is conducted within the scope of the Comprehensive Risk Control and Management System and is overseen by the Corporate Fiscal Area, where the main corporate tax risks of all businesses and regions are controlled and monitored.

In 2019, the General Risk Management and Control Policy was updated in order to enhance the identification of the main risk categories and the evolution of the integral corporate management and control system in this area. In addition, progress continued on the update of the Group's risk catalogue, and the methodology and management dynamics associated with each type of risk was improved.

Finally, it should be noted that through the General Risk Control and Management Policy, the Organization is committed to developing all its capabilities so that risks of all kinds are properly identified, measured, managed, prioritized and controlled. In this regard, it is the Audit Committee the one responsible for permanently ensuring compliance with the General Risk Control and Management Policy and for the Comprehensive System implemented to operate properly.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk:

As established in Article 5 of Board of Directors' Regulations on the General Supervision Area, the development of the General Risk Control and Management Policy, including those on tax risks and the supervision of internal information and control systems, is one of the matters made exclusively available to all Board members.

In this regard, the Board of Directors is the maximum responsible for the General Risk Control and Management Policy, approving the appropriate procedures for identification, measurement, management and control. Likewise, it is responsible for marking clear lines of authority and responsibility, demanding adequate methodologies to measure the different types of risk and effective internal controls over its management. Additionally, it is the body responsible for establishing and monitoring the Comprehensive Risk Control and Management System implemented in the Group, and the body that will verify that the risks relevant to the Group are consistent and within the defined risk tolerance level.

The Board of Directors is responsible for promoting an internal risk culture that engages the entire organization.

For their part, it is the Audit Committee's responsibility to independently monitor or evaluate the effectiveness of the Risk Management System implemented, which includes, both the financial and non-financial risks, and the procedures designed for its monitoring. This will be supported by the Internal Risk Management Division and the Internal Audit Function.

The Executive Committee is the company's highest executive body and as such it is responsible for ensuring the effective implementation of the General Risk Control and Management Policy and knowing the main elements of its evolution and control.

The Risk Management Function under the direct supervision of the Audit Committee is responsible for the following tasks:

- a) Ensure the good performance of the comprehensive risk management and control system and, particularly, that all material risks affecting the Company are properly identified, managed and quantified,
- b) Participate actively in the risk strategy preparation and in the important decisions regarding its management and
- c) Ensure that the comprehensive risk control and management system mitigates risks adequately in accordance with the policy framework set forth by the Board.

In addition, the task of CAF's Internal Audit include, among others, the assurance and control of risks faced by the Company and, for that purpose, it participates in the examination and evaluation of control systems and procedures and risk mitigation.

Moreover, CAF has a Corporate Fiscal Area, whose role includes: (i) apply the Fiscal Policy established and approved by the Board of Directors and (ii) ensure compliance with the principles of action regarding tax matters under the Fiscal Policy approved by the Board of Directors, which expressly includes the prevention of fiscal risks and their reduction, to the furthest extent possible.

E.3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives:

The most important risks facing the Group may be classified into the following categories:

- Strategic risks: these being risks stemming from the uncertainty of the macroeconomic and geopolitical environment, along with the inherent characteristics of the sector and markets where the Group operates, and the decisions adopted on strategic and technological plans.
- Financial risks: arising from market fluctuations (financial and commodities markets), contractual relations with third parties (customers, debtors) and counterparties related to investments in financial assets and financial liabilities (banks, investors). The subcategories of risks that are included are as follows:
 - Market risk, considering the following typologies:
 - Interest rate risk: risk to changes in interest rates that may cause variations in both the results and the value of the Group's assets and liabilities.
 - Currency risk: risk arising from changes in the exchange rates of currencies with an effect on future transactions and the valuation of assets and liabilities denominated in currency.
 - Risk of raw material prices: risk derived from changes in prices and market variables in relation to raw materials needed in the business supply chain.
 - Credit risk: it is the risk of insolvency or bankruptcy or possible non-payment of quantifiable monetary obligations by the counterparties to which the Group has effectively granted net credit and are pending liquidation or collection.
 - Liquidity and financing risk: in relation to liabilities, it is the risk linked to the impossibility of carrying out transactions or to non-compliance with obligations arising from operating or financial activities due to lack of funds or access to financial markets, whether derived from a decrease in the company's credit quality (rating) or other causes. In relation to the asset, it is the risk of not being able at any given moment to obtain asset acquirers, for the sale at market price, or the lack of market price. For more information on the financial risks, see the section on "Financial Risk Management" of the Notes to the Financial Statements.

- **Legal Risks:** come from the elaboration and execution of contracts and obligations of different nature (commercial, administrative, intellectual and industrial property, etc.) and possible contingencies arising from them. Also included risks related to judicial proceedings, administrative procedures and complaints.
- **Operational risks:** inherent to all Group activities, products, systems and processes that lead to financial losses due to human/technological error, inadequate/defective internal processes or the intervention of external agents.
- **Corporate Governance Risks:** arising from the potential noncompliance of the Group's Corporate Governance System, which regulates the design, integration and functioning of the Governing Bodies and their relationship with the Company's stakeholders and which is, in turn, based on commitment to ethical principles, good practices and transparency, built around protection of the Company's interests and the creation of sustainable value.
- **Compliance and Regulatory Risks** (including those on tax and contractual requirements): arising from the violation of national and international rules and laws that apply independently of the activity itself, which fall within the following large blocks: (i) Commercial and Competition (market abuse, corporate obligations and securities market, competition and unfair competition regulations), (ii) Criminal (prevention of crimes, including those arising from corruption), (iii) Labour, (iv) Tax and (v) Administrative (including, among others, the rules of protection of personal data, environmental laws, etc.).

As for the Statement of Non-Financial Information for the fiscal year ended in 2019, which was included in the Directors Report, the various types of aforementioned risks were assessed in detail. In particular, there was an emphasis on the risks relating to human rights, society, the environment, people and the fight against corruption and bribery.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk:

The risk tolerance level established at the corporate level is understood at CAF as the willingness to assume a certain risk level, insofar as it allows value creation and business development, achieving an adequate balance between growth, performance and risk.

The CAF Group presents an overall prudent risk profile with a low tolerance level, in which the objective of guaranteeing the continuity over time of its activity and the sustainable growth, and therefore of its value contribution to its shareholders and to the company in general, prevails.

In order to achieve this risk profile, the Group is based on:

- A prudent policy in tender submission, applying predetermined Risk-Profitability thresholds in the decision-making process.
- An adequate risk management infrastructure in terms of governance and material and human resources availability.
- Search for positioning in high growth segments, in geographies that are classified as strategic and in products for which previous capacities and experiences that allow generating value to the company are verified, maintaining in any case the desired profitability and cash generation levels.

Risk assessment is basically performed in a qualitative way in order to establish both its importance (in terms of impact) and its occurrence probability, although a risk objective (quantitative) indicator is established to the extent possible:

- Very low and low level risks may be accepted and no Control or Action Plan may be necessary to manage them.
- Medium-level risks should be carefully analysed in order to determine whether or not they are acceptable and, if appropriate, to establish a Control or an Action Plan that mitigates the risk to a low level and, therefore, acceptable.
- High and very high level risks will require adequate administration and management as well as preparing a formal Action Plan, which will be monitored according to its criticality by the Risk Management Function or directly by the Executive Committee and the Audit Committee.

Additionally, the risk assessment considers the different types of risks that could affect the Group. In general, although fundamentally applicable to Operational Business Risks, tolerance thresholds are defined which in case of being achieved, would make it necessary to establish new or existing Controls or Actions Plans. As for Operational Business Risks, tolerance is defined on the basis of the main figures of the businesses/projects.

Regarding Financial and Strategic Risks, there is a tolerance level in terms of its economic impact at the corporate level. In the case of the other identified risks, fundamentally as regards those aspects related to reputation, environment, cyber security and regulation (including corruption), there is a zero tolerance level.

With regard to fiscal risks, the Fiscal Policy expressly covers the basic principles regarding tax matters for the Group, including, wherever possible, the prevention and reduction of the fiscal risks during the development of its activities.

E.5. State which risks, including tax compliance risks, have materialised during the year:

During 2019 no material or extraordinary risks materialized, beyond those included in the Directors' Report and the Notes to the Financial Statements.

The main risks that may affect the achievement of business goals are managed actively by the organisation, while minimising any adverse risks faced by the Group. In general terms, the Group's business and regional diversification assists in reducing any impacts on the Company's equity due to risk exposure.

The foreign currency risk to which the Company is exposed due to its operations in the international sphere is managed in accordance with the Market Risk Policy approved by the Board of Directors in 2019, which envisages various strategies aimed at reducing this risk such as the establishment of financial or natural hedges, ongoing monitoring of fluctuations in exchange rates and other complementary measures.

Finally, to mention that mechanisms to anticipate and adequately manage the potential consequences of Brexit have been applied, both in contracts in the portfolio and in future tenders.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise:

CAF's Comprehensive Risk Management System is based on preparing Controls and Action Plans through the appropriate corrective measures, using the META strategy.

In the case of non-manageable risks that raise the risk profile above the tolerance level, contingency plans considered appropriate to remedy the situation of the project in execution or in a previous stage are evaluated in order to decide not to submit the corresponding tender.

Based on the criteria established by the CAF Group and the META analysis methodology, 4 possible strategies for risk management have been defined:

- Mitigate: The risk is accepted but Action Plans are implemented to reduce it.
- Avoid: It is considered that the conditions are not acceptable by the CAF group, so the risk must be eliminated (Zero Tolerance).
- Transfer: It is considered that there are measures that allow transferring the risk to a third party.
- Assume: It is considered that there are no measures to help reduce the risk, so the risk is accepted in its entirety.

The Comprehensive Risk Management System adopted by CAF is aligned with international standards, ISO 31000 and COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission – Enterprise Risk Management), regarding the use of an effective methodology for integrated risk analysis and management and the Three Lines of Defence Model, on assigning responsibilities in the risk management and control area.

The responsibilities granted by CAF for each Line of Defence are as follows:

The First Line of Defence rests on the business's own operating units which are responsible for day-to-day risk management in CAF, identifying, measuring, monitoring, mitigating and reporting each exposure, in consideration of established policies, procedures and controls. Additionally, they are responsible for effectively maintaining internal control and implementing actions to address control deficiencies.

The Second Line of Defence complements the activities of the first one and is formed by the Risk Management Department, which carries out monitoring and reporting and is responsible for the risk levels assumed by CAF in the projects, independently controlling business lines.

The Third Line of Defence includes an independent and effective Internal Audit Function reporting to CAF's Audit Committee based on its overall reviews of the risk framework, internal control and the Internal Control System of the CAF Group's Financial Information. Additionally, it provides an independent review of the first two Lines of Defence.

Assessing and verifying the effectiveness of the Risk Control and Management Policies is carried out periodically by the second and third line of defence. The alerts, recommendations and conclusions generated are communicated to both the Executive Committee and, where appropriate, the Audit Committee.

For the development of its functions, the Internal Audit and Risk Management departments have qualified and experienced personnel that is independent of the business lines. Both departments report before the Audit Committee, which in turn reports to the Board of Directors, with regard to the degree of compliance and adequacy of the internal control and the overall situation, respectively, of the CAF Group's risks.

F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment.

Report on at least the following, describing their principal features:

- F.1.1** The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

CAF's Board of Directors is the body responsible for having and maintaining a proper and effective Financial Information Internal Control System. According to the duties assigned by the Board of Directors, the Audit Committee is the body responsible for overseeing the regulated financial reporting preparation and presentation process and the efficiency of the company's internal control, internal audit services and risk management systems, as well as discussing with account auditors or audit companies the most relevant internal control system weaknesses detected. These functions are described in the Regulations of the Audit Committee.

The Internal Audit Department is mandated by the Audit Committee to effectively supervise the Financial Information Internal Control System through its single and independent oversight role, in line with the professional quality regulations and standards, which shall contribute to good corporate governance and ensure that the financial information has been prepared in a reliable manner.

The Financial Department is the division in charge of designing, implementing and maintaining an adequate and effective internal control system on financial information.

- F.1.2** State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity:

The Chairman and Executive Director and the Human Resources Manager are in charge of designing and reviewing the organisational structure and defining the lines of responsibility and authority for each business unit and subsidiary.

Regarding the Financial Information Internal Control System, the processes defined as critical for financial reporting information include the main tasks and controls to be performed and the people responsible for both their implementation and supervision, clearly defining responsibility and authority lines. The breakdown of functions of the tasks considered incompatible is also documented for these processes.

- Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions:

CAF Group has a Code of Conduct that was approved by CAF's Board of Directors on 27 July 2011 and which is available on the web site, disclosing the set of general standards and principles on corporate governance and professional conduct that are applicable to all professionals of CAF, S.A. and subsidiaries which belong to CAF Group.

The Code of Conduct defines the ethical structural principles that serve as a basis to establish the behavioural criteria that are mandatory for CAF professionals and the agents they interact with as part of their Company business. These ethical structural principles refer to strict compliance with lawfulness, quality, reputation, protection of human resources, the respect for and commitment to the community and environment and the duty of transparency.

Particularly, with regard to the Financial Information, the Code of Conduct sets forth that "the information conveyed to the shareholders shall be truthful, complete and current and shall adequately reflect the Company's position. Adherence to this maxim shall be especially scrupulous with regard to the financial information. CAF acts with total transparency, adopting specific procedures to ensure the financial documentation is correct and truthful. CAF pays special attention to the fact that the abovementioned information is recorded and conveniently disclosed to the market".

The Compliance Committee is in charge of ensuring compliance with the Code of Conduct to the Board of Directors. Its duties include analysing possible breaches and proposing corrective actions and penalties.

The Code of Conduct is an essential and integral part of the Crime Prevention Manual, a document approved by the Board of Directors during its meeting held on 29 April 2015, identifying (i) a policy and procedure system to prevent the commission of material crimes as much as possible. Such Crime Prevention Manual has been updated and revised by the Board of Directors on 18 December 2018.

With regard to training activities that began in 2016, the actions aimed to raise awareness, disseminate and implement the Manual on Crime Prevention among the CAF Group staff continued during 2019.

At the date of preparation of this document, 94.40% of the personnel at the Parent and the Spanish subsidiaries included in the training plan had completed the training. Significant progress was made in 2019 in the international sphere, in which training programmes were launched at 97% of the consolidated companies. More than 4,762 people received training in this area, which is 93% of the eligible group. 386 people are currently completing the programme. Similarly, there is a system in place for training new employees, and the aforementioned programme is included in the new employee on-boarding plans. Training materials are kept up-to-date. The aforementioned figures did not take into account the inclusion of the Swedish company Euromaint because it was a recent acquisition of the CAF Group, although the training plan in this area started to be implemented in 2019.

Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature:

In order to channel general complaints and those relating to financial and accounting aspects, a single complaint channel is established which is supervised by the Compliance Committee or Unit. This body periodically analyses the complaints received and, if appropriate, adopts the relevant actions related to the specific circumstances of each complaint. In case the Compliance Committee or Unit understands that the complaint deserves more attention, it may send the documentation to the relevant department with the objective of jointly assessing the facts and determining the measures to be taken. Likewise, it reports relevant financial irregularities to the Audit Committee. After the information has been made available through this mechanism and reviewed, and should it be deemed necessary, the Committee must propose any appropriate actions to improve its performance and reduce the risk of any irregularities in the future.

An adequate record is kept for all complaints received which guarantees the confidentiality of both the sender and its content. Additionally, for situations such as discrimination, harassment, mobbing or safety at work, specific channels are established for the communication and treatment of any improper conduct that may occur in those areas.

In 2019, two complaints have been received in the channel, and one more by an alternative means, all related to issues of the field of work that have had their timely internal investigation, treatment and resolution.

Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management:

The Group has a corporate training budget and a training plan designed biannually. Training needs are detected and activities for each department are scheduled as part of this plan.

Staff performance assessments are held every year and an individual development and training plan is set out for every employee included in the Training Plan. In addition, refresher courses taught by external specialist are held at least on an annual basis so as to ensure staff remains up-to-date on regulatory changes that can affect the preparation of the financial statements.

With regard to learning programmes for CAF S.A.'s economic and financial subjects, in order to support the different businesses in fiscal year 2018, the main reference indicators of this activity have been as follows:

- Number of participants in the training actions on this matter: 273
- Number of training hours received: 2002 hours

Apart from wide training, the main training activities are focused on the technical updates within the economic and financial area, (legislation, tax scheme, risks, ...).

F.2. Assessment of financial information risks.

Report on at least the following:

F.2.1 The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists and is documented:

The identification of risks within the financial information sphere is a continuous and documented process carried out by the Company's Management as part of the risk management system, which begins with the offer preparation and allows identifying and managing the different risks faced by the Group during its normal course of business.

- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency:

At the beginning of each year, supported by projected financial information, the main control objective and risks of error are analysed, estimating the likelihood and impact this would have on the financial information. This analysis includes the review of the routine financial reporting processes. During the year, the identified risk areas are followed up and updated, taking into account new significant events that have taken place during the period. In addition, the internal control system contemplates the performance of regular control activities focused on identifying new risk areas, such as meetings of CAF's Financial Department and the persons responsible for business areas and meetings to review the financial information reported by the subsidiaries.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities:

At least on a quarterly basis, the Financial Department receives the Group's company organisation chart from the Corporate Development Department, which shows the changes in scope that have taken place during the period. All changes to the scope are analysed by the Financial Department.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements:

The process takes into account all risks identifiable insofar as they affect the financial statements.

- The governing body within the company that supervises the process:

The Audit Committee is the body responsible for overseeing the regulated financial and related non-financial information preparation process and presentation, which includes the risk identification process.

F.3. Control activities.

Report on whether the company has at least the following, describing their main characteristics:

F.3.1 Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

Financial Statements certification: The financial statements are certified by the Chairman and Managing Director and the Chief Financial Officer. There has been a prior supervision process of submitted data conducted by senior staff involved in preparing these financial statements, as well as control activities designed to mitigate risks of error that may affect financial reporting.

The main financial reporting generation processes significantly affecting financial statements are documented and programmed. The financial reporting processes that are covered include the following:

- Consolidation and Reporting
- Accounting closing
- Employee compensation
- Treasury management
- Income and expense recognition (for every business unit)
- Invoicing and trade receivables
- Inventories and Supplies (for every business unit)
- Investments
- Taxes
- Provisions
- Information systems

The risks of error that may affect the reliability of the financial information (including risks of error in relevant judgements, estimates, assessments and projections) have been identified for each of these processes, as have the control activities to mitigate those risks. A person is appointed for each control activity, in charge of implementing and overseeing the activity, the timing of implementation, as well as the evidence necessary to execute the activity.

This system is updated on a continual basis and is adapted according to the risks identified.

F.3.2 Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The Management of Information and Communication Technologies (ICT) is a corporate process that falls under the CAF Group's Management Model. Its mission is to provide and manage services, supporting the Group's information technology and communication needs in any of the areas of business activity, enhancing the use of these technologies and providing an efficient and effective management over the available resources, ensuring confidentiality, integrity, availability and assurances over the information.

The objectives of this process are to:

- Comply with the Corporate ICT development plan
- Ensure the availability of information systems (availability)
- Guarantee the security (confidentiality and integrity) of Information Systems.
- Promote the standardisation of the Systems
- Improve the satisfaction level of ICT systems
- Develop the ICT corporate framework

The ICFR includes control activities that monitor the proper performance of the processes of Information Systems, in relation to:

- Information technology management:

- User management
- Configuration management
- Physical safety management
- Change management
- Operational management and system control
- Continuity management
- Third-Party Management

It is also worth noting the implementation since 2017 of an Information Security Management System (ISMS) in accordance with ISO 27001, which was certified in the spring of 2018 and updated in 2019 in the area of the information systems managed by Corporate Digital Management that support CAF's corporate processes. As a result of the implementation, a Security Committee has been created and a Security Manager designated, and the suppliers and personnel affected are required to read the Security Policy and expressly accept certain Terms and Conditions and a Best Practices Manual.

F.3.3 Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

There is an Accounting and Financial Procedures and Policies Manual applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing the financial statements.

The main activities identified as having been subcontracted to third parties include the preparation of the payroll and tax returns of certain subsidiaries (areas considered to be low-risk and in subsidiaries that cannot materially affect the Group's financial statements) and the subcontracting of services in the IT department (the effectiveness of which is regularly monitored). Furthermore, during the fiscal year 2019, the valuation of acquired assets and liabilities was contracted to independent third parties, according to IFRS 3 of business combinations. In these cases, the Company's policy is to resort to firms of renowned background and independence.

F.4. Information and communication.

State whether the company has at least the following, describing their main characteristics:

F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

CAF, S.A.'s Financial Department is responsible for preparing the consolidated financial statements as well as Parent Company's financial statements. Some of their tasks are to resolve accounting questions for the rest of the Group companies with which the Company has a direct and constant relationship through the designated persons in charge of control at each subsidiary and to update the Accounting and Financial Procedures and Policies Manual. During fiscal year 2019, one of the main adaptations of the Manual introduced new accounting standards (mostly in relation to the recognition of income) as well as the work involved in preparing for the new IFRS 16 on Leases).

The Manual is available on CAF's web site.

F.4.2 Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

Every year a schedule is drawn up of the information required to prepare the financial information for the following year.

The financial information of each subsidiary is reported directly to CAF, S.A.'s Financial Department, through a web-based tool with consistent reporting formats which is used to gather the information supporting the consolidated financial statements, as well as the consolidated information in the financial statement notes and which is also used to roll up and consolidate the reported information.

CAF, S.A.'s Financial Department is responsible for establishing the formats on the web application (chart of accounts, reporting package). Those who have been designated for each subsidiary and are in charge of control supervise the process used to harmonise the information of each subsidiary with the Group standards.

F.5. Supervision of system performance.

Describe at least the following:

F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

In accordance with the provisions of its own Regulations, the Audit Committee is responsible for supervising the preparation process and the integrity of the financial information, ensuring its compliance with the legal provisions, the accurate determination of the consolidation scope, as well as to oversee the proper internal controls risk management systems, including ICFR. Likewise, the Committee reviews that the information published on the Company's web site is constantly updated and reflects the one prepared by the Board of Directors, which has been published in the CNMV's web site.

The Audit Committee ensures the staff involved in the Financial Information Internal Control System evaluation tasks:

- Show integrity and is independent in the performance of their work, so that their conclusions are objective and impartial.
- Are competent and have the necessary technical ability to perform their work diligently.

Under the scope of the external audit, the Audit Committee holds meetings with the external auditors with regard to more significant aspects concerning the review of the financial statements and the findings of the audit work (which include, where appropriate, material aspects detected in the internal control area).

The CAF Group has an Internal Audit Area whose role includes assisting the Audit Committee in its task of supervising the ICFR design and operation.

Each year, the Manager of Internal Audit presents the internal audit activities before the Audit Committee for its approval, which includes ICFR oversight tasks. The content of the Annual Work Plan is reviewed and updated on an ongoing basis.

Based on this plan, the Internal Audit Manager reviews the ICFR's design and functioning by periodically reporting to the Audit Committee its assessments, weaknesses detected, action plans to correct them and recommendations for improvement. This report can be presented either in person at the Audit Committee meetings or by sending it to the Committee.

In the 2019 reporting period the Annual Work Plan submitted and subsequently implemented by the Internal Audit Area covers the following matters related to the ICFR:

- Identification of the main risks on financial information.
- Analytical review of the financial information sent to the National Securities Market Commission (CNMV) on a quarterly basis, together with a review of the design and adequate performance of the main control activities involving fiscal year closing processes, consolidation and reporting, as well as a review of the main judgments and estimates.
- Review of financial reporting processes and of the main subsidiaries, as per a three-year turnover plan.
- Quarterly follow-up on the status of the action plans proposed to tackle identified shortfalls and improvement recommendations.

F.5.2 If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The Audit Committee meets prior to the issuance of financial information to the markets with the Internal Audit Manager and the Management responsible for preparing the financial information to comment on any relevant aspects and, if appropriate, discuss significant control weaknesses identified.

During the 2019 financial year, the Internal Audit Manager attended six audit committee meetings informing about developments in the annual work plan and existing action plans to implement recommendations for improving internal control.

Also, in 2019, external auditors have twice appeared before the Audit Committee. During this financial year, auditors have not revealed significant internal control weaknesses.

F.6. Other relevant information.

[There is no other relevant information regarding the ICFR not included in this report.]

F.7. External auditor's report.

Report from:

F.7.1 If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

[The external auditor's report regarding the financial information internal control system (ICFR) is attached hereto as an annex.]

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies [X] Explanation []

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.
- b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies [] Complies partially [] Explanation [] Not applicable [X]

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

- a) Changes that have occurred since the last General Shareholders' Meeting.
- b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies [X] Complies partially [] Explanation []

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies [X] Complies partially [] Explanation []

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies [X] Complies partially [] Explanation []

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:
- a) Report regarding the auditor's independence.
 - b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.
 - c) Report by the audit committee regarding related-party transactions.
 - d) Report on the corporate social responsibility policy.

Complies [X] Complies partially [] Explanation []

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies [X] Explanation []

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies [X] Complies partially [] Explanation []

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies [X] Complies partially [] Explanation []

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:
- a) Immediately distributes the additions and new proposals.
 - b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
 - c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
 - d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies [☐] Complies partially [☐] Explanation [☐] Not applicable [☒]

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies [☐] Complies partially [☐] Explanation [☐] Not applicable [☒]

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies [☒] Complies partially [☐] Explanation [☐]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies [☒] Explanation [☐]

14. That the Board of Directors approves a selection policy for directors that:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.
- c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation []

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies [X] Complies partially [] Explanation []

16. That the percentage of proprietary directors divided by the number of non- executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

- a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.
- b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X] Explanation []

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X] Explanation []

18. That companies publish and update the following information regarding directors on the company website:

- a) Professional profile and biography.
- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

Complies [X] Complies partially [] Explanation []

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [] Complies partially [] Explanation [] Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X] Complies partially [] Explanation [] Not applicable []

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X] Explanation []

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation []

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies [X] Complies partially [] Explanation [] Not applicable []

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation [] Not applicable []

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies [X] Complies partially [] Explanation []

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies [X] Complies partially [] Explanation []

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies [X] Complies partially [] Explanation []

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X] Complies partially [] Explanation [] Not applicable []

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies [X] Complies partially [] Explanation []

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [X] Explanation [] Not applicable []

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies [X] Complies partially [] Explanation []

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X] Complies partially [] Explanation []

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company; should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X] Complies partially [] Explanation []

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non- executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies [X] Complies partially [] Explanation [] Not applicable []

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X] Explanation []

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:
- a) The quality and efficiency of the Board of Directors' work.
 - b) The workings and composition of its committees.
 - c) Diversity of membership and competence of the Board of Directors.
 - d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.
 - e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation []

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies [] Complies partially [] Explanation [] Not applicable [X]

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [] Complies partially [] Explanation [] Not applicable [X]

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies [X] Complies partially [] Explanation []

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies [X] Complies partially [] Explanation []

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X] Complies partially [] Explanation [] Not applicable []

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:
 - a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
 - b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re- election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
 - c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.
2. With regard to the external auditor:
 - a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
 - b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
 - c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
 - d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
 - e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies [X] Complies partially [] Explanation []

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X] Complies partially [] Explanation []

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies partially [] Explanation [] Not applicable []

45. That the risk management and control policy identify, as a minimum:

- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.
- b) Fixing of the level of risk the company considers acceptable.
- c) Means identified in order to minimise identified risks in the event they transpire.
- d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X] Complies partially [] Explanation []

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

- a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.
- b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.
- c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies [X] Complies partially [] Explanation []

47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate -- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X] Complies partially [] Explanation []

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Complies [☐] Explanation [☐] Not applicable [☒]

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [☒] Complies partially [☐] Explanation [☐]

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [☒] Complies partially [☐] Explanation [☐]

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [☒] Complies partially [☐] Explanation [☐]

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:
- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
 - b) That their chairmen be independent directors.
 - c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
 - d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
 - e) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies partially [] Explanation [] Not applicable []

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:
- a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.
 - b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
 - c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
 - d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.
 - e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.
 - f) Supervision and evaluation of the way relations with various stakeholders are handled.
 - g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.
 - h) Coordination of the process of reporting on diversity and reporting non- financial information in accordance with applicable rules and international benchmarks.

Complies [X] Complies partially [] Explanation []

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:
- a) The objectives of the corporate social responsibility policy and the development of tools to support it.
 - b) Corporate strategy related to sustainability, the natural environment and social issues.
 - c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
 - d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.
 - e) Means of supervising non-financial risk, ethics, and business conduct.
 - f) Communication channels, participation and dialogue with stakeholders.
 - g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X] Complies partially [] Explanation []

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies [X] Complies partially [] Explanation []

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies [X] Explanation []

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies [X] Complies partially [] Explanation []

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
- c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies [X] Complies partially [] Explanation [] Not applicable []

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies [X] Complies partially [] Explanation [] Not applicable []

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies [] Complies partially [] Explanation [] Not applicable [X]

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies [] Complies partially [] Explanation [X] Not applicable []

The Company's remuneration policy, approved by the General Meeting on June 10, 2017, applicable to the 2018, 2019 and 2020 financial years, does not provide for the possibility of establishing a variable remuneration system that is linked to the delivery of shares or financial instruments referred to their value.

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies [☐] Complies partially [☐] Explanation [☐] Not applicable [X]

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [X] Complies partially [☐] Explanation [☐] Not applicable [☐]

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies [X] Complies partially [☐] Explanation [☐] Not applicable [☐]

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.
2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010:

A.3. As the system only allows for 2 decimal points, we have not been able to enter the correct percentages of the total voting rights, which are as follows: 72,564,821M JUAN JOSE ARRIETA SUPUDE 0.003% and 30,605,037H ANE AGIRRE ROMARATE % 0.002. TOTAL 0.005%.

C1.16

f) Significant shareholders, Executive Directors or senior managers of an entity receiving significant donations from the Company or its Group currently or in the last 3 years. Mere employees of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the Appointments Committee. i) Individuals who had been directors during a continuous term exceeding 12 years. j) Individuals falling under any of the assumptions mentioned in subsections a), e), f) or g) above with respect to any significant shareholder or any shareholder represented on the Board. In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company. Proprietary Directors forced to resign after their shareholders sell their shareholding may only be re-elected as Independent Directors when the shareholder they represented up to that moment sold his/her entire shareholding in the Company. A Director with Company shares may be an Independent Director provided he/she meets all the requirements pursuant to this Article and does not hold a significant shareholding (Article 16 of the Board Regulations).

Directors shall hold office for four years. Directors may be re-elected once or several times for equal periods. Directors' appointments shall be effective upon acceptance thereof (Article 29 of the bylaws). The Board of Directors shall be renewed upon members' office expiration. (Article 30 of the bylaws).

The Appointments and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Appointments and Remuneration Committee has the following basic responsibilities: 1.- Evaluate the balance of skills, knowledge and experience on the Board of Directors. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. 2.- Set an objective for the representation of the gender that is underrepresented on the Board of Directors, drawing up guidelines on how to achieve this objective. 3.- Submit to the Board proposals for Independent Directors' appointment through co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. 4.- Report on the proposals for Directors' appointment through co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. 5.- Report on proposals for appointment and removal of senior managers and the basic terms of their contracts. 6.- Examine and organise the succession of the Board of Directors' Chairman and the Company's Chief Executive and, where appropriate, make proposals to the Board of Directors for such succession to occur in an orderly and planned manner. 7.- Propose to the Board of Directors the remuneration policy for directors and general managers or those who carry out their senior management functions under direct control of the Board, Executive Committees or Managing Directors, as well as the individual remuneration and other

contractual conditions of Executive Directors, ensuring compliance. (Art. 3 of the Appointments and Remuneration Committee Regulations).

Any Director shall request the Committee to consider them in case they are adequate potential candidates to cover Directors' vacancies.

The Board Regulations state the following rules for Directors' removal: Directors' removal shall comply with the legislation in force at each given time. Directors must tender their resignation to the Board of Directors and formalise their resignation, if the latter deems it appropriate, in the following events:

a) The proprietary director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of proprietary directors. b) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject to disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Board of Directors upon Report from the Appointments and Remuneration Committee on default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement. Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any of the crimes stated in Article 213 of the Companies Law, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such determinations in the Annual Corporate Governance Report. In any case, Directors are to inform and, if applicable, resign during any such events that may be detrimental to the Company's name and reputation. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the Board, based on a proposal from the Appointments Committee. (Article 18 of the Board Regulations).

The Directors' Selection Policy, approved by CAF's Board of Directors on 12 November 2018, repeats the functions applicable to the Appointments and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, along with the prerequisites that the candidates must meet, with a special emphasis on the fundamental objective to enrich the diversity of knowledge, experiences and gender from among the Board members, by following criteria to ensure the existence of appropriate diversity in its membership and the absence of any implicit biases that may lead to discrimination based on age, gender, disability, or any other personal circumstance or situation, in accordance with Recommendation 14 c) under the Code of Good Governance of Listed Companies, and with articles 529 bis and 529 quidecies of the Spanish Capital Companies Law.

C1.30

In order to implement the abovementioned principles, the Company has various official communication channels with shareholders and investors, for example:

- The corporate web site of CAF (www.caf.net), where relevant information for shareholders and investors is published. This web site is continuously updated. The web site includes announcements of information on the results and other corporate events on the Investor Agenda, as well as for example the list of independent entities that carry out the reviews of CAF as a listed company.
- Personalised attention for analysts and investors, via the Shareholders and Investor Services Office, through the channels provided on the corporate web site.

C.2.1

AUDIT COMMITTEE

e) Submit to the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, pursuant to article 16, sections 2, 3, 5 and 17.5 of the Regulations (EU) 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. The Committee must carry out the final evaluation of the auditor's performance and its contribution to the quality of the audit and the integrity of the financial information. f) Establish the appropriate relations with the external auditor in order to gather information on issues that may prejudice the independence of the auditor, to be assessed by the Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established under article 5, sections 4 and article 6.2.b) of Regulation (EU) 537/2014 of 16 April and under paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July on Account Auditing, regarding the principles of independence, as well as establishing, with the external auditor, any other notifications pursuant to the legislation and audit requirements. In any case, receive from the auditors or audit companies an annual written confirmation of their independence from the Company or companies directly or indirectly related to the them, as well as information concerning the additional services of any kind rendered to the Company by said auditors or companies, or by the individuals or companies related to them pursuant to the Account Auditing legislation. g) Issuing, prior to the issuance of the audit report, an annual report expressing an opinion as to whether the independence of the external auditor is prejudiced. Such report must contain, in any case, an assessment on the provision of each and every additional service referred to in the previous section, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. h) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements

designed to safeguard auditors' independence. i) Supervise the Company's internal control and management risk function. j) Report in advance to the Board of Directors on all matters under the Law, bylaws and the Board's Regulations; and particularly on: 1.º the financial information that the Company must make public on a regular basis, 2.º the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens and 3.º related party transactions. k) Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. l) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders. m) Evaluation of the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks. n) Be informed on the structural and corporate changes intended by the Company for reviewing and submitting the report to the Board of directors on the economic conditions and the accounting effects and, specifically, on the swap ratio proposed. o) Approving an annual work plan, which contains, among others, the yearly schedule for Committee meetings in order to facilitate the achievement of goals efficiently pursued. p) Issue a report on those transactions made by the Company or the Group's Companies with directors or shareholders holding a significant interest, individually or collectively, including those represented on the Board of Directors of the Company or other Companies of the same group, or with persons related thereto, pursuant to the Capital Companies Law. The issue of this report shall not be applicable for any transaction meeting all of the three following conditions: i) they are governed by standard form agreements applied on an across-the board basis to a large number of clients, ii) they are performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and iii) they contain amounts not exceeding one percent of the Company's annual revenues. q) According to the Internal Code of Conduct within the Company's securities markets area: i) Upon request of the Control and Monitoring Body, issue a report on the possible approval of transactions of Affected Securities and Instruments during the restricted periods, and ii) In coordination with the Control and Monitoring Body, assess whether the market research processes that have been carried out contain the disclosure of inside information. r) Submit an annual evaluation report on its own performance before the Board of Directors, in accordance with the framework of the annual assessment of the Board of Directors and its Committees. s) Every year submit a report on the Committee's activities and performance during the previous year. t) Any other function attributed to it by law, the By-Laws, the Regulations of the Board of Directors or conferred by the Board of Directors. The provisions of sections f), g) and h) will be understood notwithstanding the regulatory standards of account auditing.

Likewise, the Committee has the following powers: 1.- The Committee shall have full access to any type of Company information, documentation or records considered necessary for the furtherance of its duties. 2.- The Committee shall request the Board of Directors external expert advice on matters especially relevant if deemed necessary when Company or Group companies' experts or technicians may not duly or independently provide it. 3.- Moreover, at any time, the Committee may request the personal collaboration and reports from any of the executive directors of the Company and/or group companies, any other non-executive board member, employee and expert, when it is deemed necessary or appropriate in order to comply with the duties of the Committee, as well as to request the attendance of any such person at a Committee meeting to report on any specific item on the agenda.

Operation:

The Committee shall convene upon the Chairman's decision to perform its functions. The Committee will meet, at least, at the time of each publication date of the annual or interim financial information and, at these meetings, the internal auditor will be asked to attend and, when a review report has been issued, the external auditor will also join the meeting to address the corresponding points on the agenda. At least some of these meetings held with the internal auditor or the external auditor must take place without the presence of the Company's senior management, so that any specific issues arising from the reviews can be discussed exclusively with them.

Moreover, the Committee will meet when required by the Board of Directors (Article 5 of the Audit Committee Regulations). Meetings are to be convened by the Secretary of the Committee as per the instructions of the Chairperson, at least five calendar days in advance, to be sent by letter, fax, telegram or e-mail. As an exception it may be less than this when it is deemed by the Chairperson to be an urgent matter.

The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss and approve matters not included in the cited agenda. In any event, the Chairperson of the Committee will rely on the Secretary to forward and make available any necessary information and documentation to the other of the members of the Committee with sufficient lead time so that they can be analysed prior to a meeting (Article 6 of the Audit Committee Bylaws and Regulations). Committee meetings will be held at the place stated in the call, except for the case described in the following section. Exceptionally, Committee meetings may be held via telephone conference, video conference or by any other means of non-face-to-face communication, as long as the identity and participation of the attendee is duly ensured and that all members of the Committee are a party to such communication. In this case, the meeting will constitute a quorum and be open at the place where the Chairperson is located (Article 7 of the Audit Committee Bylaws and Regulations). The Committee shall be duly convened when half of the members attend the meeting in person or by proxy. The Committee Chairman and Secretary shall be those individuals appointed for such positions. In case of absence or inability, the Chairman shall be replaced by the member of the Committee with more seniority, or the most senior Committee member in case of several members holding the same seniority. In case of absence or inability, the Secretary shall be replaced by the member of the Committee of less age. Furthermore, the Committee may hold a meeting without a prior call when all the members are present, or duly represented, and when they unanimously agree to hold the meeting. (Article 8 of the Audit Committee Regulations). The Audit Committee's decisions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Secretary shall record the minutes of each meeting which, once approved either at the end of the meeting or in the following one, shall be signed by the Chairman and the Secretary. (Article 9 of the Audit Committee Regulations).

The main actions carried out by the Committee during the fiscal year 2019 were as follows:

(i) Activities concerning financial and non-financial information and the associated internal control mechanisms:

- Prior to being submitted before the Board of Directors for their preparation, the examination of the individual and consolidated Financial Statements and the Directors Reports of CAF, S.A. and the CAF Group, respectively, corresponding to the 2018 fiscal year. The Directors Report includes the Statement of Non-Financial Information, which contains information on non-financial indicators relating to environmental activity, social issues, Human Resources, Respect for Human Rights and the Fight against Corruption and Bribery.
- The review of the individual and consolidated quarterly and half-yearly financial statements, prior to being submitted before the Board of Directors for approval,
- The Review of any other information so that it may be announced to the market or submitted to the supervisory bodies during this fiscal year.

- (ii) Activities associated with related-party transactions:
 - Review of significant related-party transactions carried out by the Company and planned for the upcoming fiscal year and determine whether they need to be brought to the attention of the Board.
- (iii) Activities relating to the corporate social responsibility policy and its terms of implementation during the year:

Activities regarding matters of corporate social responsibility activities conferred by the Board to the Appointments and Remuneration Committee, notwithstanding the verification of the relative information included in the Directors Report attached to the individual and consolidated Financial Statements of CAF, S.A. and the CAF Group, respectively, by the Audit Committee.
- (iv) Activities relating to risk management and control:
 - Ongoing evaluation of the Internal Control over Financial Reporting (ICFR) system and the analysis of its recommendations and improvement plans, proposed by Internal Audit.
 - Supervision of the tasks and performance of the Risk Management Unit. The attendance of the Unit's Manager at Committee meetings, to report on the main risks and contingencies of the Company and its Group. In this context: Periodic risk map supervision for the risks identified and evaluated during the various processes throughout the Organisation. Monitoring of the risk management models implemented by the Company.
 - Evaluation of the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks.
- (v) Internal audit-related activities: The Audit Committee analysed and oversaw, on a direct and ongoing basis, the actions taken by the company's internal audit area. In addition to the activities in the preceding section, the Audit Committee performed the following actions:
 - Oversight of compliance with the Internal Audit Work Plan for 2018.
 - Approval of the Internal Audit Work Plan for 2019, which is comprised of the following: Review of the financial information (quarterly, half-yearly and annual financial statements and directors' report) and monitoring of the main financial and tax risks. Risk-based process rotation plan. Materiality-based subsidiary rotation plan. Improvement of internal audit efficiency and quality. Monitoring of recommendations issued.
 - Monitoring performance of the Internal Audit Work Plan throughout the year.
 - Assessment of the functioning of Internal Audit and of the performance of the head of internal audit.
- (vi) External auditor-related activities:
 - Preparation of the proposal for the renewal of the external auditor for submission to the Annual General Meeting.
 - Analysis of the external auditor's reports in relation to the company's separate and consolidated financial statements for 2018.
 - Analysis of the report on limited review of the half-yearly financial statements for 2019.
 - Request for written confirmation of independence issued by the auditor and preparation of the report on the auditor's independence in relation to the audit of the financial statements for 2018.
 - Setting the limits and criteria for the approval of non-audit services and approval of the proposal to provide non-audit services for 2020.
 - Analysis, together with the external auditor, of the main incidents identified in the audit, verifying the resolution thereof and, if unremedied, monitoring the auditor's recommendations and gathering information explaining how the identified risks were addressed.
 - Assessment of external auditor performance.
- (vii) Financing activities:
 - Analysis of debt performance and financing alternatives. Submission of proposals to the Board.
 - Analysis for the second 12-month renewal of the Euro-Commercial Paper Programme
 - –ECP), implemented for the first time in December 2017, and submission to the Board of Directors for their approval.
- (viii) Audit Committee action plan monitoring activities: The Audit Committee monitored, on an ongoing basis, the action plans scheduled for 2019 in the report on the annual assessment of its performance in the previous year, and stated that they were all completed satisfactorily.
- (ix). Other activities:
 - Analysis of the potential corporate transactions expected to be performed by the company.
 - Oversight of the hiring process and proposal for appointment of new auditors for the CAF Group for 2021, 2022 and 2023.
 - Analysis prior to the acquisition of EuroMaint.
 - Approval of the report in relation to the performance of the Audit Committee for 2018.
 - Oversight of the actions of the company's internal tax function, which is in charge of control and management of the tax risks within the Group, with regular reporting on the situation of the various stages of development of this function, monitoring compliance with tax policy and the most relevant tax developments for the company.
 - Oversight of the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders.
 - Proposal to the Board of Directors to modify the General Risk Management and Control Policy.
 - Proposal to the Board of Directors to modify the Internal Code of Conduct in the Securities Market.
 - Approval of an annual work programme for 2020 which includes the annual timetable of Audit Committee meetings with the external auditors.
 - Preparation of the report on the annual performance assessment, as part of the Board of Directors' assessment, pursuant to Recommendation 36 of the Spanish Code of Good Governance for Listed Companies.

APPOINTMENTS AND REMUNERATION COMMITTEE

Operation:

The Committee shall meet periodically as required and in particular when asked by the Board of Directors. The call notice shall be issued at least three days prior to the meeting. The call notice shall include the meeting's agenda and the relevant information duly summarised and prepared. Prior call notice of Committee meetings shall not be necessary when 100% of its members are convened and accept holding the meeting by unanimous vote. The Committee shall be duly convened when, at least, the majority of its members attend the meeting in person or by proxy. The meeting shall be chaired by the Chairman of the Committee. In the absence or inability of the Chairman, the meeting shall be chaired by the most senior member. Should several Directors hold the same seniority, the meeting shall be chaired by the most senior member among them. The Chairman shall organise the debate ensuring and promoting the participation of all Committee members during the body's deliberations. At the Committee's request, its meetings may be attended by any executive or worker, the Executive Director, the Board of Director's Chairman or any other director. The Board of Director's Chairman or the Executive Director may indistinctly request the Committee to hold special informative meetings. Resolutions shall be adopted by majority vote of the Directors attending the Committee's meeting in person or by proxy.

The Chairman of the Committee has the casting vote in the event of a tie. Adopted resolutions shall be minuted, reported by the Secretary and approved during such meeting or at the beginning of the next one immediately after.

During 2019 the most relevant actions carried out by this Committee were as follows:

- (i) Activities regarding appointments:
 - Analysis of the matrix of competences of the Board of Directors and evaluation of the work profile required for it, to consider them for the evaluation of candidates in the context of any vacancies.
 - Presentation to the Board of Directors, for its elevation to the General Meeting, of proposals for the re-election and appointment of two Independent Directors.
 - The previous proposals were arranged to the Shareholders in the Company's web site from the announcement of the General Meeting.
 - Proposing to Board of Directors the changes in the Executive Committee
- (ii) Activities regarding remuneration:
 - Proposing to the Board of Directors the Director Remuneration Report corresponding to fiscal year 2018.
 - Proposing to the Board of Directors the Director Remunerations corresponding to fiscal year 2019.
 - Proposing to the Board of Directors the proposal of the remuneration for Executive Directors to fiscal year 2019.
 - Proposing to the Board of Directors the proposal of the remuneration of the Executive Committee during the fiscal year 2019.
 - Analysis of the policy of remuneration to the Board of Directors linked to the company's strategy and with the conditions of the market.
- (iii) Activities regarding matters of corporate governance:
 - Review of the Corporate Social Responsibility Report.
 - Review of the confirmation of fight against the "Slavery Modern" (UK), corresponding to fiscal year 2018.
 - Reporting of the non-financial information statement included in 2018 Directors' report of the consolidated group.
 - Reporting on the oversight and assessment of the Corporate Governance System and Corporate Social Responsibility.
- (iv) Activities related to the process of evaluation of the performance of the Board of Directors and of the commissions, including the own Appointments and Remuneration Committee: the Committee has elaborated the report about the annual evaluation of its own performance to fiscal year 2019 and the report about the annual evaluation of the Board of Directors, according to the recommendation 36 of the code of good government for listed companies. The commission has valued satisfactory the performance of the Board and the commissions, including the Appointments and Remuneration Committee, without any relevant changes in the company. There have been suggestions or action plans to continue working in matters related to corporate government for be reviewed in fiscal year 2020.
- (v) Other actions:
 - Proposal to Board of Directors of changes in Regulation of the Appointments and Remuneration Committee.
 - Approving of the Performance Report of the Appointments and Remuneration Committee for the fiscal year 2018.
 - Analysis of Technical Guidance about Appointments and Remuneration Committee published by the Spanish National Securities Market Commission (CNMV).
 - Monitoring the Diversity to the Directors Selection Policy for the fiscal year.
- (vi) Monitoring activities of the Committee's own action plans: Throughout the current fiscal year, the Committee has continuously monitored the 2019 Action Plans presented in the Report on the annual evaluation of its own performance. It has verified that all of these have been fulfilled satisfactorily.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

[27/02/2020]

State whether any directors voted against or abstained from voting on this report.

[] Yes
[v] No

**Construcciones y Auxiliar
de Ferrocarriles, S.A. and
subsidiaries (the Group)**

Auditor's Report on the Information
relating to the system of internal control
over financial reporting (ICFR) for the year
ended 31 December 2019

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND SUBSIDIARIES ("THE CAF GROUP") FOR THE YEAR ENDED 31 DECEMBER 2019

To the Directors of Construcciones y Auxiliar de Ferrocarriles, S.A.:

As requested by the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries ("the Group") and in accordance with our proposal-letter of 29 November 2019, we have applied certain procedures to the accompanying "Information relating to the ICFR system" in the Annual Corporate Governance Report of Construcciones y Auxiliar de Ferrocarriles, S.A. for 2019, which summarises the internal control procedures of the Group in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system.

It should be noted in this regard that, irrespective of the quality of the design and operating effectiveness of the internal control system adopted by the Group in relation to its annual financial reporting, the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the consolidated financial statements and pursuant to Technical Standards on Auditing, the sole purpose of our assessment of the internal control of the Group was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Group's consolidated financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of consolidated financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the "Guidelines on the Auditor's Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies", published by the Spanish National Securities Market Commission (CNMV) on its website, which establish the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Group's annual financial reporting for 2018 described in the Information relating to the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the system of internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the audit regulations in force in Spain, we do not express an audit opinion in the terms provided for in those regulations.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Group in relation to the ICFR system -disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report, as established in Circular no. 5/2013 of the National Securities Market Commission dated June 12, 2013, which has been modified by Circular 7/2015 of the National Securities Market Commission dated 22 December 2015 and the Circular 2/2018 of the National Securities Market Commission dated 12 June 2018 ("the Circulars of the NSMC").
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of: (i) obtaining an understanding of the process that goes into drawing up the information; (ii) obtaining information that permits an evaluation of whether the terminology used complies with the framework definitions; and (iii) obtaining information on whether the control procedures described are in place and functioning at the Group.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including mainly the documentation furnished directly to those responsible for describing the ICFR system. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Group's ICFR system obtained through the procedures applied during the financial statement audit work.
5. Perusal of minutes of meetings of the Board of Directors, the Audit Committee and other Group committees in order to assess the consistency between the ICFR issues addressed therein and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, duly signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of Article 540 of the Consolidated Spanish Limited Liability Companies Law, and "the Circulars of the NSMC", for the purposes of the description of the ICFR system in annual corporate governance reports.

DELOITTE, S.L.



Pablo Mugica

27 February 2020

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries composing the CAF Group**

Consolidated Balance Sheets as at 31 December 2019 and 2018 (Notes 1, 2 and 3)
(Thousands of Euros)

Assets	Note	31/12/19	31/12/18 (*)	Equity and liabilities	Note	31/12/19	31/12/18 (*)
Non-current assets:				Equity:	14		
Intangible assets-	7			Shareholders' equity-			
Goodwill	2-f	109,011	101,827	Registered share capital		10,319	10,319
Other intangible assets		239,241	206,535	Share premium		11,863	11,863
		348,252	308,362	Revaluation reserve		39,119	39,119
Property, plant and equipment	6 & 8	449,263	365,084	Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method		792,935	793,755
Investments accounted for using the equity method	9	7,807	18,188	Profit for the year attributable to the Parent		24,745	43,462
Non-current financial assets	9	538,303	537,061			878,981	898,518
Non-current hedging derivatives	17	45,001	10,720				
Deferred tax assets	18	146,134	148,548	Valuation adjustments-			
Other non-current assets	21	7,208	2,684	Hedges		(11,062)	(5,024)
Total non-current assets		1,541,968	1,390,647	Translation differences		(134,682)	(141,782)
				Equity attributable to the Parent		(145,744)	(146,806)
				Non-controlling interests		733,237	751,712
				Total equity		12,130	5,555
						745,367	757,267
				Non-current liabilities:			
				Long-term provisions	20	47,789	6,877
				Non-current financial liabilities-	15 & 16		
				Bank borrowings and debt instruments or other marketable securities		868,072	766,464
				Other financial liabilities		90,792	47,774
						958,864	814,238
				Deferred tax liabilities	18	159,145	177,191
				Non-current hedging derivatives	17	45,777	11,206
				Other non-current liabilities	3-f & 21	86,637	82,186
				Total non-current liabilities		1,298,212	1,091,698
				Current liabilities:			
				Short-term provisions	20	237,378	224,970
Current assets:				Current financial liabilities-	15 & 16		
Inventories	11	487,833	375,426	Bank borrowings and debt instruments or other marketable securities		199,979	255,416
Trade and other receivables-				Other financial liabilities		44,144	23,356
Trade receivables for sales and services	10 & 12	1,372,394	1,311,835			244,123	278,772
Other receivables	9, 10 & 19	216,940	205,122	Trade and other payables-			
Current tax assets	19	12,417	13,633	Payable to suppliers	26	688,104	664,865
		1,601,751	1,530,590	Other payables	12, 15 & 19	1,032,114	911,961
Current financial assets	13	95,151	94,293	Current tax liabilities	19	9,113	6,447
Current hedging derivatives	17	40,010	5,849			1,729,331	1,583,273
Other current assets	21	17,130	6,343	Current hedging derivatives	17	61,140	64,167
Cash and cash equivalents		538,983	602,813	Other current liabilities	21	7,275	5,814
Total current assets		2,780,858	2,615,314	Total current liabilities		2,279,247	2,156,996
Total Assets		4,322,826	4,005,961	Total Equity and liabilities		4,322,826	4,005,961

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet as at 31 December 2019.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries
composing the CAF Group

Consolidated Statements of Profit or Loss
for the years ended 31 December 2019 and 2018
(Notes 1, 2 and 3)
(Thousands of Euros)

	Note	(Debit) Credit	
		2019	2018 (*)
Continuing operations:			
Revenue	6, 9 & 10	2,597,655	2,048,419
+/- Changes in inventories of finished goods and work in progress		18,235	73,250
In-house work on non-current assets		13,901	14,488
Procurements	22	(1,388,778)	(1,089,940)
Other operating income	22	27,518	21,339
Staff costs	23	(654,607)	(518,473)
Other operating expenses	22	(408,098)	(347,605)
Depreciation and amortisation charge	7 & 8	(80,667)	(46,738)
Impairment and gains or losses on disposals of non-current assets	7, 8 & 9	(165)	(10,572)
Profit from Operations		124,994	144,168
Finance income	9, 10, 13 & 15	17,402	7,627
Finance costs	9, 16 & 17	(72,885)	(64,160)
Changes in fair value of financial instruments		33	7
Exchange differences		(6,120)	(6,673)
Impairment and gains or losses on disposals of financial instruments	9	(337)	9
Financial Loss		(61,907)	(63,190)
Result of companies accounted for using the equity method	9	(1,949)	(403)
Profit before Tax		61,138	80,575
Income tax	18	(36,048)	(40,955)
Profit for the year from continuing operations		25,090	39,620
Consolidated Profit for the Year		25,090	39,620
Attributable to:			
The Parent		24,745	43,462
Non-controlling interests		345	(3,842)
Earnings per share (euros)			
Basic		0.72	1.27
Diluted		0.72	1.27

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of profit or loss for 2019.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries
composing the CAF Group**

**Consolidated Statements of Comprehensive Income
for 2019 and 2018
(Notes 1, 2 and 3)
(Thousands of Euros)**

	Note	2019	2018 (*)
A) Consolidated profit for the year:		25,090	39,620
B) Other comprehensive income - Items not reclassified to profit or loss:		(3,568)	10,917
Arising from actuarial gains and losses	3-j	(5,816)	(2,403)
Equity instruments at fair value through other comprehensive income	9	2,248	13,320
Tax effect	18	-	-
C) Items that may be reclassified subsequently to profit or loss:		970	(22,988)
Cash flow hedges:		1,688	1,700
Revaluation gains/losses	17	1,453	1,620
Amounts transferred to profit or loss		235	80
Translation differences:		6,953	(24,635)
Revaluation gains/losses	14	6,953	(24,635)
Amounts transferred to profit or loss		-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:		(7,266)	442
Revaluation gains/losses-			
Cash flow hedges	9 & 17	(7,641)	31
Translation differences		55	91
		(7,586)	122
Amounts transferred to profit or loss-			
Cash flow hedges	17	320	320
Translation differences		-	-
		320	320
Tax effect		(405)	(495)
Total comprehensive income (A+B+C)		22,492	27,549
Attributable to:			
The Parent		22,074	31,391
Non-controlling interests		418	(3,842)

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for 2019.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries composing the CAF Group**

**Consolidated Statements of Changes in Equity
for 2019 and 2018 (Notes 1, 2 and 3)
(Thousands of Euros)**

	Equity attributable to the Parent							Non-controlling interests	Total equity
	Shareholders' equity					Valuation adjustments	Translation differences		
	Share capital	Share premium	Reserve for unrealised fair value gains and losses	Other reserves	Net profit for the year				
Balances at 31 December 2017	10,319	11,863	39,119	770,489	42,406	-6,541	-117,238	9,783	760,200
Adjustments due to changes in accounting policies (Notes 2-b & 7)				-7,432	-	-39	-	-	-7,471
Adjusted balances at 1 January 2018	10,319	11,863	39,119	763,057	42,406	-6,580	-117,238	9,783	752,729
Total comprehensive income	-	-	-	10,917	43,462	1,556	-24,544	-3,842	27,549
Transactions with shareholders or owners	-	-	-	-	-22,625	-	-	-386	-23,011
Dividends distribution	-	-	-	-	-22,625	-	-	-1,555	-24,180
Business Combination	-	-	-	-	-	-	-	97	97
Other transactions with non-controlling interests (Note 2-f)	-	-	-	-	-	-	-	1,072	1,072
Other changes in equity	-	-	-	19,781	-19,781	-	-	-	-
Transfers between equity items (Note 14)	-	-	-	19,781	-19,781	-	-	-	-
Balances at 31 December 2018	10,319	11,863	39,119	793,755	43,462	-5,024	-141,782	5,555	757,267
Total comprehensive income	-	-	-	-3,568	24,745	-6,038	6,935	418	22,492
Transactions with shareholders or owners	-	-	-	-36,429	-4,285	-	165	6,157	-34,392
Dividends distribution	-	-	-	-21,940	-4,285	-	-	-1,327	-27,552
Other transactions with non-controlling interests (Note 2-f)	-	-	-	-14,489	-	-	165	7,484	-6,840
Other changes in equity	-	-	-	39,177	-39,177	-	-	-	-
Transfers between equity items (Note 14)	-	-	-	39,177	-39,177	-	-	-	-
Balances at 31 December 2019	10,319	11,863	39,119	792,935	24,745	-11,062	-134,682	12,130	745,367

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2019.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries
composing the CAF Group**

**Consolidated Statements of Cash Flows
for 2019 and 2018
(Notes 1, 2 and 3)
(Thousands of Euros)**

	Note	2019	2018 (*)
Cash flows from operating activities:			
Profit before tax		61,138	80,575
Adjustments for-			
Depreciation and amortisation charge	7 & 8	80,667	46,738
Impairment losses	7, 8 & 9	2,161	10,634
Changes in provisions	3 & 20	34,003	40,078
Other income and expenses		(33,870)	22,389
Gains and losses on disposals of non-current assets	8	300	(175)
Investments accounted for using the equity method	9	1,949	403
Finance income		(17,402)	(7,627)
Finance costs		72,885	64,160
Changes in working capital-			
Trade receivables and other current assets	3-d & 12	(79,412)	(57,630)
Inventories	11	(65,658)	(105,264)
Trade payables	12	102,379	352,938
Other current liabilities		(5,699)	(3,877)
Other non-current assets and liabilities		12,312	(11,087)
Other cash flows from operating activities-			
Income tax paid	19	(33,858)	(40,354)
Other amounts paid relating to operating activities		(3,118)	(2,575)
Net cash (used in) / from operating activities (I)		128,777	389,326
Cash flows from investing activities:			
Payments due to investment-			
Group companies and associates		(206)	-
Business units	2-f	(50,829)	(171,664)
Property, plant and equipment, intangible assets and investment property	7 & 8	(72,260)	(90,588)
Other financial assets	9 & 13	(12,278)	(17,387)
Proceeds from investments-			
Group companies and associates	9	1,036	9,081
Property, plant and equipment, intangible assets and investment property	7 & 8	333	921
Other financial assets	9 & 13	30,354	24,717
Interest received	9 & 13	10,222	6,560
Net cash (used in) / from investing activities (II)		(93,628)	(238,360)
Cash flows from financing activities:			
Proceeds from issue of equity instruments - non-controlling interests	2-f	7,484	1,072
Purchase of equity instruments - non-controlling interests	2-f	(7,646)	-
Proceeds/(Payments) relating to financial liability instruments-			
Issue	15 & 16	680,870	544,557
Repayment	15 & 16	(691,130)	(376,346)
Dividends and returns on other equity instruments paid	14	(27,552)	(24,180)
Other cash flows from financing activities-			
Interest paid	16	(64,448)	(64,539)
Net cash (used in) / from financing activities (III)		(102,422)	80,564
Net increase / (decrease) in cash and cash equivalents (I+II+III)		(67,273)	231,530
Cash and cash equivalents at beginning of year		602,813	371,625
Effect on cash of foreign exchange rate changes		3,443	(342)
Cash and cash equivalents at end of year		538,983	602,813

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for 2019.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries (the CAF Group)

Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2019

1. Description and activities of the Parent

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") was incorporated in 1917 for an indefinite period of time in San Sebastián (Guipúzcoa), and its registered office is in Beasain (Guipúzcoa).

The Parent's object is described in Article 2 of its bylaws.

The Parent currently engages mainly in the manufacture of rolling stock materials.

The Parent, as part of its business activities, holds majority ownership interests in other companies (Note 2-f).

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2019 of the CAF Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the Group's accompanying consolidated financial statements are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the CAF Group's consolidated equity and consolidated financial position at 31 December 2019 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2018 were approved by the shareholders at the Annual General Meeting of CAF on 15 June 2019. The 2019 consolidated financial statements of the Group and the 2019 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of new standards and interpretations issued

IFRS 16, Leases came into force on 1 January 2019, superseding IAS 17. The main change is the introduction of a single lessee accounting model which requires a lessee to recognise all leases (with certain limited exceptions) as if they were financed purchases, i.e. similar to finance lease accounting up until that date. However, in the case of lessor accounting, a dual model continues to be used, similar to that established in IAS 17.

The transition to IFRS 16 was carried out by applying the modified retrospective approach and, accordingly, the Group did not restate the comparative information either for 2018 or for prior years.

The impact, by line item, on the statement of financial position as at 1 January 2019 was as follows (thousands of euros):

	Balance at 01/01/19	Transition to IFRS 16	Adjusted balance at 01/01/19
Non-current assets	1,390,647	52,519	1,443,166
Intangible assets	308,362	-	308,362
Property, plant and equipment	365,084	52,519	417,603
Investments accounted for using the equity method	18,188	-	18,188
Non-current financial assets	537,061	-	537,061
Non-current hedging derivatives	10,720	-	10,720
Deferred tax assets	148,548	-	148,548
Other non-current assets	2,684	-	2,684
Current assets	2,615,314	-	2,615,314
Inventories	375,426	-	375,426
Trade and other receivables	1,530,590	-	1,530,590
Other current financial assets	94,293	-	94,293
Current hedging derivatives	5,849	-	5,849
Other current assets	6,343	-	6,343
Cash and cash equivalents	602,813	-	602,813
TOTAL ASSETS	4,005,961	52,519	4,058,480

	Balance at 01/01/19	Transition to IFRS 16	Adjusted balance at 01/01/19
Equity	757,267	-	757,267
Non-current liabilities	1,091,698	41,007	1,132,705
Long-term provisions	6,877	-	6,877
Non-current financial liabilities	814,238	41,007	855,245
Deferred tax liabilities	177,191	-	177,191
Non-current hedging derivatives	11,206	-	11,206
Other non-current liabilities	82,186	-	82,186
Current liabilities	2,156,996	11,512	2,168,508
Short-term provisions	224,970	-	224,970
Current financial liabilities	278,772	11,512	290,284
Trade and other payables	1,583,273	-	1,583,273
Current hedging derivatives	64,167	-	64,167
Other current liabilities	5,814	-	5,814
TOTAL EQUITY AND LIABILITIES	4,005,961	52,519	4,058,480

In summary, the aforementioned impacts of transition to IFRS 16 amount to the recognition of a right-of-use asset and a corresponding financial liability in the balance sheet. The right-of-use asset is depreciated on a straight-line basis over the contractual lease term and is subject to impairment.

The impact of this standard at 1 January 2019 took into consideration the following aspects:

- The Group identified all the leases which at the end of the year were not classified as leases of low-value assets (taking the value provided in IFRSs -USD 5,000- as a reference), and focused the analysis on those that convey the right to control the use of an asset. Following the cost/benefit model permitted under IFRSs, or the simplified approach for practical purposes, leases of low-value assets or short-term leases (with a term of 12 months or less from the commencement date) are accounted for using the foregoing accounting policy, with the lease payments associated with such leases recognised as an expense on a straight-line basis over the lease term.
- The Group analysed whether the identified contracts meet the requirements for recognition as leases laid down in the standard, i.e.:
 - a) There is an identified asset (either an individual asset or a "physically distinct portion" of an asset), the use of which the Group has the right to direct, in accordance with the clauses of the contract.
 - b) The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the term of the lease.
- The leases affected by this new standard relate mainly to commercial buildings and to various machines for warehouse use.
- The fixed lease payments (less any incentives granted by the lessor) were used for the initial recognition of the liability. The sum of these lease payments is discounted using the Group's incremental borrowing rate, as provided for in the standard, since the interest rate implicit in the leases cannot be readily determined. In relation to this rate, the Group used a specific rate for each lease depending on the country in which the lessee is located and on the lease term. The weighted average rate used to discount the financial liabilities was around 4%.

The reimbursement of the lease liabilities is presented as cash flows from financing activities in accordance with IFRS 16, whereas it was previously presented as cash flows from operating activities.

Notes 8 and 15 to the accompanying consolidated financial statements present all the disclosures required under IFRS 16.

Also, other amendments and interpretations came into force from 1 January 2019 onwards which did not have a significant impact on these consolidated financial statements.

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant new standards, amendments and interpretations that had been published by the IASB but which had not come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

New standards, amendments and interpretations	Obligatory application in annual reporting periods beginning on or after
Approved for use in the European Union - Amendments and/or interpretations Definition of a business (Amendments to IFRS 3) (issued October 2018) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (issued September 2019)	1 January 2020 1 January 2020
Not yet approved for use in the European Union - New standards IFRS 17, Insurance Contracts (issued May 2017)	1 January 2021
Amendments and/or interpretations Definition of Material (Amendments to IAS 1 and IAS 8) (issued October 2018)	1 January 2020

The Group performed a preliminary assessment of the impact that the future application of the standards that come into force in annual reporting periods beginning on or after 1 January 2020 will have on the consolidated financial statements. The Group considers that the application of the new standards and amendments will not have a significant impact on its consolidated financial statements.

c) Functional currency

These consolidated financial statements are presented in euros, since it is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies described in Note 2-f.

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2019 estimates were occasionally made. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The assessment of possible impairment losses on certain assets (Notes 7, 8, 9, 10, 11, 12 and 13);
- The assumptions used in the actuarial calculation of pension and other obligations to employees (Note 15);
- The useful life of the property plant and equipment and intangible assets (Notes 3-a and 3-b);
- The fair value of certain financial assets (Note 3-d);
- The calculation of provisions (Note 20);
- The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised (Note 18);
- Changes in estimated costs in the budgets for construction projects performed and percentage of completion (Note 3-f).

Although these estimates were made on the basis of the best information available at 31 December 2019 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statement of profit or loss.

There have been no changes in accounting estimates with respect to 2018 that might have had a significant impact on these consolidated financial statements in addition to those described in Notes 20 and 26-a to these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2019 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2018.

The 2018 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2019. However, for an appropriate understanding, it should be taken into account that the Group availed itself of the option not to restate information in the transition to the new IFRS 16. The main items affected are detailed in Note 2-b to the consolidated financial statements.

In addition, with a view to performing an appropriate comparison between the consolidated financial statements for 2019 and 2018, the changes in scope described in Note 2-f should be taken into account.

f) Consolidated Group and basis of consolidation

Scope of consolidation

The accompanying consolidated financial statements include the Parent and the companies over which it exercises control; control is defined as the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The accompanying consolidated financial statements for the year ended 31 December 2019 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - Note 1) at that date and of the subsidiaries and associates listed below:

Rolling stock segment	% of control or influence	Location	Line of business
Fully consolidated companies -			
Construcciones y Auxiliar de Ferrocarriles, S.A.	Parent	Gipuzkoa	Marketing and manufacture of rolling stock equipment and components
Actren Mantenimiento Ferroviario, S.A.	51%	Madrid	Maintenance
BWB Holdings Limited (**)	100% (*)	Nottingham	Engineering
CAF Arabia Company	100%	Riyadh	Manufacturing and maintenance
CAF Argelia (EURL)	100%	Argel	Manufacturing and maintenance
Construcciones y Auxiliar de Ferrocarriles Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance
CAF Brasil Indústria e Comércio, S.A.	100%	Sao Paulo	Manufacturing and maintenance
CAF Belgium, S.P.R.L.	100%	Bruselas	Manufacturing and maintenance
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance
Construcciones y Auxiliar de Ferrocarriles CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance
CAF Digital & Design Solutions, S.A.U.	100%	Jaén	Manufacturing and engineering
CAF Diversified Business Development, S.A.U.	100%	Gipuzkoa	Holding company
CAF Engineered Modernizations, S.L.U.	100%	Gipuzkoa	Engineering
CAF France, SAS	100%	Paris	Manufacturing and maintenance
CAF Group UK Limited	100%	Coventry	Holding company
CAF Hungary Kft	100%	Budapest	Manufacturing and maintenance
CAF I+D, S.L.U.	100%	Gipuzkoa	R&D
CAF Investment Projects, S.A.U.	100%	Gipuzkoa	Business development
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance
CAF IP Colombia, S.A.S.	100%	Bogotá	Lease services
CAF Israel Rails Ltd.	100%	Tel Aviv	Building, manufacturing and maintenance
CAF Italia, S.R.L.	100%	Roma	Repairs and maintenance
CAF México, S.A. de C.V.	100%	México D.F.	Manufacturing and maintenance
CAF Netherlands, B.V.	100%	Utrecht	Manufacturing and maintenance
CAF New Zealand Limited	100%	Auckland	Manufacturing and maintenance
CAF Norway AS	100%	Oslo	Manufacturing and maintenance
CAF Power & Automation, S.L.U.	100%	Gipuzkoa	Electronic and power equipment
CAF Rail Australia Pty Ltd	100%	Sydney	Building, manufacturing and maintenance
CAF Rail Digital Services S.L.U.	100%	Gipuzkoa	Maintenance
CAF Rail Luxembourg, S.A. R.L.	100%	Luxemburgo	Manufacturing and maintenance
CAF Rail UK Limited	100%	Belfast	Manufacturing and maintenance
CAF Rolling Stock UK Limited	100%	Newport	Manufacturing
CAF Systeme Ferroviare S.R.L.	100%	Bucarest	Manufacturing and maintenance
CAF Signalling, S.L.U.	100%	Gipuzkoa	Signalling
CAF Sinyalizasyon Sistemleri Ticaret Limited Sirketi	100%	Estambul	Signalling
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance
CAF Track Test Center, S.L.U.	100%	Navarra	Track testing
CAF Turnkey & Engineering, S.L.U.	100%	Bizkaia	Engineering
CAFTurk Tren Sanayi Ve Ticaret Limited Sirketi	100%	Estambul	Manufacturing and maintenance
CAF USA, Inc.	100%	Delaware	Manufacturing and maintenance
Centro de Ensayos y Analisis Cetest, S.L.	100%	Gipuzkoa	Tests
Ctrens - Companhia de Manutenção, S.A.	100%	Sao Paulo	Lease services
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Maintenance
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	México D.F.	Building and Maintenance
Corporación Sefemex, S.A. de C.V.	100%	México D.F.	Rendering of services
Corporación Trainemex, S.A. de C.V.	100%	México D.F.	Rendering of services
Ennera Kaihatsu CO., Ltd.	100%	Tokyo	Power generation
EuroMaint Bemanning AB	100%	Solna	Maintenance
EuroMaint Components and Materials AB	100%	Solna	Maintenance
EuroMaint Gruppen AB	100%	Solna	Maintenance
EuroMaint Rail AB	100%	Solna	Maintenance
EuroMaint Rail AS	100%	Oslo	Maintenance
Geminys, S.L.	100%	Gipuzkoa	Operating manuals
Jarade, S.A.	100%	Montevideo	Signalling
Lander Simulation and Training Solutions, S.A.	64.13%	Gipuzkoa	Simulators
Metro CAF (Mauritius) Ltd.	100%	Mauricio	Building, manufacturing and maintenance
Provetren, S.A. de C.V.	100%	México D.F.	Lease services
Rail Line Components, S.L.U.	100%	Gipuzkoa	Marketing
Regiotren, S.A. de C.V.	100%	México D.F.	Lease services
Rifer SRL	100% (*)	Milán	Component maintenance
Sermanbra - Serviços de Manutenção Brasil Ltda.	100%	Sao Paulo	Maintenance
Sermanfer, S.A.U.	100%	Madrid	Maintenance
Sermantren, S.A. de C.V.	100%	México D.F.	Rendering of services
Tradinsa Industrial, S.L.	100%	Lleida	Repairs and maintenance
Tram Liège Maintenance S.A.	65%	Lieja	Maintenance
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance
Trenes de Navarra, S.A.U.	100%	Navarra	Manufacturing
Vectia Mobility Research & Development, A.I.E.	100%	Navarra	R&D

Companies accounted for using the equity method (Note 9) -			
Arabia One for Clean Energy Investments PSC.	40%	Ma'an	Power generation
Asiris Vision Technologies, S.A.	22.33%	Gipuzkoa	Automated production
CAF Tiansheng Power System Limited Company	49%	Changzhou	Electronic and power equipment
Consorcio Traza, S.A. (***)	25%	Zaragoza	Holding company
Ferrocarril Interurbano S.A. de C.V.	49.63%	México D.F.	Manufacturing and equipment
Ferrocarriles Suburbanos, S.A.P.I. de C.V.	43.35%	México D.F.	Transport services
Great River City Light Rail Pty Ltd	30%	Sydney	Operation and maintenance
Momentum Trains Holding Pty Ltd	25.50%	Sydney	Lease services
Nuevas Estrategias de Mantenimiento, S.L.	50%	Gipuzkoa	Technology solutions
Orbital Sistemas Aeroespaciales, S.L.	30%	Navarra	Aeronautical solutions
Plan Metro, S.A.	40%	Gipuzkoa	Lease services
Purple Line Transit Operators LLC	20%	Delaware	Operation and maintenance
TransJerusalem J-Net Ltd.	50%	Petah Tikva	Lease services
Tumaker, S.L.	21.11%	Gipuzkoa	Printing equipment

(*) Considering the options described in Note 15 to these consolidated financial statements.

(**) This company owns all the shares of Quincey Mason Practice, Ltd., BWB Consulting, Ltd. and BWB Regeneration, Ltd.

(***) This company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Buses segment	% of control or influence	Location	Line of business
Fully consolidated companies -			
Solaris Bus & Coach, S.A.	97.20%	Bolechow	Solutions for urban transport
Solaris Austria GmbH	97.20%	Viena	Solutions for urban transport
Solaris Bus Iberica, S.L.U	97.20%	Navarra	Solutions for urban transport
Solaris Bus Israel Ltd.	97.20%	Tel Aviv	Solutions for urban transport
Solaris Bulgaria EOOD	97.20%	Sofia	Solutions for urban transport
Solaris Bus & Coach Latvia Ltd.	97.20%	Riga	Solutions for urban transport
Solaris Bus & Coach Romania S.R.L.	97.20%	Bucarest	Solutions for urban transport
Solaris Czech spol. S.R.O.	97.20%	Ostrava	Solutions for urban transport
Solaris Danmark Bus A/S	97.20%	Padborg	Solutions for urban transport
Solaris Deutschland GmbH	97.20%	Berlin	Solutions for urban transport
Solaris France S.A.R.L.	97.20%	Ennery	Solutions for urban transport
Solaris Hellas, S.A.	68.04%	Atenas	Solutions for urban transport
Solaris Italia S.R.L.	97.20%	Roma	Solutions for urban transport
Solaris Norge AS	97.20%	Oslo	Solutions for urban transport
Solaris Schweiz GmbH	97.20%	Hausen	Solutions for urban transport
Solaris Slovakia S.R.O.	97.20%	Kosice	Solutions for urban transport
Solaris Sverige AB	97.20%	Malmö	Solutions for urban transport
Openaco Trading Co. Ltd.	100%	Chipre	Holding company
Companies accounted for using the equity method (Note 9) -			
JBM Solaris Electric Vehicles Private Limited	20%	Ballabhgarh, India	Solutions for urban transport

Changes in the scope of consolidation

On 2 July 2019, the Parent acquired control of EuroMaint Gruppen AB and subsidiaries, which includes the subsidiaries Euro Maint Rail AB, EuroMaint Components and Materials AB, EuroMaint Bemanning AB and EuroMaint Rail AS ("the EuroMaint Group"), which were included in the CAF Group's scope of consolidation. A detail of the companies, together with the percentages of ownership of each company, is provided in the previous section of the present note.

The costs incurred by the Group in relation to this transaction amounted to EUR 1,416 thousand and were recognised as expenses in the accompanying consolidated statement of profit or loss for 2019.

The detail of the fair value assets acquired and liabilities assumed in the aforementioned transaction is as follows:

	Thousands of euros
Non-current assets	
Intangible assets	23,918
Property, plant and equipment	39,889
Non-current financial assets	757
Deferred tax assets	440
Current assets	
Inventories	38,236
Trade and other receivables	21,575
Other current assets	4,249
Non-current liabilities	
Long-term provisions	(213)
Non-current financial liabilities	(26,141)
Lease financial liabilities	(13,413)
Deferred tax liabilities	(7,366)
Current liabilities	
Short-term provisions	(416)
Current financial liabilities	(4,448)
Lease financial liabilities	(6,976)
Trade and other payables	(28,604)
Other current liabilities	(394)
Total net assets	41,093
% acquired	100%
Total net assets acquired	41,093

At 31 December 2019, the business combination had been provisionally accounted for and determined and was within the one-year period provided for under applicable legislation to determine the fair value of the assets acquired and liabilities assumed. The work required to obtain a market measurement of the assets acquired and liabilities assumed will be completed before the end of that period. The provisional calculation of the goodwill is broken down as follows:

	Thousands of euros
Consideration	50,829
Net assets acquired	41,093
Goodwill (Note 7)	9,736

This acquisition strengthens the commercial and industrial presence of all the railway activities in the Nordic countries, mainly in the area of component maintenance and supply (services).

The net cash flow generated by this transaction at 31 December 2019 is broken down in the following table:

	Thousands of euros
Cash paid in the transaction	50,829
Cash acquired in the transaction	-
Net cash transferred	50,829

The contribution of the EuroMaint Group to the accompanying consolidated statement of profit or loss for 2019 amounted to a loss of EUR 567 thousand and a revenue of EUR 71,336 thousand.

Had the acquisition of the EuroMaint Group been completed on the first day of the year, Group revenue for the year would have been EUR 76,463 thousand higher and the profit contributed would have been EUR 141 thousand higher.

Also, in 2019 CAF Diversified Business Development, S.A.U. acquired an additional 7.06% ownership interest in Lander Simulation and Training Solutions S.A. for EUR 1,125 thousand, bringing the Group's ownership interest to 64.13%.

In addition, in 2019 two corporate restructuring transactions were carried out within the Group.

The first relates to the merger by absorption of Ennera Energy and Mobility S.L. into CAF Turnkey & Engineering, S.L.U.

In June 2019 the Group acquired the shares of the non-controlling interest of Vectia Mobility, S.L. and Vectia Mobility Research & Development, A.I.E. (ownership interest of 30%, respectively) for a total of EUR 7 million, and this non-controlling interest was included in the shareholder structure of the Solaris Bus & Coach, S.A. Group through the acquisition of a 2.8% holding and a payment of EUR 7 million. On 5 July 2019, the merger of Solaris Bus Ibérica, S.L.U. and Vectia Mobility S.L. was performed. The impact on consolidated equity gave rise to a charge of approximately EUR 7 million to "Other Reserves" with a credit to "Non-Controlling Interests".

The following companies were incorporated in 2019: CAF Engineered Modernizations S.L.U., CAF Norway AS, CAF Rail Luxembourg, S.À R.L., Jarade, S.A., CAF Rail Digital Services, S.L.U., CAF Israel Rails Ltd and CAF IP Colombia S.A.S., with a 100% ownership interest; Momentum Trains Holding Pty Ltd, in which the subsidiary CAF Investment Projects, S.A.U. has a 25.50% interest; TransJerusalem J-Net Ltd, which is 50%-owned by the Parent; and CAF Tiansheng Power System Limited Company, which is 49%-owned by the subsidiary CAF Power & Automation, S.L.U.

Lastly, NEM USA, Inc. was liquidated.

In 2018 the most significant change in the scope of consolidation was the Parent's obtainment of control of Solaris Bus and Coach, S.A. and Subsidiaries ("Solaris"), which were consolidated in the CAF Group on 4 September 2018 as described in Note 2-f to the consolidated financial statements for 2018.

In 2019, within the periods established by the legislation, the measurement of all the assets acquired and liabilities assumed was reviewed with the assistance of an independent expert (Note 2-e). In relation to the foregoing, the detail of the assets acquired and liabilities assumed in the aforementioned transaction measured at fair value is as follows:

	Thousands of euros		
	Provisional amounts	Adjustments (Note 7)	Definitive amounts
Non-current assets			
Intangible assets	142,068	1,785	143,853
Property, plant and equipment	106,207	-	106,207
Investments in Group companies and associates	1,586	-	1,586
Long-term financial investments	84	-	84
Deferred tax assets	15,316	-	15,316
Other non-current assets	2,684	-	2,684
Current assets			
Inventories	165,824	-	165,824
Trade and other receivables	89,232	(1,063)	88,169
Current financial assets	2,725	-	2,725
Other current assets	3,764	-	3,764
Cash and cash equivalents	31,939	-	31,939
Non-current liabilities			
Long-term provisions	(206)	-	(206)
Non-current financial liabilities	(111,891)	-	(111,891)
Deferred tax liabilities	(27,016)	(339)	(27,355)
Other non-current liabilities	(40,976)	-	(40,976)
Current Liabilities			
Current provisions	(44,556)	-	(44,556)
Current financial liabilities	(74,388)	-	(74,388)
Trade and other payables	(149,177)	803	(148,374)
Other current liabilities	(8,862)	-	(8,862)
Total net assets	104,357	1,186	105,543
% acquired	100%	100%	100%
Total net assets acquired	104,357	1,186	105,543

The calculation of the goodwill is broken down as follows (in thousands of euros):

	Solaris
Consideration	197,979
Net assets acquired	105,543
Goodwill	92,436

In 2018 the Parent also acquired a 30% ownership interest in Orbital Sistemas Aeroespaciales, S.L. for EUR for EUR 5,500 thousand and incorporated Metro CAF (Mauritius) Ltd., CAF Belgium S.P.R.L., CAF Track Test Center, S.L.U., Tram Liège Maintenance S.A. and Great River City Light Rail Pty Ltd. Also, there was a change in the percentage of ownership of Tumaker, S.L. resulting in a 21.11% holding.

Consolidation method

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise control; control exists when the Parent has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all balances and effects of the transactions between consolidated companies were eliminated on consolidation.

Also, "associates" are companies over which the Parent is in a position to exercise significant influence, but not control or joint control. A "joint venture" is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. In the consolidated financial statements, investments in associates are accounted for using the "equity method", i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations, less any impairment of the individual investments (in the case of transactions with an associate, the related profits or losses are eliminated in proportion to the Group's ownership interest).

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control, which exists only when decisions on significant activities require the unanimous consent of the parties sharing control. When a Group company carries on its activities under the framework of a joint operation, the Group as a joint operator will recognise the following in relation to its ownership interest in the joint operation:

- its assets and liabilities, including its share of any assets and liabilities held or incurred jointly;
- its share of the revenue and expenses arising from the joint operation.

Translation of foreign currency financial statements

The financial statements in foreign currencies were translated to euros using the "year-end exchange rate" method, which consists of translating all the assets, rights and obligations to euros at the closing exchange rates and the statement of profit or loss items at the average exchange rates for the year.

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the asset value arising from the translation of the assets, rights and obligations at the closing exchange rates from 1 January 2004 is presented in equity under "Translation Differences" in the consolidated balance sheet, net of the portion of the difference that relates to non-controlling interests, which is recognised under "Equity - Non-Controlling Interests".

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2018.

3. Accounting principles and policies and measurement bases applied

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements as at 31 December 2019 and 2018 were as follows:

a) Intangible assets

Goodwill

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3-c and, where appropriate, are written down.

Other intangible assets

Intangible assets (internal computer software developments and development projects for which there are no doubts as to their technical and commercial success) are measured at their acquisition cost or accumulated production cost applied in accordance with inventory measurement bases (Note 3-e).

Commercial relationships, customer portfolio and trademarks arise mainly from business combinations (acquisitions of Solaris, EuroMaint, BWB and Rifer) and are recognised initially at acquisition-date fair value, which is their deemed cost (Note 2-f).

Other intangible asset items are amortised on a straight-line basis at rates based on the following years of estimated useful life:

	Years of estimated useful life
Commercial relationships and customer portfolio	1,5 – 18
Patents, licences and trademarks	20 – indefinite useful life
Development expenditure	5
Computer software and other	2 – 10

Development projects are amortised on a straight-line basis over five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (Note 7).

b) Property, plant and equipment

Items of "Property, plant and equipment" are carried at cost revalued, where appropriate, pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996, of 5 December, and the surplus resulting therefrom was treated as part of the cost of these assets, in accordance with IFRSs and pursuant to the alternative accounting treatment provided for by IFRS 1, whereby the fair value at the date of transition is used as the deemed cost for certain specific assets.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

In-house work performed by the consolidated companies on items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (Note 3-e).

The items of property, plant and equipment are depreciated on a straight-line basis at rates based on the following years of estimated useful life:

	Years of estimated useful life
Buildings	25 – 50
Plant and machinery	3 – 10
Transport equipment (Leasing)	5 – 10
Other fixtures, tools and furniture	3 – 10
Other items of property, plant and equipment	5 – 20

In general, for items of property, plant and equipment that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans borrowed specifically or generally directly attributable to the acquisition or production of the assets.

c) Impairment of assets

At each balance sheet date, the CAF Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

The recoverable amounts are calculated for each cash-generating unit, although in the case of property, plant and equipment, wherever possible, the impairment tests are performed individually for each asset.

If an impairment loss has to be recognised for a cash-generating unit to which all or part of an item of goodwill has been allocated, the carrying amount of the goodwill relating to that unit is written down first. If the loss exceeds the carrying amount of this goodwill, the carrying amount of the other assets of the cash-generating unit is then reduced, on the basis of their carrying amount, down to the limit of the highest of the following values: fair value less costs to sell; value in use; and zero.

Where an impairment loss subsequently reverses (not permitted in the specific case of goodwill), the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised as income.

d) Financial instruments

In accordance with the classification criteria established by IFRS 9, the Group classifies its financial assets in the following categories:

Financial assets

The financial assets held by the Group are classified on the basis of the nature of the financial asset's contractual cash flows and the business model for managing its financial assets, in the following categories:

1. Financial assets at amortised cost

This category includes financial assets that are held for the purpose of collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised at fair value and are subsequently measured at amortised cost.

The Group calculates a loss allowance for expected credit losses taking as a reference the expected losses in the next 12 months, unless the credit risk has increased significantly, in which case the Group calculates the loss allowance taking as a reference the expected life of the financial instrument.

In order to calculate this impairment, the Group uses as reference the creditworthiness of the borrowers, which is estimated using information available in the market (ratings) and adjusted following a case-by-case analysis of the collection guarantees available.

The Group derecognises a financial asset when all the risks and rewards of ownership of the asset have been transferred to another entity or when the contractual rights to the cash flows from the asset expire. At 31 December 2019, the Group had derecognised receivables amounting to EUR 60,639 thousand (31 December 2018: EUR 28,108 thousand) as a result of non-recourse factoring agreements.

2. Financial assets measured at fair value through other comprehensive income

Equity instruments that the Group has made the irrevocable election to classify as financial assets at fair value through other comprehensive income are recognised in this category.

The financial assets included in this category are initially recognised at fair value including any transaction costs. These assets are subsequently measured at fair value through other comprehensive income. The cumulative gain or loss is not transferred to profit or loss on disposal of these equity instruments. Dividends are recognised under "Finance Income" in the consolidated statement of profit or loss.

The Group has designated all its investments in equity instruments as measured at fair value through other comprehensive income (Note 9).

3. Financial assets at fair value through profit or loss

Assets that do not meet the requirements to be included in either of the other two categories are included in this category. The financial assets included in this category are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given. Directly attributable transaction costs are recognised in profit or loss. After initial recognition, the assets in this category are measured at fair value through profit or loss.

Financial Liabilities

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate. The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

Borrowings are recognised initially at fair value less the transaction costs incurred. They are subsequently measured at amortised cost, and any difference between the funds obtained (net of the costs required to obtain them) and the repayment value is recognised in the statement of profit or loss over the term to maturity of the debt using the effective interest method.

The Group only derecognises financial liabilities when the obligations giving rise to them are cancelled, eliminated or expire.

Derivative financial instruments

The Group uses derivative financial instruments to hedge the foreign currency risk to which its project contracts and certain investments in investees are exposed, and to hedge the interest rate risk arising from loan drawdowns (Notes 5 and 17).

The fair value of the derivative financial instruments was calculated including the credit risk, the entity's own credit risk for liability derivative financial instruments, and the counterparty's credit risk for asset derivative financial instruments.

The Group reviews the conditions for a financial derivative to qualify for hedge accounting to ensure that such conditions are met, i.e.: (1) it hedges one of the following three types of risk: fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation; (2) it effectively eliminates any risk inherent to the hedged item or position throughout the projected term of the hedge; and (3) there is suitable documentation to evidence that the financial derivative was arranged specifically to hedge certain balances or transactions and how it was intended to achieve and measure the effectiveness of the hedge, provided that this was consistent with the Group's risk management policy.

The CAF Group has defined financial risk management objectives and policies which set forth, in writing, the policy in respect of the arrangement of derivatives and hedging strategy.

These financial instruments are initially recognised at acquisition cost. The changes in the fair value of the derivative financial instruments that were designated and effective as hedges are subsequently recognised as follows:

- In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under "Financial Loss" in the accompanying consolidated statement of profit or loss. The Group recognises as fair value hedges the hedges arranged for construction work when the necessary conditions are met for hedges of this nature (existence of a firm commitment).
- In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instrument are recognised temporarily in equity under "Valuation Adjustments - Hedges". This method is used by the Group to hedge projects in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction, and for interest rate hedges. To the extent that a highly probable transaction gives rise to a firm commitment, the amounts previously recognised in equity are reclassified to profit or loss.
- In hedges of net investments in foreign operations, the gains or losses attributable to the portion of the hedging instrument qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences".

Fair value measurements of financial assets and liabilities are classified according to the following hierarchy established in IFRS 13:

- Level 1: quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

The detail of the CAF Group's assets and liabilities measured at fair value according to the levels indicated above at 31 December 2019 and 2018 is as follows (in thousands of euros):

2019

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	24,911	24,911
Derivatives (Note 17)	-	85,011	-	85,011
Other financial assets (Note 13)	60,564	-	-	60,564
Total assets	60,564	85,011	24,911	170,486
Liabilities				
Derivatives (Note 17)	-	106,917	-	106,917
Other financial liabilities (Note 15)	-	-	12,110	12,110
Total liabilities	-	106,917	12,110	119,027

2018

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	22,834	22,834
Derivatives (Note 17)	-	16,569	-	16,569
Other financial assets (Note 13)	59,281	-	-	59,281
Total assets	59,281	16,569	22,834	98,684
Liabilities				
Derivatives (Note 17)	-	75,373	-	75,373
Other financial liabilities (Note 15)	-	-	8,656	8,656
Total liabilities	-	75,373	8,656	84,029

The fair value of the derivative financial instruments was calculated using mainly variables based on observable market data (year-end exchange rates and yield curves).

To calculate the fair value of equity instruments, the Group uses appropriate measurement techniques based on the circumstances and on the volume of inputs available for each ownership interest, attempting to maximise the use of relevant observable inputs. These investments were measured at fair value using the business model of each one and the contractual terms and conditions thereof, assessing different scenarios and using discount rates checked with independent experts (Note 9-b).

The Group considers that, due to their characteristics, the fair value of the financial assets and liabilities measured at amortised cost does not significantly differ from their amortised cost.

e) Inventory measurement bases

Raw materials and other supplies and goods held for resale are measured at the lower of average acquisition cost or net realisable value.

Work in progress and finished and semi-finished goods are presented net of costs already settled as described in Note 3-f and are measured as follows:

- Materials and expenses allocated to each project: at the average acquisition or production cost.
- Processing costs: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ significantly from actual hourly rates.
- For inventories that require a period of more than twelve months to be ready for sale, cost includes borrowing costs.

f) Recognition of contract revenue and profit

The Group recognises revenue from the following main sources:

- *Construction and engineering contracts*

For train and traction equipment construction contracts, the Group generally recognises the income and profit or loss on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the actual hours incurred in each contract as a percentage of the estimated total hours, which is in keeping with other methods for determining the stage of completion on the basis of the costs incurred compared with the budgeted costs.

Once the projected profit or loss on each contract has been determined, the Group applies the following correcting coefficients to determine actual profit or loss and revenue:

- With a percentage of completion of between 0% and 10%, no profit or revenue is recognised, in order to take into account the initial margin of uncertainty of the contracts in the long term.

- From 10% onwards, a percentage of profit and revenue equal to the percentage of completion is recognised.

For civil engineering construction contracts, signalling and engineering services, revenue and the profit or loss on these contracts are recognised by reference to the estimated stage of completion of the contract, calculated on the basis of the costs incurred compared with the total budgeted costs.

Potential losses on project contracts are recognised in full when they become known or can be estimated.

The Group only recognises income arising from claims when the customer has accepted the claim and there is evidence of such acceptance by means of a contractual amendment or a similar legal document.

Based on the revenue realised, the projected profit or loss on each contract (calculated as described above) and the stage of completion, inventories are derecognised for the amount of the costs settled with a charge to the related consolidated statement of profit or loss and a credit to "Inventories" on the asset side of the consolidated balance sheet (Note 11).

Lastly, since the guarantees that are offered on these contract are not higher than those offered in the industry and are not additional guarantees, they are considered to be a single performance obligation together with the construction of the train or traction equipment.

- *Sale of buses, wheel sets, replacement parts and lesser refurbishments*

Revenue from sales of buses, wheel sets, replacement parts and lesser refurbishments is recognised when control of the asset is transferred to the customer and the entity satisfies a performance obligation deemed to be the point in time when the bus is delivered.

In certain bus contracts there are repurchase options (buybacks) in which a case-by-case analysis is performed to determine whether control has been transferred to the customer. The transfer criterion in these cases is based on whether or not the customer has a significant economic incentive to exercise that right. If it is considered that the customer has a significant economic incentive to exercise that right, the entity shall account for the revenue as an operating lease over the term of the transaction until the date of the repurchase option (Notes 3-m and 21).

The main factor taken into consideration in order to conclude as to whether there is an economic incentive for the client is the relationship of the repurchase price to the expected market value of the bus at the date of the repurchase.

If it is concluded that the customer does not have a significant economic incentive to exercise its right, the revenue is recognised as if it were the sale of a product with a right of return. In this case, a large proportion of the revenue is recognised when the bus is delivered. Also, a liability for the amount to be returned to the customer and an asset for the right of return are recognised in the consolidated balance sheet. If finally the bus is not returned at the right date, the Group recognises the liability as revenue and the asset as an expense (Note 21).

- *Maintenance contracts*

Maintenance revenue is recognised over the term of the contract. In general, revenue is recognised on a straight-line basis over the aforementioned time interval, unless there is evidence that another method better reflects the stage of completion at any time. That is, in multi-year projects with constant monthly billings where the resources available to perform the service are recognised on a straight-line basis, the billings made are assumed to be equal to the corresponding revenue.

However, when major repairs take place over specific periods of time, the percentage of completion of a contract is postponed and the recognition of a portion of the revenue from the billings received is deferred until the periods when the major repairs take place.

In these cases, this difference is recognised with a charge to "Revenue" in the accompanying consolidated statement of profit or loss and a credit to "Other Non-Current Liabilities" in the accompanying consolidated balance sheet (Note 21).

- *Income for financial assets*

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment is established. In any case, interest and dividends from financial assets accrued after the date of acquisition are recognised as income in the consolidated statement of profit or loss.

g) Consolidated balance sheet balances relating to revenue recognition

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on achievement of the various milestones established in the contract and on acknowledgement thereof by the customer. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to the customer. The difference between revenue recognised on each project (Note 3-f) and the amount billed for the project is recognised as follows:

- If the difference is positive, "Contract Assets" under "Trade and Other Receivables - Trade Receivables for Sales and Services" (Note 12).
- If the difference is negative, "Contract Liabilities" under "Trade and Other Payables – Other Payables" and "Other non-current assets" (Note 12).

h) Current/Non-current classification

Items are classified under "Current Assets" and "Current Liabilities" (contract assets, contract liabilities and short-term provisions) which may be realised or settled in more than twelve months, since they form part of the Group's normal cycle as established in the applicable legislation. Considering the items as a whole, the directors' estimates indicate that the current assets will be realised essentially in the short term and, in any event, the current liabilities to be settled in more than twelve months exceed the current assets that would be realised in more than twelve months (Notes 12 and 20).

i) Government grants

The Group companies recognise government grants received as follows:

- Grants related to assets are recognised at the amount granted, as a reduction of the value of the subsidised asset when they are definitively granted and are credited to profit or loss in proportion to the period depreciation on the assets for which the grants were received.
- Grants related to income are recognised in profit or loss when they are definitively granted.

j) Post-employment benefits

The consolidated Group companies' legal and contractual obligations to certain of their employees in relation to supplementary retirement and death benefits are met through premiums under defined benefit plans to external funds deposited, or in the process of being externalised, at independent insurance companies. The contributions made in 2019 for various groups of employees amounted to EUR 8,466 thousand (2018: EUR 8,543 thousand). The impact of these obligations on the consolidated statement of profit or loss for 2019 amounted to EUR 3,410 thousand (2018: EUR 3,308 thousand) with a charge to "Staff costs". In 2019 a net actuarial loss of EUR 5,816 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2018: a net actuarial loss of EUR 2,403 thousand).

In accordance with the accrual basis of accounting, at 31 December 2019 the Group recognised a current asset of EUR 105 thousand and a current liability of EUR 597 thousand, calculated by an independent valuer, in the consolidated balance sheet. This amount is the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as "plan assets" (31 December 2018: EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (Notes 15 and 23).

In the assumptions applied in the actuarial study performed by an independent third party, the future obligations were discounted at a market rate, taking into account salary increases similar to those made in the past.

In accordance with the applicable collective agreement, the Parent contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (Notes 23, 24 and 25).

Lastly, certain subsidiaries have other obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2019 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 6,319 thousand and EUR 3,953 thousand, respectively (31 December 2018: EUR 3,946 thousand and EUR 3,456 thousand, respectively) (Note 20).

k) Early retirements and termination benefits

At 31 December 2019, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR3,153 thousand and EUR 2,712 thousand, respectively (31 December 2018: EUR 3,408 thousand and EUR 2,799 thousand), relating to the present value estimated by the Parent's directors of the future payments to be made to employees who in December 2019 with whom hand-over contracts had been entered into. The net provision for 2019 was recognised with a charge of EUR 3,050 thousand (2018: EUR 575 thousand) to "Staff costs" in the consolidated statement of profit or loss (Note 23).

l) Income tax

The expense for income tax and other similar taxes applicable to the foreign consolidated entities are recognised in the consolidated statement of profit or loss, except when it results from a transaction the result of which is recognised directly in equity, in which case the related tax is also recognised in equity.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets are recognised for tax loss and tax credit carryforwards and temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax assets can be utilised, which at the consolidated CAF Group are deemed to be those that will be earned in the period covered by its backlog.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

m) Leases

• The Group as lessee:

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. The Group recognises a right-of-use asset and its corresponding liability for all leases, except for short-term or low-value asset leases. In such cases, the Group recognises the lease payments as an operating expense on a straight-line basis over the lease term.

The lease liability is recognised initially at the present value of the outstanding lease payments at the date of initial measurement, discounted using the Group's incremental borrowing rate.

The lease payments included in the calculation are as follows:

- Fixed lease payments.
- Amounts expected to be payable under residual value guarantees.
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing its carrying amount to reflect the interest on the liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Group remeasures its lease liability (and makes the corresponding adjustment to the right-of-use asset) when:

- There is a change in the lease term or the assessment of an option to purchase the underlying asset, in which case the lease liability is remeasured using a revised discount rate.
- There is a change in future lease payments resulting from a change in an index or a change in the residual value, in which case the lease liability is recalculated using an unchanged discount rate.
- A lease is modified and is not considered to be a separate lease, in which case the lease liability is remeasured using the new lease term and a revised discount rate.

The right-of-use asset consists of: the amount of the initial measurement of the lease liability; any lease payments made before the commencement date, less any lease incentives received; and any initial costs. This asset is subsequently measured at cost less any accumulated depreciation and impairment.

Right-of-use assets are depreciated over the term of the lease. If the asset reflects the value of the purchase option, the depreciation period will be the useful life of the leased asset. Depreciation begins at the commencement date of the lease.

- **The Group as lessor**

The Group acts as lessor in certain bus contracts (see Note 3-f). Leases in which the contract establishes that the risks and rewards of ownership are transferred to the lessee are classified as finance leases, and all others are classified as operating leases.

Operating lease income is recognised on a straight-line basis over the lease term. The initial direct costs incurred in negotiating and entering into the operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

n) Administrative concessions

Concessions represent arrangements between a public sector grantor and CAF Group companies to provide public services such as preventative, corrective and inspection services for various railway lines through the operation of infrastructure. Revenue from providing the service may be received directly from the users or, sometimes, through the concession grantor itself, which regulates the prices for providing the service.

The concession right generally means that the concession operator has an exclusive right to provide the service under the concession for a given period of time, after which the infrastructure assigned to the concession and required to provide the service is returned to the concession grantor, generally for no consideration. The concession arrangement must provide for the management or operation of the infrastructure. Another common feature is the existence of obligations to acquire or construct all the items required to provide the concession service over the concession term.

These concession arrangements are accounted for in accordance with IFRIC 12, "Service Concession Arrangements". In general, a distinction must be drawn between two clearly different phases: the first in which the operator provides construction or upgrade services which are recognised as intangible or financial assets by reference to the stage of completion pursuant to IFRS 15 "Revenue from Contracts with Customers", and a second phase in which the operator provides a series of maintenance or operation services for the aforementioned infrastructure, which are recognised in accordance with the same standard.

An intangible asset is recognised when the demand risk is borne by the operator and a financial asset is recognised when the demand risk is borne by the grantor, since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. Finance income arising from measurement of the financial asset of concessions at amortised cost is recognised under "Revenue" in the consolidated statement of profit or loss. Since they meet the required conditions, the concessions recognised by the Group (Note 9) are classified as financial assets.

4. Distribution of the profit of the Parent

The proposed distribution of the profit for 2019 that the Parent's directors will submit for approval by the shareholders at the Annual General Meeting is as follows:

Distribution	Thousands of euros
Distributable profit	
Profit for the year	1,950
Voluntary reserves	26,914
	28,864
Distribution	
Dividends	28,864

5. Financial risk management

The CAF Group is exposed to various risks inherent to the activities it carries on and to the various countries and markets in which it operates, which may prevent it from meeting its objectives.

These risks include financial risks: market risk (including exchange rate risk, interest rate risk and commodity price risk), credit risk, liquidity risk and financing risk.

The financial risk management policy adopted by the CAF Group focuses on managing the uncertainty of financial markets and aims to minimise the potential adverse effects on the achievement of the Group's objectives.

The Group's Financial Department identifies, analyses, assesses and defines the treatment, and performs the monitoring and control, of the financial risks in accordance with the General Risk Management and Control Policy and the specific policies for the management of financial risk established by the Board of Directors.

a) Market risk

The CAF Group manages market risk in accordance with the principles set out in the Market Risks Policy.

a.1) Cash flow and fair value interest rate risk

The interest rate risk arises from the possibility that changes may occur in the value of the Group's financial assets and liabilities as a result of changes in market interest rates. In accordance with the policy, financing transactions are performed under appropriate cost, term and risk terms and conditions, considering at all times optimal use of the various instruments and sources of financing. Specifically, the Group sets an objective, to the extent permitted by the markets, of maintaining a borrowing structure balanced between fixed and floating interest rates (usually Euribor) the goal of which is to maintain an adequate balance between the cost of financing and the risk of changes in interest rates.

In this regard, a significant portion of the financial debt at 31 December 2019 related, on the one hand, to the concessions obtained in Brazil and Mexico (Notes 9 and 16), and, on the other, to the Parent's debt for the financing of its activity and that of the other Group companies.

The debt relating to the train lease company in Brazil is a structured project finance loan without recourse to the other Group companies which is tied to the TJLP (a long-term reference rate published by the Central Bank of Brazil). For the debt relating to the train lease company in Mexico, the Group entered into an interest rate swap in order to convert the loan's floating interest rate into a fixed rate, for 80% of the amount drawn down on the loan, affecting in turn 80% of its term.

With regard to the Parent's debt at 31 December 2019, it has a liability exposure of EUR 219 million in relation to changes in market interest rates (31 December 2018: EUR 205.8 million) and EUR 457,3 million in relation to fixed interest rates (31 December 2018: EUR 410.2 million), of which EUR 25 million were fixed as a result of interest rate derivatives (31 December 2018: EUR 31.7 million) (Notes 16 and 17). The debt of the subsidiaries CAF Investment Projects, S.A.U. and Solaris Group are tied to market interest rates (Note 16).

Taking into consideration the balance at 31 December 2019 and 2018, if the average of the market-tied interest rates of third-party borrowings had been 100 basis points higher or lower, with all other variables remaining constant, and considering the hedging policies described above, the finance costs arising from the financial debt would have risen by approximately EUR 5,937 thousand and EUR 5,283 thousand, respectively.

a.2) Foreign currency risk

The various CAF Group companies operate on an international stage and, therefore, are exposed to foreign currency risk in their foreign currency transactions (currently the US dollar, the Brazilian real, the pound sterling, the Polish zloty, the Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Japanese yen, the Colombian peso, the New Zealand dollar and the Hungarian forint, among others).

The foreign currency risk to which the Group is exposed as a result of its operations in the international sphere is managed in accordance with the Market Risks Policy, which envisages various strategies aimed at reducing that risk, such as, for example, the arrangement of financial or natural hedges, ongoing monitoring of exchange rate fluctuations and other complementary measures.

In line with the principles of this policy, as a general rule the Group transfers to third parties, provided that the cost is reasonable, the foreign currency risk associated with its contracts denominated in currencies other than the functional currency. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Group's results present fairly its industrial and services activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2019 of a 10% depreciation of the Brazilian real against the euro at 31 December 2019 would be a loss of EUR 5,554 thousand (31 December 2018: EUR 3,297 thousand). Also, the impact of a 10% devaluation of the pound sterling against the euro with respect to its closing exchange rate would be a gain of EUR 4,400 thousand. In the event of a 10% devaluation of its functional currency (Polish zloty) against the euro with respect to its closing exchange rate at 31 December 2019, the Group company Solaris Bus & Coach, S.A. would obtain a gain of EUR 6,381 thousand (31 December 2018: EUR 4,429 thousand). The exchange rate fluctuation described above would have an opposite sign effect on the net investment in a foreign operation denominated in Polish zlotys. The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2019 and 2018, the Group was exposed to the foreign currency risk on the net investment in those subsidiaries whose functional currency is not the euro, except in the case of the US dollar, the exposure to which is partially hedged.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2019 and 2018 is as follows:

Currency	Equivalent value in thousands of euros					
	31/12/19			31/12/18		
	Assets	Liabilities	Net exposure	Assets	Liabilities	Net exposure
Chilean peso	16,502	13,536	2,966	27,615	24,547	3,068
Mexican peso	248,779	226,582	22,197	145,372	124,414	20,958
Argentine peso	628	275	353	980	492	488
Brazilian real	430,845	262,100	168,745	451,589	265,408	186,181
US dollar (Note 3-d) (*)	535,861	288,320	49,843	557,795	304,907	47,284
Pound sterling	131,930	75,939	55,991	91,805	35,972	55,833
Algerian dinar	5,868	3,179	2,689	4,540	2,641	1,899
Turkish lira	3,691	1,856	1,835	4,139	2,578	1,561
Venezuelan bolivar	65	62	3	59	59	-
Indian rupee	9,115	689	8,426	8,509	83	8,426
Australian dollar	21,375	20,738	637	1,091	964	127
Colombian peso	1,335	946	389	2,126	1,589	537
Saudi riyal	18,976	13,858	5,118	12,134	8,388	3,746
New Zealand dollar	10,792	8,381	2,411	5,675	3,896	1,779
Romanian leu	320	194	126	307	187	120
New Taiwan dollar	12,641	6,518	6,123	13,224	7,409	5,815
Hungarian forint	602	330	272	625	380	245
Japanese yen	110	7	103	1,141	1,056	85
Mauritian rupee	4,240	4,015	225	1,491	1,476	15
Polish zloty	727,233	491,445	235,788	659,046	419,945	239,101
Swiss franc	10,116	6,952	3,164	4,275	1,689	2,586
Norwegian krone	7,016	9,656	(2,640)	5,545	8,606	(3,061)
Swedish krona	215,929	163,282	52,647	7,047	6,070	977
Uruguayan peso	1	-	1	-	-	-
Total	2,413,970	1,598,860	617,412	2,006,130	1,222,756	577,770

(*) At 31 December 2019, there were hedges of net investments in foreign operations (Note 17) amounting to EUR 197,698 thousand, applying the year-end exchange rate (31 December 2018: EUR 205,604 thousand).

In the event of a 10% appreciation or depreciation of all the foreign currencies, the pre-tax impact on the Group's equity would amount to EUR 61,741 thousand at 31 December 2019, before considering its fiscal impact (31 December 2018: EUR 57,777 thousand).

The detail of the main foreign currency balances of subsidiaries is as follows:

Nature of the balances	Equivalent value in thousands of euros			
	31/12/19		31/12/18	
	Assets	Liabilities	Assets	Liabilities
Goodwill	108,804	-	101,620	-
Other intangible assets	165,940	-	156,466	-
Property, plant and equipment	233,290	-	184,733	-
Non-current financial assets and deferred tax assets	551,017	-	513,249	-
Other non-current assets	7,208	-	2,684	-
Inventories	384,954	-	314,042	-
Trade and other receivables	711,857	-	544,254	-
Other current financial assets	88,966	-	50,703	-
Cash and cash equivalents	161,934	-	138,379	-
Non-current liabilities	-	639,069	-	503,645
Current liabilities	-	959,791	-	719,111
Total	2,413,970	1,598,860	2,006,130	1,222,756

a.3) Commodity price risk

For the most significant commodities, the Group's orders are placed and prices closed when each new project commences. The risk of a rise in commodity prices having an adverse effect on the contractual margins is thus hedged.

b) Credit risk

Most of the Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Group's standard practice is to hedge against certain risks of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature. The decision on whether or not to hedge is taken on the basis of the type of customer and the country in which it operates.

At 31 December 2019 and 2018, the Group had insured a portion of its accounts receivable from customers in certain countries abroad, taking into account the risk of each of them, through credit insurance policies (Note 12).

c) Liquidity and financing risk

As determines the Liquidity and Financing Policy, prudent liquidity and financing risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations fully and effectively (Notes 14-h and 16).

The CAF Group manages liquidity and financing risk using the following mechanisms:

- Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not be in the same timeframe, which results in financial resources being consumed.
- Implementing and maintaining an active working capital management policy through ongoing monitoring of compliance with billing milestones for each project commissioned.
- Maintaining a strong short-term liquidity position.
- Maintaining surplus undrawn credit balances.

d) Brexit: impact on financial risks

The emergence of Brexit in June 2016 gave rise to the need to conduct an analysis of its consequences and its effect on the Group's various lines of business. Following this analysis, a series of mechanisms were activated to anticipate and manage such effects.

Identified among the consequences with the greatest impact were the operational risks of the contracts in the Group's backlog (amounting to EUR 1,600 million at 31 December 2019) and future calls for tender. For this area in particular, the Company identified and analysed projects that could have an impact due to changes in customs and/or import tariff processes and due to the movement of people for the various Brexit scenarios and time horizons and, consequently, the appropriate action measures for each situation were established.

Similarly, as in the other countries in which CAF operates, an analysis was conducted of the impacts related to the financial risks. In the case of the pound sterling exchange rate risk, its potential impact is detailed in Note 5-a.2) above, and there is no exposure in the case of LIBOR interest rate risk.

Worthy of mention is the continuous monitoring and control used in the measures and action plans created to mitigate the consequences of Brexit.

6. Segment reporting

a) Basis of segmentation

Segment reporting on the CAF Group in the accompanying consolidated financial statements is structured as follows:

- By business unit, distinguishing between the "Rolling Stock" and the "Buses" operating activities. The latter is the result of the acquisition of Solaris (Note 2-f).
- Information based on the Group's geographical location and products and services group is also included.

b) Basis and methodology for segment reporting

Segment revenue and expenses relate to those directly attributable to the segment and, accordingly, do not include interest, dividends or gains or losses arising from the disposal of investments or on debt redemption or repayment transactions. Segment assets and liabilities are those directly related to the segment's operating activities or to the ownership interests in companies engaged in that activity.

In accordance with the basis for primary segment reporting set forth in IFRSs (IFRS 8 "Operating Segments"), the CAF Group considered the two business units operated by it as its primary segments, since it considers that its organisational and management structure and its system of internal reporting to its managing and executive bodies are such that the risks and returns are affected predominantly by the fact that its operations are performed in one or the other business area, taken to be all of the related products and services. Accordingly, the segmentation is made up of the CAF Group's identifiable components that are subject to risks and returns that are different from those of components operating in other economic environments.

Therefore, the Group defined the following segments, which it considers fulfil the internal consistency requirements with regard to the similarity of their economic conditions, policies or the risks arising from the applicable regulations, exchange rates or proximity of activities and are differentiated with respect to the other segments for the same reasons:

- Rolling stock
- Buses

Segment information about the businesses is as follows:

Segmentation by business unit	2019 (Thousands of euros)				
	Rolling stock	Buses	General	Inter-segment	Total
External sales	1,947,550	650,105	-	-	2,597,655
Inter-segment sales	3,433	-	-	(3,433)	-
Total sales	1,950,983	650,105	-	(3,433)	2,597,655
Adjusted EBITDA	204,193	39,505	-	-	243,698
Depreciation and amortisation charge (Notes 7 and 8)	(54,991)	(25,676)	-	-	(80,667)
Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9)	(51)	(114)	-	-	(165)
Adjusted EBIT	149,151	13,715	-	-	162,866
Non-recurring items (Note 26)	(37,872)	-	-	-	(37,872)
EBIT	111,279	13,715	-	-	124,994
Financial loss	(32,739)	(12,100)	(17,068)	-	(61,907)
Share of net results of associates	(1,921)	(28)	-	-	(1,949)
Profit (Loss) before tax	76,619	1,587	(17,068)	-	61,138
Income tax					(36,048)
Profit (Loss) for the year from continuing operations					25,090
Profit (Loss) attributable to non-controlling interests					345
Profit (Loss) attributable to the Parent					24,745
ASSETS	3,035,005	740,167	547,645	9	4,322,826
LIABILITIES	2,216,639	494,649	865,471	700	3,577,459
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	69,343	10,194	-	-	79,537

Segmentation by business unit	2018 (Thousands of euros)				
	Rolling stock	Buses	General	Inter-segment	Total
External sales	1,887,731	160,688	-	-	2,048,419
Inter-segment sales	-	-	-	-	-
Total sales	1,887,731	160,688	-	-	2,048,419
EBITDA	192,916	8,562	-	-	201,478
Depreciation and amortisation charge (Notes 7 and 8)	(38,583)	(8,155)	-	-	(46,738)
Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9)	(10,703)	131	-	-	(10,572)
Adjusted EBIT	143,630	538	-	-	144,168
Non-recurring items	-	-	-	-	-
EBIT	143,630	538	-	-	144,168
Financial loss	(47,184)	(4,551)	(11,455)	-	(63,190)
Share of net results of associates	(488)	85	-	-	(403)
Profit (Loss) before tax	95,958	(3,928)	(11,455)	-	80,575
Income tax					(40,955)
Profit (Loss) for the year from continuing operations					39,620
Profit (Loss) attributable to non-controlling interests					(3,842)
Profit (Loss) attributable to the Parent					43,462
ASSETS	2,734,913	674,343	596,694	11	4,005,961
LIABILITIES	2,033,208	421,995	793,486	5	3,248,694
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	78,220	2,771	-	-	80,991

Assets and liabilities for general use and the results generated by them, of which the Parent's net financial debt and the deferred and current tax assets and liabilities are noteworthy, were not allocated to the other segments. Similarly, the reconciling items arising from the comparison of the result of integrating the financial statements of the various business segments (prepared using management criteria) with the CAF Group's consolidated financial statements were not allocated.

The breakdown of sales, by product group and type of service provided, is as follows (in thousands of euros):

	2019	2018
High-speed	11,905	33,121
Regional and commuter	549,743	738,456
Metros	202,760	317,307
Tram and light rail	408,131	174,743
Bogies, refitting and other	28,549	51,541
Trains	1,201,088	1,315,168
Services	454,939	362,096
Buses	650,105	160,688
Wheel sets and components	91,678	83,821
Other (*)	199,845	126,646
Total	2,597,655	2,048,419

(*) Mainly civil construction, signalling and engineering contract revenue.

The information based on geographical location is as follows:

- a) The breakdown of sales by geographical area at 31 December 2019 and 2018, including the most significant countries (those accounting for more than 5% of total sales), is as follows (in thousands of euros):

	2019	2018
United Kingdom	358,755	480,198
Spain	285,628	236,646
The Netherlands	242,327	249,780
Germany	183,603	60,142
Poland	165,155	40,950
Belgium	144,017	78,789
Sweden	139,490	2,365
Other European Union	316,888	125,622
European Union	1,835,863	1,274,492
Mexico	90,494	239,690
Other	671,298	534,237
Rest of the world	761,792	773,927
TOTAL	2,597,655	2,048,419

In 2019 no customers have represented 10% of the Group's revenue. In 2018 two customers represented 11% and 10% of the Group's revenue.

- b) The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2019 and 2018 is as follows (in thousands of euros):

Geographical area	2019	2018
Spain	203,670	171,378
Poland (*)	100,122	101,389
Rest of the world	145,471	92,317
Total	449,263	365,084

(*) Including buses leased under the operating lease model not in operation in that country.

7. Intangible assets

a) Goodwill

The changes in goodwill the years ended 31 December 2019 and 2018 were as follows:

2019

	Thousands of euros						
	Balance at 31/12/18	Adjustments to preliminary goodwill - Transfers (Note 2-f)	Adjusted balance at 01/01/19	Changes in the scope of consolidation (Note 2-f)	Impairment	Translation differences	Balance at 31/12/19
BWB Holdings Limited	8,038	-	8,038	-	(2,680)	335	5,693
Solaris	93,582	(1,186)	92,396	-	-	955	93,351
EuroMaint	-	-	-	9,736	-	24	9,760
Other	207	-	207	-	-	-	207
Total	101,827	(1,186)	100,641	9,736	(2,680)	1,314	109,011

The goodwill of Euromaint was allocated in full to the railway segment (see Notes 2-f and 6).

2018

	Thousands of euros						
	Balance at 31/12/17	Adjustments to preliminary goodwill - Transfers (Note 2-f)	Adjusted balance at 01/01/18	Changes in the scope of consolidation (Note 2-f)	Impairment	Translation differences	Balance at 31/12/18
Rifer, S.R.L.	4,265	(2,887)	1,378	-	(1,186)	-	192
BWB Holdings Limited	19,844	(11,497)	8,347	-	-	(309)	8,038
Solaris	-	-	-	93,622	-	(40)	93,582
Other	15	-	15	-	-	-	15
Total	24,124	(14,384)	9,740	93,622	(1,186)	(349)	101,827

The goodwill of Solaris was allocated in full to the buses segment (Notes 2-f and 6).

In 2019, the Parent tested the recoverability of the goodwill of BWB Holdings Limited and Solaris. The main parameters used in the recoverability test were as follows:

	Solaris	BWB Holdings Limited
Adjusted carrying amount at 01/01/19 (thousands of euros)	92,396	8,038
Value considered representative to determine the recoverable amount	Value in use	Value in use
Estimated number of years covered by cash flow projections	6	5
Long-term growth rate used	1.5%	2%
Discount rate used (*)	8.6%	10.4%

(*) Discount rate after tax.

The projections are prepared for each cash-generating unit on the basis of past experience and of the best estimates available, which are consistent with the Company's business plans. The main components are:

- Earnings projections
- Investment and working capital projections

Following is a sensitivity analysis of the main assumptions used in the model:

Amounts in thousands of euros	Solaris		BWB Holdings Limited	
	-100 p.b.	+100 p.b.	-100 p.b.	+100 p.b.
Growth rate:	-6,658	8,857	-1,405	+ 1,783
Discount rate:	+88,998	-67,042	+ 3,048	- 2,377

Following this analysis, EUR 2,680 thousand of goodwill of BWB Holdings Limited was written off with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The estimated enterprise value of Solaris exceeds its carrying amount, even in the worst-case scenario of the sensitivity analysis shown above.

b) Other intangible assets

The changes in the year ended 31 December 2019 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

	Thousands of euros				
	Commercial relationships and customer portfolio	Patents, licenses and trademarks	Development expenditure	Computer software and other	Total
Cost at 31/12/18	26,356	113,042	170,549	36,861	346,808
Changes in the scope of consolidation	18,466	-	308	5,144	23,918
Additions or charge for the year	-	-	20,242	10,975	31,217
Transfers	-	-	2,210	1,145	3,355
Transfers to inventories	-	-	(344)	-	(344)
Disposals or reductions	-	-	(1)	(24)	(25)
Translation differences	803	1,220	197	229	2,449
Cost at 31/12/19	45,625	114,262	193,161	54,330	407,378
Accumulated amortisation at 31/12/18	(2,642)	(1,926)	(89,244)	(20,516)	(114,328)
Additions or charge for the year	(2,569)	(5,589)	(13,682)	(4,678)	(26,518)
Transfers	-	-	90	(1,145)	(1,055)
Disposals or reductions	-	-	-	10	10
Translation differences	(120)	(74)	(36)	(55)	(285)
Accumulated amortisation at 31/12/19	(5,331)	(7,589)	(102,872)	(26,384)	(142,176)
Impairment at 31/12/18	-	-	(25,932)	(13)	(25,945)
Recognised in 2019	-	-	-	(16)	(16)
Transfers in 2019	-	-	-	-	-
Impairment at 31/12/19	-	-	(25,932)	(29)	(25,961)
Net balance at 31/12/19	40,294	106,673	64,357	27,917	239,241

The changes in the year ended 31 December 2018 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

	Thousands of euros				
	Commercial relationships and customer portfolio	Patents, licenses and trademarks	Development expenditure	Computer software and other	Total
Cost at 31/12/17	-	68	133,387	25,030	158,485
Changes in the scope of consolidation	9,537	111,215	13,931	7,385	142,068
Additions or charge for the year	-	-	23,655	4,513	28,168
Transfers	16,962	1,821	80	(12)	18,851
Transfers to inventories	-	-	(497)	-	(497)
Disposals or reductions	-	-	-	(13)	(13)
Translation differences	(143)	(62)	(7)	(42)	(254)
Cost at 31/12/18	26,356	113,042	170,549	36,861	346,808
Accumulated amortisation at 31/12/17	-	(59)	(77,249)	(18,115)	(95,423)
Changes in the scope of consolidation	(698)	-	-	-	(698)
Additions or charge for the year	(1,962)	(1,868)	(12,585)	(2,427)	(18,842)
Transfers	-	-	589	2	591
Disposals or reductions	-	-	-	-	-
Translation differences	18	1	1	24	44
Accumulated amortisation at 31/12/18	(2,642)	(1,926)	(89,244)	(20,516)	(114,328)
Impairment at 31/12/17	-	-	(16,621)	(20)	(16,641)
Recognised in 2018	-	-	(9,311)	-	(9,311)
Transfers in 2018	-	-	-	7	7
Impairment at 31/12/18	-	-	(25,932)	(13)	(25,945)
Net balance at 31/12/18	23,714	111,116	55,373	16,332	206,535

Research and development expenditure incurred in 2019 amounted to EUR 36,501 thousand (EUR 16,259 thousand were recognised in the consolidated statement of profit or loss and EUR 20,242 thousand were capitalised). Research and development expenditure incurred in 2018 amounted to EUR 40,983 thousand (EUR 17,328 thousand were recognised in the consolidated statement of profit or loss and EUR 23,655 thousand were capitalised). These amounts do not include basic engineering costs associated with contracts.

The additions to "Development Expenditure" in 2019 and 2018 correspond to the costs incurred in the development of new products, including most notably the development of highly automated signalling systems, the development of the onboard registration of the digital train, the development of the big data architecture and the development of a TCMS platform for the implementation of critical security functions.

As discussed in Note 3-a, in 2019 the Group transferred approximately EUR 344 thousand of development expenditure to various contracts it had won that incorporated the technology developed (2018: EUR 497 thousand).

With regard to "Computer Software", in 2019 the Group began to implement a new ERP, with most additions in the year relating to this process. At 31 December 2019, the Group had investment obligations of EUR 16,200 thousand, mainly in relation to the new IT system which is expected to be put into operation in 2021.

Lastly, in 2018, as a result of the acquisition of Solaris, an impairment loss of EUR 9,311 thousand was recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss in relation to the development expenditure recognised in prior years in which the recoverability and economic and financial feasibility of the projects were not guaranteed.

8. Property, plant and equipment and right-of-use assets

The detail of "Property, Plant and Equipment" is as follows (in thousands of euros):

	31/12/19	31/12/18
Property, plant and equipment	382,136	365,084
Right-of-use assets	67,127	-
Total	449,263	365,084

a) Property, plant and equipment

The changes in the year ended 31 December 2019 in "Property, Plant and Equipment" and in the related accumulated depreciation were as follows:

	Thousands of euros						
	Land and buildings	Plant and machinery	Transport equipment (leasing) (Nota 3.m)	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Cost at 31/12/18	352,627	309,737	39,897	34,105	39,523	1,330	777,219
Reclassification of assets for the right to use under IFRS 16	-	(1,896)	-	(1,221)	-	-	(3,117)
Adjusted opening balance at 01/01/19	352,627	307,841	39,897	32,884	39,523	1,330	774,102
Changes in the scope of consolidation (Note 2-f)	-	17,089	-	2,360	290	17	19,756
Additions	6,731	16,797	1,740	2,296	1,918	11,011	40,493
Transfers	323	(3,644)	4,272	635	2,437	(2,972)	1,051
Disposals or reductions	(24)	(2,875)	(5,902)	(597)	(203)	(43)	(9,644)
Translation differences	2,746	563	413	153	128	13	4,016
Cost at 31/12/19	362,403	335,771	40,420	37,731	44,093	9,356	829,774
Accumulated depreciation at 31/12/18	(108,976)	(242,284)	(2,508)	(20,186)	(27,398)	-	(401,352)
Reclassification of assets for the right to use under IFRS 16	-	1,556	-	332	-	-	1,888
Adjusted opening balance at 01/01/19	(108,976)	(240,728)	(2,508)	(19,854)	(27,398)	-	(399,464)
Additions	(9,764)	(14,663)	(6,511)	(3,204)	(3,416)	-	(37,558)
Transfers	(334)	271	(4,272)	(98)	287	-	(4,146)
Disposals or reductions	4	1,577	2,424	281	156	-	4,442
Translation differences	(162)	(90)	(109)	(38)	(63)	-	(462)
Accumulated depreciation at 31/12/19	(119,232)	(253,633)	(10,976)	(22,913)	(30,434)	-	(437,188)
Impairment at 31/12/18	(6,205)	(4,142)	-	(423)	(13)	-	(10,783)
Recognised in 2019	-	-	-	(272)	(155)	-	(427)
Transfers	-	-	-	-	(342)	-	(342)
Disposals or reductions	-	1,107	-	-	-	-	1,107
Translation differences	-	-	-	-	(5)	-	(5)
Impairment at 31/12/19	(6,205)	(3,035)	-	(695)	(515)	-	(10,450)
Net balance at 31/12/19	236,966	79,103	29,444	14,123	13,144	9,356	382,136

The change in the year ended 31 December 2018 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Thousands of euros						
	Land and buildings	Plant and machinery	Transport equipment (leasing) (Nota 3.m)	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Cost at 31/12/17	272,406	291,516	-	26,077	44,528	10,695	645,222
Changes in the scope of consolidation (Note 2-f)	46,347	13,507	39,914	3,092	2,349	998	106,207
Additions	25,855	17,120	-	5,190	2,432	2,226	52,823
Transfers	10,521	(443)	-	595	(9,641)	(12,584)	(11,552)
Disposals or reductions	(681)	(10,914)	-	(792)	(117)	-	(12,504)
Translation differences	(1,821)	(1,049)	(17)	(57)	(28)	(5)	(2,977)
Cost at 31/12/18	352,627	309,737	39,897	34,105	39,523	1,330	777,219
Accumulated depreciation at 31/12/17	(102,623)	(242,912)	-	(16,923)	(27,735)	-	(390,193)
Additions	(7,837)	(11,332)	(2,508)	(3,390)	(2,829)	-	(27,896)
Transfers	363	167	-	(23)	3,025	-	3,532
Disposals or reductions	647	10,896	-	99	116	-	11,758
Translation differences	474	897	-	51	25	-	1,447
Accumulated depreciation at 31/12/18	(108,976)	(242,284)	(2,508)	(20,186)	(27,398)	-	(401,352)
Impairment at 31/12/17	(6,231)	(4,141)	-	(131)	(13)	-	(10,516)
Recognised in 2018	-	-	-	(292)	-	-	(292)
Translation differences	26	(1)	-	-	-	-	25
Impairment at 31/12/18	(6,205)	(4,142)	-	(423)	(13)	-	(10,783)
Net balance at 31/12/18	237,446	63,311	37,389	13,496	12,112	1,330	365,084

The most significant investments in 2019 were aimed at improving the Group's production capacity, the most notable of these investments being those relating to the new finishing warehouse in France, the investments at the Solaris production plants in Poland to adapt the facilities to the increased bus production and the production improvements at the Mexico plant.

In prior years the Group transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled. At the end of 2018 the ownership of eight of the nine locomotives was transferred, and the ownership of the final unit was transferred at the end of 2019 following its lease to third parties.

At 2019 year-end and 2018 year-end, "Transport Equipment (Leasing)" included buses leased under operating leases (as indicated in Note 3-f) for a carrying amount of EUR 29,444 thousand (2018: EUR 37,389 thousand). Note 21 to the consolidated financial statements details the deferred income that will be recognised on a straight-line basis until the established repurchase date.

At 31 December 2019, the Group had firm capital expenditure commitments amounting to approximately EUR 7,805 thousand mainly in Poland (31 December 2018: EUR 10,376 thousand mainly in Spain).

At 31 December 2019, the Group had payables to property, plant and equipment suppliers amounting to EUR 7,594 thousand (31 December 2018: EUR 9,572 thousand) under "Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated balance sheet.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2019 and 2018, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2019, the gross cost of fully depreciated assets in use amounted to approximately EUR 327,569 thousand (31 December 2018: EUR 283,271 thousand).

The losses recognised on property, plant and equipment disposals in 2019 amounted to approximately EUR 300 thousand and were recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss (2018: gains of EUR 175 thousand). In 2019 the Group sold items of property, plant and equipment amounting to EUR 319 thousand (2018: EUR 921 thousand).

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2019, the net amount of the grants received not yet allocated to profit or loss totalled EUR 2,832 thousand (31 December 2018: EUR 1,055 thousand). EUR 211 thousand were allocated to profit or loss in this connection in 2019 (2018: EUR 212 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated statement of profit or loss.

The directors consider that there were no indications of impairment of the Group's assets at 31 December 2019 other than those described in this Note.

b) Right-of-use assets

The detail of and changes in "Right-of-Use Assets" in 2019 were as follows:

	Thousands of euros				
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other items of property, plant and equipment	Total
Cost at 31/12/18	-	-	-	-	-
Initial application of IFRS 16	44,716	3,805	3,049	949	52,519
Reclassification of finance leases under IFRS 16	-	1,896	1,221	-	3,117
Adjusted beginning balance at 01/01/19	44,716	5,701	4,270	949	55,636
Changes in the scope of consolidation (Note 2-f)	-	24,091	2,059	-	26,150
Additions	5,922	194	1,574	137	7,827
Transfers	1,061	(529)	48	-	580
Disposals or reductions	(18)	(1,027)	(154)	(5)	(1,204)
Translation differences	265	68	30	12	375
Cost at 31/12/19	51,946	28,498	7,827	1,093	89,364
Accumulated depreciation at 31/12/18	-	-	-	-	-
Reclassification of finance leases under IFRS 16	-	(1,556)	(332)	-	(1,888)
Adjusted beginning balances at 01/01/19	-	(1,556)	(332)	-	(1,888)
Changes in the scope of consolidation (Note 2-f)	-	(4,180)	(1,837)	-	(6,017)
Additions	(9,543)	(4,814)	(1,807)	(427)	(16,591)
Transfers	-	1,426	201	-	1,627
Disposals or reductions	4	615	107	-	726
Translation differences	(54)	(20)	(13)	(7)	(94)
Accumulated depreciation at 31/12/19	(9,593)	(8,529)	(3,681)	(434)	(22,237)
Net balance at 31/12/18	-	-	-	-	-
Net balance at 31/12/19	42,353	19,969	4,146	659	67,127

The Group leases various assets, including land, buildings, transport equipment and machinery. The average lease term is not an indicative figure, since there is a significant dispersion between the term of land and building leases and that of other leased assets. Generally, lease terms were taken to be the minimum non-cancellable lease term, applying a specific rate to each lease, as described in Note 2-b to these consolidated financial statements.

As described in Note 2-b, the Group availed itself of the exemptions available for short-term leases, recognising the accrued expense under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Group has no significant leases with variable lease payments.

The main additions relate to the lease of plant and machinery due to the inclusion of the Euromaint Group in the scope of consolidation (see Note 2-f). Also, there were no transactions relating to subleases to non-Group third parties and no sale & leaseback agreements.

The total amount of lease-related cash outflows in 2019 was EUR 15,794 thousand.

Amounts recognised in profit or loss

	2019
	Thousands of euros
Depreciation of the right-of-use assets	16,591
Interest expense on the financial liability	3,017
Short-term or low-value asset lease expense	6,380

9. Investments accounted for using the equity method and non-current financial assets

a) Investments accounted for using the equity method

The changes in the years ended 31 December 2019 and 2018 in "Investments Accounted for Using the Equity Method" in the accompanying consolidated balance sheet were as follows:

	Thousands of euros	
	31/12/19	31/12/18
Beginning balance	18,188	19,752
Amounts charged to profit or loss	(1,949)	(403)
Hedges (Note 17)	(7,321)	351
Changes in the scope of consolidation	-	1,586
Additions	196	5,500
Disposals	(1,362)	(8,689)
Exchange differences	55	91
Ending balance	7,807	18,188

In 2019 the investees Consorcio Traza, S.A. and Orbital Sistemas Aeroespaciales, S.L. distributed dividends of EUR 650 thousand and EUR 245 thousand, respectively.

Relevant information on the investments in significant associates accounted for using the equity method is as follows (in thousands of euros):

2019

Name	Basic financial data (1)								Other comprehensive income
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	
Nuevas Estrategias de Mantenimiento, S.L.	5,238	2,871	653	979	6,477	-	3,516	(2,550)	-
Plan Metro, S.A. (2)	286,343	8,031	314,976	32,948	(53,550)	-	57,202	2,697	-
Consorcio Traza, S.A. (3)	216,220	42,286	231,752	8,559	17,061	1,134	25,309	(2,975)	1,281
Ferrocarriles Suburbanos, S.A.P.I. de C.V	101,122	76,183	122,388	54,917	-	-	47,628	-	-
Arabia One for Clean Energy Invest. PSC.	19,327	2,468	17,091	902	3,802	-	3,098	43	71
Orbital Sistemas Aeroespaciales, S.L.	19,420	4,201	3,449	525	19,647	-	4,950	1,330	-
Momentum Trains Holding Pty Ltd	105,252	1,375	104,650	32,873	(30,896)	-	95,027	(919)	(29,967)

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L.	6,477	50	3,238	3,238	(1,275)
Plan Metro, S.A. (2)	(53,550)	40	(21,420)	-	-
Consorcio Traza, S.A. (3)	17,061	25	4,265	4,265	(744)
Ferrocarriles Suburbanos, S.A.P.I. de C.V.	-	43.35	-	-	-
Arabia One for Clean Energy Investments PSC.	3,802	40	1,521	1,521	17
Orbital Sistemas Aeroespaciales, S.L.	19,647	30	5,894	5,894	399
Momentum Trains Holding Pty Ltd	(30,896)	25.50	(7,878)	(7,878)	(234)
Otras participaciones (4)	-	-	767	767	(112)
			(13,613)	7,807	(1,949)

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).

(2) This company's shares are pledged to certain banks.

(3) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

(4) Dormant companies or companies with no significant activity.

2018

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L. (2)	5,862	5,338	725	1,448	9,027	-	4,875	85	-
Plan Metro, S.A. (3)	306,043	10,303	339,305	33,288	(56,247)	-	55,676	(3,020)	-
Consorcio Traza, S.A. (4)	218,595	36,014	225,964	5,353	21,355	1,937	24,678	(3,882)	1,406
Ferrocarriles Suburbanos, S.A. de C.V.	94,955	60,098	112,327	42,726	-	-	42,998	58,606	159
Arabia One for Clean Energy Invest. PSC.	20,026	2,395	17,890	843	3,688	-	3,050	339	167
Orbital Sistemas Aeroespaciales, S.L.	18,894	3,867	3,018	610	19,133	-	3,376	800	-

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L. (2)	9,027	50	4,513	4,513	43
Plan Metro, S.A. (3)	(56,247)	40	(22,499)	-	-
Consorcio Traza, S.A. (4)	21,355	25	5,339	5,339	(970)
Ferrocarriles Suburbanos, S.A. de C.V.	-	43.35	-	-	-
Arabia One for Clean Energy Investments PSC.	3,688	40	1,475	1,475	136
Orbital Sistemas Aeroespaciales, S.L.	19,133	30	5,740	5,740	240
Other investments (5)	-	-	1,121	1,121	148
			(4,311)	18,188	(403)

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).

(2) Nuevas Estrategias de Mantenimiento, S.L. holds an 100% ownership interest in Nem Solutions USA, Inc.

(3) This company's shares are pledged to certain banks.

(4) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

(5) Dormant companies or companies with no significant activity.

In consolidating the ownership interests, the Group took the necessary fair value adjustments into account and eliminated the sales margins on rolling stock material in proportion to its ownership interest. Since the CAF Group has not incurred any legal or explicit obligations or made payments on behalf of the associates it is not necessary to consolidate the additional losses incurred by these associates valued at zero. At 31 December 2019, the unrecognised losses exceeding the cost of the investment amounted to EUR 21,420 thousand (31 December 2018: EUR 22,499 thousand).

As described in Note 2-f, in 2019 the Group entered into the shareholder structure of Momentum Trains Holding Pty Ltd with an ownership interest of 25.50%. The shareholders agreement provides for the future contribution of AUD 30 million in 2024, in proportion to the Group's stake in the aforementioned associate (see Note 26).

b) Non-current financial assets

The detail of "Non-Current Financial Assets" in the accompanying consolidated balance sheet is as follows:

	Thousands of euros			
	31/12/19		31/12/18	
	% of ownership	Amount	% of ownership	Amount
Equity instruments-				
Alquiler de Trenes, A.I.E	5%	3,885	5%	3,587
Ferromovil 3000, S.L.	10%	11,152	10%	9,660
Alquiler de Metros, A.I.E.	-	-	5%	107
Plan Azul 07, S.L.	5.20%	3,273	5.20%	3,158
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	5,012	15%	4,542
Iniciativa FIK, A.I.E.	14.18%	776	14.18%	838
Albali Señalización, S.A.	3%	561	3%	641
Other		252		301
Total equity instruments-		24,911		22,834
Other financial assets -				
Amortised cost-				
Guarantees and other financial assets		16,663		16,250
Loans to employees		3,908		4,238
Non-current tax receivables (Note 19)		41,295		42,231
Non-current trade and other receivables		435,044		439,761
Loans to associates (Note 10)		28,753		26,823
		525,663		529,303
Provisions-				
Provision for tax payables (Note 19)		(9,237)		(12,176)
Impairment losses		(3,034)		(2,900)
		(12,271)		(15,076)
Total Other financial assets		513,392		514,227
Total		538,303		537,061

The changes in the non-current financial assets in 2019 and 2018 were as follows:

	Thousands of euros			
	Equity instruments	Other financial assets		
		Amortised cost	Provisions	Total
Balance at 31/12/17	9,506	564,820	(13,666)	560,660
Initial adjustment due to IFRS 9	-	-	(3,054)	(3,054)
Adjusted balance 01/01/18	9,506	564,820	(16,720)	557,606
Changes in the scope of consolidation	-	84	-	84
Changes in fair value with a charge to reserves	13,320	-	-	13,320
Translation differences	2	(24,745)	1,522	(23,221)
Additions	6	105,020	-	105,026
Charges to profit or loss for the year	-	-	(62)	(62)
Transfers (Note 3-n)	-	(114,647)	-	(114,647)
Disposals or reductions	-	(1,229)	184	(1,045)
Balance at 31/12/18	22,834	529,303	(15,076)	537,061
Changes in the scope of consolidation	-	757	-	757
Changes in fair value with a charge to reserves	2,248	-	-	2,248
Translation differences	2	(247)	161	(84)
Additions	-	106,704	-	106,704
Charges to profit or loss for the year	-	-	2,644	2,644
Transfers (Note 3-n)	-	(109,247)	-	(109,247)
Disposals or reductions	(173)	(1,607)	-	(1,780)
Balance at 31/12/19	24,911	525,663	(12,271)	538,303

c) Other financial assets

The detail, by maturity, of "Other Financial Assets" is as follows (in thousands of euros):

2019

	2021	2022	2023	2024 and subsequent years	Total
Assets at amortised cost	138,841	125,665	126,799	122,087	513,392
Total	138,841	125,665	126,799	122,087	513,392

2018

	2020	2021	2022	2023 and subsequent years	Total
Assets at amortised cost	105,533	136,587	117,410	154,697	514,227
Total	105,533	136,587	117,410	154,697	514,227

Guarantees and other financial assets

These guarantees are related mainly to the increase in borrowings taken by the subsidiary Ctrens Companhia Manutenção, S.A. (Note 16) amounting to EUR 12,179 thousand (31 December 2018: EUR 13,194 thousand). This guarantee, which bears interest at market rates and relates to six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

Loans to employees

In accordance with the agreements entered into with employees, the Parent grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Group does not discount these amounts since it considers that this effect is scanty material.

Non-current tax receivables

At 31 December 2019, the Group recognised EUR 41,295 thousand under "Non-Current Financial Assets – Other Financial Assets" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2018: EUR 42,231 thousand). This amount decreased by EUR 650 thousand in 2019 as a result of translation differences.

The above amounts may be recovered by offsetting them against the output VAT charged to customers or selling them to third parties once they have been claimed from the tax authorities. The Group is currently taking the steps required to claim them and expects to recover them mainly through sale to third parties. At 31 December 2019, the Group had recognised impairment losses of EUR 9,237 thousand (31 December 2018: EUR 12,176 thousand) to adjust the face value of these receivables to their recoverable amount, with a reversal of EUR 2,814 thousand in 2019 (2018: a reversal of EUR 42 thousand) recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was a reduction in the impairment losses of EUR 125 thousand in 2019.

Non-current trade and other receivables

The detail of "Non-Current Trade Receivables and Loans" at 31 December 2019 and 2018 is as follows (in thousands of euros):

	31/12/19	31/12/18
Concessions - Financial asset model	413,057	433,642
Other non-current trade receivables and loans	21,987	6,119
Total	435,044	439,761

- Concessions – Financial asset

On 19 March 2010, the Group company Ctrains-Companhia de Manutenção, S.A. and Companhia Paulista de Trens Metropolitanos (CPTM) entered into a 20-year concession arrangement for the manufacture of 36 trains and the provision of lease, preventative and corrective maintenance and general overhaul services and services to modernise the trains on Diamante line 8 in Sao Paulo (Brazil).

The main features of this arrangement, in addition to those indicated above, are as follows:

- The payments are guaranteed by CPTM through monthly bank deposits of BRL 11.6 million made to a bank account (in 2009 real terms, amounting to BRL 19.4 million at 31 December 2019 following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Security Agent and can be used to pay the concession operator in the event of default by CPTM on its payment obligations.
- The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.
- The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (Note 26-a). At 31 December 2019, this guarantee amounted to BRL 39,667 thousand (EUR 8,784 thousand).
- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to CPTM at the end of the concession term for no consideration.

On 31 May 2010, the Group company Provetren, S.A. de C.V. and Sistema de Transporte Colectivo (STC) entered into a 15-year concession arrangement for the construction of 30 trains and the provision of lease and integral and general overhaul services for Line 12 of the Mexico City metro.

The main features of this arrangement, in addition to those indicated above, are as follows:

- The consideration payable by STC is secondarily guaranteed by a system of trusts with funds from the Federal Participation Surpluses (Federal District Government payment risk). In 2019 this guarantee comfortably fulfilled STC's payment obligations in the year.
- The concession operator must secure the correct performance of its obligations to STC with a bank guarantee of 10% of the payments expected to be received by it in the current year (Note 26-a).
- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to STC at the end of the concession term for no consideration.

These concessions are accounted for in accordance with IFRIC 12 Service Concession Arrangements, since the related requirements are met, and, pursuant to IFRIC 12, the various services provided (construction, operation/maintenance and financing) were separated.

Consequently, at 31 December 2019 the Group recognised balances of EUR 413,057 thousand under "Non-Current Financial Assets – Other financial assets" (31 December 2018: EUR 433,642 thousand) and EUR 112,084 thousand under "Trade and Other Receivables – Other Receivables" (31 December 2018: EUR 110,211 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2019 or 2018.

The lease and maintenance services started to be provided basically in the first half of 2011 in the case of the Line 8 (Brazil) concession and in the second half of 2012 in the case of the Line 12 (Mexico) concession.

In the case of both contracts the future cash flows from the lease payments are determined and guaranteed in full from the date the contracts are signed. The only potentially variable amount in the payments relates solely to any possible penalties relating to the technical performance of the rolling stock material made available to the customers. This matter was taken into consideration when determining the cash flows to be received. There is no demand risk for the CAF Group in these contracts, since the financial flows to be received are unrelated to passenger numbers.

- *Other non-current trade receivables and loans*

In 2019 and 2018, long-term collection schedules were established with five customers in the Buses segment, and an amount of EUR 14,159 thousand was recognised in this connection under this heading in the accompanying consolidated balance sheet. These loans earn interest at market rates and are amortised on a straight-line basis over a period of between two and ten years.

This balance also includes an account receivable amounting to EUR 2,507 thousand at long term (31 December 2018: EUR 3,765 thousand) and EUR 1,407 thousand at short term (31 December 2018: EUR 1,324 thousand) relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2019 EUR 1,500 thousand (31 December 2018: EUR 1,500 thousand) were billed, and EUR 326 thousand (2018: EUR 411 thousand) were recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss, based on the interest rate implicit in the transaction.

10. Balances and transactions with related parties

The detail of the transactions performed with associates that were not eliminated on consolidation (Note 2-f) is as follows:

Company	Thousands of euros					
	2019			2018		
	Services provided or sales recognised	Services received or purchases recognised	Finance income	Services provided or sales recognised	Services received or purchases recognised	Finance income
Nuevas Estrategias de Mantenimiento, S.L.	19	2,065	-	17	2,382	-
Plan Metro, S.A.	13,330	4	1,998	13,611	3	1,848
Ferrocarriles Suburbanos, S.A. de C.V.	12,660	31	-	11,363	127	-
Ferrocarril Interurbano, S.A. de C.V.	14,024	-	-	88,747	-	-
Other	3,356	285	44	247	2,083	38
Total	43,389	2,385	2,042	113,985	4,595	1,886

The margins earned on transactions performed with associates were duly eliminated on consolidation in proportion to the percentage of ownership therein (Note 9-a).

As a result of the transactions performed in 2018, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2019 and 2018 were as follows:

Company	Thousands of euros							
	31/12/19				31/12/18			
	Accounts receivable / Short-term loans	Accounts payable	Contract assets	Long-term loans (Note 9-c)	Accounts receivable	Accounts payable	Contract assets	Long-term loans (Note 9-c)
Nuevas Estrategias de Mantenimiento, S.L.	54	370	-	-	23	337	-	-
Plan Metro, S.A.	456	-	(1,238)	27,858	1,294	-	(1,054)	25,860
Ferrocarriles Suburbanos, S.A. de C.V.	947	6	(53)	-	2,043	21	(800)	-
Ferrocarril Interurbano, S.A. de C.V.	-	-	(31,427)	-	26,272	856	(42,362)	-
Other	-	129	-	895	525	159	-	963
Total	1,457	505	(32,718)	28,753	30,157	1,373	(44,216)	26,823

In 2011 the subsidiary CAF Investment Projects, S.A.U. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently guaranteed. Plan Metro, S.A.'s current economic and financial model supports the recovery of the loaned amounts and the interest accrued thereon by the CAF Group. Also, the Group recognised finance income of EUR 1,998 thousand in relation to the interest accrued on the loan with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss (2018: EUR 1,848 thousand).

11. Inventories

The detail of "Inventories" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 22)	450,973	339,093
Advances to suppliers	36,860	36,333
Total	487,833	375,426

At 2019 year-end the Group had recognised write-downs totalling EUR 32,660 thousand (31 December 2018: EUR 31,184 thousand).

At 31 December 2019, the Group had firm raw materials purchase commitments amounting to approximately EUR 748,373 thousand (31 December 2018: EUR 792,375 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2019 and 2018, the insurance policies taken out covered the carrying amount of the inventories at those dates.

12. Trade and other receivables

The detail of "Trade Receivables for Sales and Services" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Trade receivables - in euros	806,897	793,698
Trade receivables - in foreign currency	584,627	534,509
Write-downs	(19,130)	(16,372)
Total	1,372,394	1,311,835

The detail of this heading, by trade receivables and contract assets, is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Contract assets (Note 3-f)	812,742	856,258
Customers billed	578,782	471,949
Write-downs	(19,130)	(16,372)
Total	1,372,394	1,311,835

Contract assets and liabilities

The detail of contract assets and liabilities is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Current contract assets (Note 3-f)	812,742	856,258
Current contract liabilities (Note 3-f)	(852,532)	(763,104)
Non-current contract liabilities (Note 21)	(51,059)	(41,228)
Net balance	(90,849)	51,926

EUR 400,707 thousand of "Current Contract Liabilities" at 31 December 2018 were recognised as revenue in 2019 (2018: EUR 425,248 thousand). Moreover, no significant revenue was recognised for performance obligations satisfied in prior periods.

The unrecognised revenue for performance obligations not satisfied at year-end relates to what is usually referred to as backlog (see definition in the Alternative Performance Measures section of the Directors' Report) (Note 27). 28% of that amount is expected to be recognised under "Revenue" in 2020, 22% in 2021 and the remainder in 2022 and subsequent years.

The provisions for third-party liabilities reducing "Contract Assets" amounted to EUR 53,865 thousand at 31 December 2019 (31 December 2018: EUR 30,342 thousand).

Customers billed

The amount of customers billed is recognised net of provisions for third-party liability. The provisions for third-party liability reducing the balance of customers billed at 31 December 2019 amounted to EUR 83,080 thousand (31 December 2018: EUR 86,193 thousand).

At 31 December 2019, the balances billed included EUR 58,601 thousand in relation to the agreement signed in prior years with Metro de Caracas, the balance of which is past due and relates to work performed, net of contractual provisions, and billed to the customer and the collection of which is considered to be covered by the insurance policy in force.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, keeps arranged a supplier credit policy with credit risk coverage for the Metro de Caracas Line 1 refurbishment project. The insureds under this policy are the venturers in the aforementioned unincorporated temporary joint venture, including CAF. At 31 December 2019, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filling a claim under the aforementioned insurance policy had been met, but no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

In relation to the contract with Metro de Caracas, the Group's accounting policy was to recognise only as revenue the collection of which was considered probable, considering as such revenue already collected, revenue insured under credit policies and revenue that can be offset against other liabilities to the same customer. At 31 December 2019 and 2018, the CAF Group had balances billed to Metro de Caracas amounting to EUR 37 million (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty in relation to their collectability.

At 31 December 2019, 39% of the billed receivables related to the top five customers (31 December 2018: 39%). "Trade Receivables" includes retentions at 31 December 2019 amounting to EUR 6,144 thousand (31 December 2018: EUR 7,734 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2019 and 2018 in addition to the past-due balances with Metro de Caracas are as follows:

	Thousands of euros	
	31/12/19	31/12/18
Past due > 90 days	71,377	12,445
Past due > 180 days	134,267	161,448
Total	205,644	173,893

Approximately 56% of this balance is concentrated in two countries and six agreements in relation to which the Group is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

The CAF Group is part of a consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential termination of the contract and the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. Firstly, the consortium currently continues to take legal action to defend itself against the termination of the contract. In relation to the potential breach of the contract, CAF's legal advisers consider that the consortium has solid arguments to justify its defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. In any case, should a court rule against the consortium for breach, since the breaches are mainly attributable to other members of the consortium, CAF could claim the potential losses from such members. At 31 December 2019, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to this contract, net of advances received, amounted to EUR 13.1 million, without taking into account the impairment losses or the provisions recognised, which cover the entire amount.

Write-downs

The changes in write-downs in 2019 and 2018 were as follows:

2019

	Thousands of euros
Balance at 31/12/18	16,372
Changes in the scope of consolidation	345
Translation differences	21
Amount used	(22)
Provisions reversed with a credit to "Other Operating Expenses"	2,164
Reclassifications	250
Balance at 31/12/19	19,130

2018

	Thousands of euros
Balance at 31/12/17	8,584
Initial adjustment due to IFRS 9	3,626
Adjusted balance at 01/01/18	12,210
Changes in the scope of consolidation	5,961
Translation differences	(309)
Amount used	(758)
Provisions reversed with a credit to "Other Operating Expenses"	(732)
Balance at 31/12/18	16,372

In 2018 the increase in provisions is due to the changes in the scope of consolidation, mainly the inclusion of Solaris Bus & Coach, S.A.

13. Other current financial assets

The detail of "Other Current Financial Assets" at 31 December 2019 and 2018 is as follows:

2019

Financial assets: Type/Category	Thousands of euros		
	At Amortised Cost	at Fair Value through Profit or Loss	Total
Other financial assets	34,587	60,564	95,151
Short-term/current	34,587	60,564	95,151

2018

Financial assets: Type/Category	Thousands of euros		
	At Amortised Cost	At Fair Value through Profit or Loss	Total
Other financial assets	35,012	59,281	94,293
Short-term/current	35,012	59,281	94,293

"Financial Assets at Amortised Cost" includes, mainly, the cash surpluses invested in government debt securities, repos, short-term deposits and term deposits. "Financial Assets at Fair Value through Profit or Loss" includes the fixed-income investment funds. In both cases, these are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss. In 2019 and 2018 the Group recognised income in this connection and in relation to the cash surpluses amounting to EUR 6,703 thousand (2018: EUR 5,077 thousand).

14. Equity

a) Share capital of the Parent

At both 31 December 2019 and 2018, the Parent's share capital was represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities that had notified the Spanish National Securities Market Commission (CNMV) that they held voting rights representing over 3% of the Parent's share capital at 31 December 2019 and 2018 were as follows:

	%- 2019	%- 2018
Cartera Social, S.A. (i)	24.87%	25.16%
Kutxabank, S.A. (ii)	14.06%	14.06%
Indumentia Pueri S.L.(iii)	5.02%	5.02%
EDM Gestión, S.A. S.G.I.I.C. (iv)	3.02%	3.02%
Templeton Investment Counsel, LLC. (v)	-	3.01%

i. The shareholders of this company are employees of the Parent.

ii. Kutxabank S.A. holds the direct ownership interest, although the indirect holder is Bilbao Bizkaia Kutxa Fundación Bancaria, which controls Kutxabank S.A.

iii. Indumentia Pueri, S.L. is the indirect holder. The direct holder is Global Portfolio Investments, S.L., a company controlled by Indumentia Pueri, S.L.

iv. EDM Gestión, S.A. S.G.I.I.C. is the indirect holder. It controls the voting rights of different companies of the Gorup.

v. Templeton Investment Counsel, LLC. is the indirect holder. As an investment management company it manages the assets of T Global Smaller Co Fd, and others.

The Annual General Meeting held on 13 June 2015 resolved to empower the Board of Directors to acquire treasury shares for a period of five years from that date. At the date of preparation of these consolidated financial statements, no treasury shares had been acquired since that resolution.

The Annual General Meeting held on 10 June 2017 resolved to empower the Parent's Board of Directors, with express powers of delegation, for a period of five (5) years from that date, to issue debt instruments and fixed-income or other securities (including warrants) convertible into shares of the Parent or other Group companies, including the power to disapply shareholders' pre-emption rights for a maximum of 20% of the share capital at the authorisation date. This decision rendered null and void the resolution adopted by the Parent's Annual General Meeting held on 7 June 2014. At the date of preparation of these consolidated financial statements no convertible securities had been issued since that resolution.

On 2 June 2018, at the Annual General Meeting, the Board of Directors empowered to increase the share capital on one or more occasions, through the issuance of new shares against monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these consolidated financial statements, no capital increase had been performed since that resolution.

b) Share premium

The share premium account balance has no specific restrictions on its use.

c) Revaluation reserve

The amount held in this reserve in 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
Total	39,119	39,119

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses, to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance was used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

d) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2019 and 2018 the balance of this reserve had reached the legally required minimum.

e) Restricted and unavailable reserves

The individual financial statements of the consolidated companies include reserves amounting to approximately EUR 91,601 thousand at 31 December 2019 (31 December 2018: approximately EUR 89,943 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Guipúzcoa Regulation 2/2014), reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (Note 16).

In addition, until the balance of "Development Expenditure" has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the

unamortised balances. Accordingly, at 2019 year-end EUR 70,642 thousand of the reserves were restricted as to their use (2018 year-end: EUR 59,473 thousand).

f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
CAF México, S.A. de C.V.	(1,532)	(1,998)
CAF Brasil Indústria e Comércio, S.A.	(45,093)	(45,800)
Construcciones y Auxiliar de Ferrocarriles Argentina, S.A.	(2,946)	(2,768)
CAF USA, Inc.	1,632	816
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(1,579)	(2,282)
CAFTurk Tren Sanayí Ve Tícaret Limited Şirketi	(1,672)	(1,510)
CAF Argelia (EURL)	(498)	(519)
CAF India Private Limited	(1,008)	(1,008)
Ctrens Companhia de Manutenção, S.A.	(89,140)	(86,565)
Trenes CAF Venezuela, C.A.	(647)	(650)
Provetren, S.A. de C.V.	1,897	1,480
Solaris Bus & Coach, S.A.	2,324	-
CAF Rolling Stock UK Limited	1,583	(184)
Euromaint Gruppen AB	1,474	-
BWB Holdings Limited	615	-
Other companies	(92)	(794)
Total	(134,682)	(141,782)

g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes there in 2019 and 2018 is as follows:

	Thousands of euros
Balance at 31 December 2017	9,783
Profit attributable to non-controlling interests	(3,842)
Business combination	97
Transactions with non-controlling shareholders	1,072
Dividends	(1,555)
Balance at 31 December 2018	5,555
Profit attributable to non-controlling interests	345
Business combination	73
Transactions with non-controlling shareholders	7,484
Dividends	(1,327)
Balance at 31 December 2019	12,130

h) Capital management

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital, ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 31 December 2019 and 2018, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (Note 9-c). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of euros	
	31/12/19	31/12/18
Net financial debt:		
Interest-bearing refundable advances (Note 15)	11,363	12,451
Bank borrowings - Non-current liabilities (Note 16)	868,072	766,464
Bank borrowings and debt instruments - Current liabilities (Note 16)	199,979	255,416
Financial assets - Non-current assets (Note 9-c)	(12,144)	(13,194)
Current financial assets (Note 13)	(94,709)	(94,230)
Cash and cash equivalents	(538,983)	(602,813)
	433,578	324,094
Equity:		
Attributable to the Parent	733,237	751,712
Non-controlling interests	12,130	5,555
	745,367	757,267

15. Other current and non-current financial liabilities and other obligations

The detail of the Group's financial liabilities at 31 December 2019 and 2018, by type and category for measurement purposes, is as follows:

	Thousands of euros			
	31/12/19		31/12/18	
	Long-term	Short-term	Long-term	Short-term
Refundable advances	33,151	10,002	32,929	11,620
Employee benefit obligations (Notes 3-k and 23)	3,153	-	3,408	-
Share purchase liabilities	4,591	7,519	8,465	1,137
Payable to non-current asset suppliers (Note 8)	-	7,594	-	9,572
Obligations under finance leases (Note 8-b)	49,024	18,939	2,037	980
Other liabilities	873	90	935	47
Total	90,792	44,144	47,774	23,356

The detail, by maturity in the coming years, of other non-current financial liabilities is as follows (in thousands of euros):

	2019		2018
2021	28,970	2020	19,726
2022	18,070	2021	7,873
2023	14,668	2022	6,553
2024	8,176	2023	4,804
2025 and subsequent years	20,908	2024 and subsequent years	8,818
Total	90,792	Total	47,774

Refundable advances

Through research and development programmes the Group has received certain grants to conduct research and development projects. These aids are recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project. These grants consist of:

- Grants to partially meet the expenses and costs of these projects.
- Refundable advances in the form of loans which are generally interest-free and which usually have an initial grace period of 3 years and are taken to income in a period of over 10 years.

The changes in 2019 and 2018 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/17	34,753
Changes in the scope of consolidation	16
Additions	5,444
Adjustments and other	244
Transfers to short term	(7,528)
Balance at 31/12/18	32,929
Additions	8,293
Adjustments and other	331
Translation differences	3
Transfers to short term	(8,405)
Balance at 31/12/19	33,151

Employee benefit obligations

The Group has recognised the future obligations to the employees who have entered into pre-retirement plans (Note 3-k). Short-term obligations of EUR 2,712 thousand were recognised under "Other Payables" in the accompanying consolidated balance sheet as at 31 December 2019 (31 December 2018: EUR 2,799 thousand).

Also, the detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, net of the fair value of the plan assets allocated for the coverage thereof, at the end of 2019 and 2018, is as follows (Note 3-j):

	Thousands of euros	
	31/12/19	31/12/18
Present value of the obligations assumed	51,374	44,738
Less – Fair value of plan assets	(50,882)	(45,006)
Other current (assets) liabilities, net	492	(268)

The present value of the obligations assumed by the Group was determined by qualified independent actuaries using the following actuarial techniques:

- Valuation method: "Projected unit credit method", which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.
- Actuarial assumptions used: unbiased and mutually compatible. In general, the most significant actuarial assumptions used in the calculations were as follows:

Actuarial assumptions	2019	2018
Discount rate	0.99%-1.05%	1.75-2.47%
Mortality tables	PERM/F/2000P	PERM/F/2000P
Annual salary or pension increase rate	1-2%	1-2%
Retirement age	65-67	65-67

The fair value of the plan assets was calculated at year-end using the projected unit credit method.

Share purchase liabilities

"Share Purchase Liabilities" includes the amounts foreseeably payable for the cross call options to acquire the remaining share capital of Rifer SRL (25% of the remaining share capital), BWB Holdings Limited (26% of the remaining share capital), and the put options granted to the non-controlling interest of Lander Simulation and Training Solutions, S.A. The strike price of these transactions varies, depending on the certain financial parameters of both companies on the date the options are exercised. In 2019 the Group recognised income of EUR 3,721 thousand under "Finance Income" in the accompanying consolidated statement of profit or loss, as a result of a reduction in the estimated strike price of the options.

The put options on the rest of the share capital of Lander Simulation and Training Solutions, S.A. are exercisable in 2020 for 7.06% of its capital and until 2021 for the 28.81% remaining. The initial price established in the options is based on the appraisal of the Company conducted by an independent expert on the exercise date, and this amount is estimated at EUR 5,716 thousand.

Obligations under finance leases

In 2019 "Obligations under Finance Leases" includes all the assets the Group holds as a lessee (see Note 8-b).

The detail, by maturity in the coming years, of obligations under finance leases is as follows (in thousands of euros):

	2019		2018
2021	15,590	2020	989
2022	10,956	2021	275
2023	9,440	2022	296
2024	3,823	2023	477
2025 and subsequent years	9,215	2024 and subsequent years	-
Total	49,024	Total	2,037

16. Bank borrowings and debt instruments or other marketable securities

The detail of "Bank Borrowings" in the accompanying consolidated balance sheet is as follows:

	Nominal currency	Thousands of euros					
		31/12/19			31/12/18		
		Non-current	Current	Total	Non-current	Current	Total
Loans and credit accounts							
Ctrens - BNDES	BRL	107,159	15,826	122,985	124,343	14,689	139,032
Provetren - Banking syndicate	USD	61,976	16,371	78,347	76,539	22,298	98,837
Parent (CAF, S.A.)	EUR	585,658	9,631	595,289	463,618	76,259	539,877
CAF Investment Projects, S.A.U.	EUR	19,866	-	19,866	19,832	-	19,832
Solaris Group	PLN/EUR	92,710	75,459	168,169	81,319	63,847	145,166
Other Group companies	EUR	703	223	926	813	391	1,204
		868,072	117,510	985,582	766,464	177,484	943,948
Debt instruments or other marketable securities							
Commercial paper issue	EUR	-	80,000	80,000	-	75,000	75,000
Accrued interest payable		-	2,469	2,469	-	2,932	2,932
Total		868,072	199,979	1,068,051	766,464	255,416	1,021,880

In 2019 the changes in "Bank borrowings and debt instruments or other marketable securities" were as follows (in thousands of euros):

Balance at 31 December 2018	1,018,948
Cash flows	
New drawdowns	679,170
Maturity payments	(658,013)
	21,157
Other changes (without cash flows)	
Changes in the scope (Note 2-f)	23,280
Translation differences	1,767
Amortised cost adjustments and other	430
	25,477
Balance at 31 December 2019	1,065,582

The bank borrowings are presented in the consolidated balance sheet adjusted by the costs incurred in the arrangement of the loans.

Ctrens - BNDES

In relation to the CPTM train lease transaction described in Note 9-c, on 10 May 2011, the subsidiary Ctrens-Companhia de Manutenção, S.A. (Ctrens) arranged with Banco Nacional de Desenvolvimento Econômico e Social (BNDES) financing for a maximum amount of BRL 946,890 thousand. The loan bears interest at TJLP (Taxa de Juros de Longo Prazo) plus a spread. The loan principal will be repaid in 160 successive monthly instalments, the first of which was paid in January 2013.

The related agreement contains certain restrictive clauses limiting the ability of Ctrens-Companhia de Manutenção, S.A., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends, and establishing the obligation to achieve certain financial conditions from January 2013 onwards, including a debt service coverage ratio (which must be over 1.2) and minimum capital structure ratio (which must be over 0.24). These clauses were met in 2019 and 2018.

Also, on 15 June 2011 the subsidiary entered into a "fiduciary" transfer of title agreement with BNDES whereby it assigned as a guarantee such collection rights as CTRENS might have vis-à-vis CPTM, as well as the guarantees provided by CPTM for the subsidiary and any amount claimable by the subsidiary from CPTM, the Parent and CAF Brasil Indústria e Comércio, S.A.

Provetren - Banking syndicate

In relation to the long-term agreement to provide services for the lease of trains (PPS - Line 12) described in Note 9-c, on 7 December 2012 the subsidiary Provetren, S.A. de C.V. entered into a long-term financing agreement amounting to a maximum of USD 300 million with a syndicate of banks comprising BBVA Bancomer, S.A., Banco Nacional de México, S.A., Banco Santander (Mexico) S.A., Sumitomo Mitsui Banking Corporation and Caixabank, S.A. The aforementioned loan bears interest at a rate tied to LIBOR. In order to avoid fluctuations in the yield curve and, as is habitual in financing of this kind, Provetren entered into an interest rate hedge agreement for 80% of the financing and 80% of the term (Note 17).

The loan principal will be repaid in 39 consecutive quarterly instalments, in line with the collection profile under the PPS, the first maturity date being October 2013.

The related agreement contains certain restrictive clauses limiting the ability of Provetren, S.A., de C.V., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends if certain ratios have not been achieved, and establishing the obligation to achieve certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15). These clauses were met in 2019 and 2018.

Also, on the same date, 7 December 2012, the subsidiary with Banco Invex acting as Trustee and BBVA Bancomer, S.A. acting as Primary Beneficiary, entered into a trust agreement, whereby it assigned as a guarantee such collection rights as Provetren might have under the PPS, any collection rights arising from the interest rate hedge agreement, any collection rights under the manufacture and maintenance agreements, any income from VAT refunds and amounts arising from insurance policies.

The shares of the subsidiaries Ctrens-Companhia de Manutenção, S.A. and Provetren, S.A. de C.V. have been pledged to BNDES and the syndicate of banks mentioned above, respectively. In neither of the long-term financing agreements described above can the lenders have recourse to any of the companies composing the CAF Group other than those of a technical nature.

Loans of the Parent

In 2019 the Parent arranged six new loans with banks for a total of EUR 135 million. EUR 90 million had been drawn down against these loans at 31 December 2019.

In addition, in 2019 the Parent repaid EUR 15 million on maturity and two loans for EUR 25 million early.

The Parent also negotiated new terms and conditions for six existing loans with banks amounting to EUR 138 million, extending the amount to be repaid by EUR 8 million, at a fixed market rate, and extending the terms of the loans by between three and six years.

At 31 December 2019, total bank borrowings included EUR 377.3 million tied to a fixed interest rate (EUR 25 million through an interest rate swap, see Note 17).

In 2018 the Parent arranged five new loans with banks for a total of EUR 175 million. These loans had been drawn down in full at 31 December 2018. EUR 6.5 million were repaid in 2018. At 31 December 2018, EUR 410.2 million of the amount drawn down were tied to a fixed interest rate (EUR 31.7 million through an interest rate swap, see Note 17).

Solaris

On 28 October 2016, Solaris Bus & Coach, S.A. (Solaris) was granted financing by a consortium of banks. This financing has two tranches (A and B). Tranche A's financing is limited to PLN 400 million and Tranche B's is limited to PLN 100 million. Both tranches mature in October 2021 and at 31 December 2019 PLN 394 million (EUR 93 million at the closing exchange rate) had been drawn down against them. The financing is secured mainly by Solaris' assets and receivables (property, plant and equipment, trademarks, current accounts and accounts receivable, among others).

The loan accrues interest at market rates and is subject to fulfilment of certain financial conditions, which include maintaining a debt/equity ratio lower than 4 (or 4.5 if recourse factoring is taken into account in the debt-equity ratio), a debt service coverage ratio equal to or higher than 1.25, an equity-to-asset ratio equal to or higher than 10%, positive equity and a maximum investment amount. These conditions were met at 31 December 2019.

On 21 December 2018, the agreement of 28 October 2016 was amended, whereby the banks released the company from fulfilling the financial conditions on the reporting date.

Solaris also has a current payable amounting to PLN 287 million (EUR 67,332 million at the closing exchange rate) relating to discounted drafts, which accrue interest at market rates.

Lastly, there are current payables amounting to EUR 8 million drawn down by Solaris Norge AS, Solaris France SARL and Solaris Sverige AB mainly, which accrue interest at a market rate and are secured by Solaris Bus & Coach, S.A.

CAF Investment Projects, S.A.U. and others

In July 2016 the subsidiary CAF Investment Projects, S.A.U. drew down a loan for EUR 20,000 thousand. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by CAF Investment Projects, S.A.U. in foreign companies. At 31 December 2019 and 2018, this ratio was achieved.

The remaining financial debt relates to loans received by various subsidiaries that are tied to a market interest rate.

Commercial paper issue

On 21 December 2017, the Parent arranged a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million ("the Programme"), which was registered at the Irish Stock Exchange. The programme was extended for periods of 12 months in December 2018 and subsequently on 19 December 2019, increasing the aggregate maximum principal amount to EUR 250 million. In 2019 EUR 392.95 million were issued with a charge to this programme, which were repaid on maturity. Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF is able to issue ordinary fixed-income securities with a maturity of less than 364 days, which may be listed on the regulated market of the Irish Stock Exchange, or on any other stock exchange or trading system. At 31 December 2019, EUR 80 million had not yet matured. This amount is related to issues maturing in the first few months of 2020 (31 December 2018: EUR 75 million).

Undrawn credit facilities and maturities

The Group's companies have undrawn credit facilities amounting to EUR 280,100 thousand (31 December 2018: 246,525 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

The repayment schedule of non-current bank borrowings is as follows (in thousands of euros):

	31/12/19		31/12/18
2021	213,457	2020	142,152
2022	146,821	2021	173,723
2023	89,107	2022	138,249
2024	181,754	2023	77,149
2025 and subsequent years	236,933	2024 and subsequent years	235,191
Total	868,072	Total	766,464

17. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (Note 5-a). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

Also, certain fully consolidated companies and certain companies accounted for using the equity method have arranged interest rate hedges (Note 5-a).

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

2019

Currency put options at 31/12/19	Maturity (in currency)		
	2020	2021	2022 and subsequent years
Fair value hedges			
USD currency forwards (*)	354,790,102	68,655,183	-
GBP currency forwards	264,369,800	54,448,371	243,824,029
EUR currency forwards	2,318,940	-	-
BRL currency forwards	70,870,207	-	-
SEK currency forwards	856,207,895	-	-
AUD currency forwards	16,842,010	45,922,439	645,802,427
TWD currency forwards	77,422,500	-	-
SAR currency forwards	81,139,390	-	-
MXN currency forwards	1,842,418,091	15,934,685	-
CAD currency forwards	-	-	-
TRY currency forwards	2,410,882	-	-
JPY currency forwards	6,791,754,460	6,975,456,165	-
ARS currency forwards	122,000,000	-	-
ZAR currency forwards	-	-	-
NZD currency forwards	3,500,687	-	-
HUF currency forwards	215,790,000	-	-

(*) Including the partial hedge of a net investment in CAF USA, Inc. amounting to USD 22,300 thousand and the hedge of a net investment in Provetren amounting to USD 199,782 thousand.

Currency call options at 31/12/19	Maturity (in currency)		
	2020	2021	2022 and subsequent years
Fair value hedges			
USD currency forwards	44,344,161	6,632,384	-
EUR currency forwards	39,289,240	-	-
BRL currency forwards	6,439,468	-	-
MXN currency forwards	1,021,333,911	-	-
JPY currency forwards	1,265,916,000	-	-
GBP currency forwards	110,208,756	39,792,125	-
AUD currency forwards	-	7,682,932	28,078,510
Cash flow hedges			
COP currency forwards	48,000,000,000	-	-
JPY currency forwards	1,759,692,274	-	-

Interest rate derivatives	Loan maturity (in currency)		
	2020	2021	2022 and subsequent years
Euribor swap	-	-	25,000,000
LIBOR swap	USD 16,150,923	USD 58,988,067	-

	Thousands of euros			
	Fair value		Cash flow	
	31/12/19	31/12/18	31/12/19	31/12/18
Hedges:				
USD currency forwards	(6,769)	(23,945)	-	31
GBP currency forwards	(4,845)	(19,552)	-	-
MXN currency forwards	(9,677)	(14,962)	-	-
BRL currency forwards	(2,005)	(2,766)	-	-
EUR currency forwards	(143)	(1,071)	-	-
SEK currency forwards	(1,009)	(2,331)	-	-
SAR currency forwards	2,621	1,218	-	-
TWD currency forwards	(460)	798	-	-
JPY currency forwards	2,702	4,295	901	-
AUD currency forwards	(3,369)	-	-	-
Currency forwards in other currencies	(140)	35	977	(29)
Forward rate agreements	-	-	(690)	(525)
Measurement at year-end (*)	(23,094)	(58,281)	1,188	(523)

(*) Before considering the related tax effect.

2018

Currency put options at 31/12/18	Maturity (in currency)		
	2019	2020	2021 and subsequent years
Fair value hedges			
USD currency forwards (*)	471,705,519	13,714,275	-
GBP currency forwards	244,987,890	183,117,700	249,852,362
EUR currency forwards	3,218,940	159,470	-
BRL currency forwards	158,048,888	-	-
SEK currency forwards	583,657,791	86,664,170	-
AUD currency forwards	50,561,761	10,516,460	106,827,784
TWD currency forwards	103,345,637	-	-
SAR currency forwards	100,632,687	-	-
MXN currency forwards	2,940,465,872	15,934,685	-
CAD currency forwards	47,047	-	-
TRY currency forwards	11,565,720	-	-
JPY currency forwards	13,589,382,335	4,081,705,774	-
ARS currency forwards	76,866,717	-	-
ZAR currency forwards	3,984,534	-	-

(*) Including the partial hedge of a net investment in CAF USA, Inc. amounting to USD 22,300 thousand and the hedge of a net investment in Provetren amounting to USD 213,106 thousand.

Currency call options at 31/12/18	Maturity (in currency)		
	2019	2020	2021 and subsequent years
Fair value hedges			
USD currency forwards	40,544,900	31,873,000	-
EUR currency forwards	77,998,398	-	-
BRL currency forwards	7,020,251	-	-
MXN currency forwards	59,767,000	1,382,694,596	-
JPY currency forwards	-	3,297,090,500	-
GBP currency forwards	1,389,063	76,400,000	-
Cash flow hedges			
COP currency forwards	-	48,000,000,000	-
GBP currency forwards	24,397,052	-	-

Interest rate derivatives	Loan maturity (in currency)		
	2019	2020	2021 and subsequent years
Euribor swap	EUR 6,666,667	-	EUR 25,000,000
LIBOR swap	USD 20,494,634	USD 16,150,923	USD 58,988,067

At 2019 and 2018 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (Note 9-a) had arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 4,332 thousand at 31 December 2019, net of the related tax effect (31 December 2018: EUR 4,643 thousand). Also, the associate Momentum Trains Holding Pty Ltd (see Note 9-a) has arranged an interest rate swap. This derivative was designated as cash flow hedge, and the negative value thereof attributable to the Group amounted to EUR 7,642 thousand at 31 December 2019. These amounts were recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated balance sheet as at 31 December 2019.

The hedging instruments expire in the same year in which the cash flows are expected to occur.

Following is a reconciliation of the remeasurement at each year-end to the carrying amounts recognised in the consolidated balance sheet (in thousands of euros):

	2019	2018
Non-current assets	45,001	10,720
Current assets	40,010	5,849
Non-current liabilities	(45,777)	(11,206)
Current liabilities	(61,140)	(64,167)
Balance sheet net total	(21,906)	(58,804)
Fair value	(23,094)	(58,281)
Cash flow	1,188	(523)
Total derivatives, remeasured	(21,906)	(58,804)

In 2019 the ineffective portion of the hedging transactions charged to profit or loss resulted in an expense of EUR 1,731 thousand (2018: expense of EUR 3,618 thousand) mainly as a result of changes in the estimated amounts of the hedged items.

Also, the settlement in the value of the fair value derivatives resulted in an expense of EUR 34,456 thousand in 2019 (2018: expense of EUR 4,861 thousand), which is similar to the changes in value of the hedged items.

The items hedged by the Group, as indicated in Note 5-a on market risks, are currency transactions included in each of the commercial agreements. When the hedges are initially arranged these transactions comprise either firm commitments (in which case they are recognised as fair value hedges) or highly probable transactions (in which case they are recognised as cash flow hedges).

18. Current and deferred taxes

The Group calculated the provision for income tax at 31 December 2019 in accordance with the applicable tax legislation. On 10 May 2018, Guipúzcoa Income Tax Regulation 1/2018 was approved, which substantially changed the tax regime applicable to the Tax Group headed by the Parent. Therefore, as a result of the reduction in the tax rate from 28% to 26% in 2018 and to 24% in 2019, and of changes in the limit on the use of tax credits and the offset of prior years' tax losses, the amount of the deferred tax assets and liabilities was adjusted, which gave rise to an income tax expense of EUR 13,753 thousand in 2018. However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof.

Since 2007 the Parent has filed consolidated income tax returns in the province of Guipúzcoa with certain subsidiaries.

The reconciliation of the Group's accounting profit for the year to the income tax expense is as follows:

	Thousands of euros	
	2019	2018
Accounting profit before tax	61,138	80,575
Tax rate of the Parent	24%	26%
Income tax calculated at the tax rate of the Parent	14,672	20,950
Effect of the different tax rate of subsidiaries	2,602	3,168
Effect of exempt income and non-deductible expenses for tax purposes	24,630	4,069
Effect of tax credits and other tax relief recognised in the year	(5,162)	(2,269)
Effect of tax assets and deferred taxes not recognised in previous years	(2,312)	1,027
Adjustments recognised in the year relating to prior years' income tax	1,616	257
Change in tax rate	2	13,753
Total income tax expense recognised in the consolidated statement of profit or loss	36,048	40,955
Current tax expense (*)	37,577	36,130
Deferred tax expense	(1,529)	4,825

(*) Including prior years' adjustments and income tax.

In 2013 the Parent availed itself of the tax incentive provided for in Article 39 of Guipúzcoa Income Tax Regulation 7/1996. At 31 December 2019, the Parent had fulfilled all the investment commitments related to this incentive (Note 14).

In 2016 the Parent availed itself of the tax incentive provided for in Article 36 of Guipúzcoa Income Tax Regulation 2/2014, thereby reducing its taxable profit by EUR 6,337 thousand. The reinvestment commitment, which totalled EUR 13,500 thousand, was fulfilled mainly in investments already made in 2016 by the Parent and the other companies in the consolidated tax group in property, plant and equipment and intangible assets.

The difference between the tax charge allocated and the tax payable for 2016 is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet.

	Thousands of euros					
	31/12/18	Inclusions in the scope of consolidation	Additions	Disposals	Translation differences	31/12/19
Deferred tax assets:						
Tax credit and tax loss carryforwards (Note 3-l)	70,084	-	116	(9,784)	3	60,419
Provisions temporarily not deductible	70,796	440	25,263	(18,466)	19	78,052
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	2,451	-	1	(193)	-	2,259
Elimination of profits on consolidation and other	5,217	-	427	(184)	(56)	5,404
	148,548	440	25,807	(28,627)	(34)	146,134
Deferred tax liabilities:						
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	135,939	221	4,625	(27,668)	766	113,883
Revaluation of intangible and material assets (Notes 2-f and 14)	39,134	7,145	242	(4,109)	373	42,785
Exchange differences	74	-	542	(68)	1	549
Goodwill	16	-	-	-	-	16
Elimination of profits on consolidation and other	2,028	-	(107)	-	(9)	1,912
	177,191	7,366	5,302	(31,845)	1,131	159,145

	Miles de euros								
	31/12/17	Initial adjustments (Notes 2-b, 2-f and 7)	Adjusted opening balance at 01/01/18	Inclusions in the scope of consolidation	Additions	Disposals	Translation differences	Regularisations and changes in rates	31/12/18
Deferred tax assets:									
Tax credit and tax loss carryforwards (Note 3-l)	86,560	-	86,560	2,366	22,046	(27,157)	(1,060)	(12,671)	70,084
Provisions temporarily not deductible	50,486	2,795	53,281	12,728	23,510	(12,801)	(1,399)	(4,523)	70,796
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,109	-	3,109	-	-	(215)	-	(443)	2,451
Elimination of profits on consolidation and other	4,834	-	4,834	222	885	(29)	(348)	(347)	5,217
	144,989	2,795	147,784	15,316	46,441	(40,202)	(2,807)	(17,984)	148,548
Deferred tax liabilities:									
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	140,160	-	140,160	363	5,153	(6,380)	(842)	(2,515)	135,939
Revaluation of intangible and material assets (Notes 2-f and 14)	11,829	3,684	15,513	26,515	-	(1,167)	(37)	(1,690)	39,134
Exchange differences	58	-	58	138	12	(135)	1	-	74
Goodwill	28	-	28	-	-	(2)	-	(10)	16
Elimination of profits on consolidation and other	1,730	-	1,730	-	324	-	(10)	(16)	2,028
	153,805	3,684	157,489	27,016	5,489	(7,684)	(888)	(4,231)	177,191

In 2019 the Group expects to take tax credits amounting to EUR 16,285 thousand (2018: EUR 13,279 thousand) mainly in relation to tax credits for R&D expenditure and international double taxation tax credits. Unused tax credits after projected income tax for 2019 amounted to EUR 120,583 thousand (2018: EUR 113,250 thousand), of which EUR 27,320 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2018 EUR 32,293 thousand). The tax loss carryforwards recognised amounted to EUR 33,099 thousand at 31 December 2019 (31 December 2018: EUR 37,791 thousand). The tax loss carryforwards relate mainly to the Parent's tax group EUR 32,185 thousand (31 December 2018: EUR 36,708 thousand). At 31 December 2019, Provotren, S.A. de C.V. also recognised deferred tax liabilities of EUR 68,569 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation (31 December 2018: EUR 72,148 thousand).

Lastly, at 31 December 2019 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 41,734 thousand as a result of the difference between the tax base and the carrying amount of the concession's financial asset caused by differences in the timing of recognition of amortisation (31 December 2018: EUR 38,820 thousand).

In general terms, the assets or equity items subject to the aforementioned tax credits must remain in operation in the Group, and be assigned, where applicable, to their intended purpose, for a minimum period of five years, or of three years in the case of movable property, unless the useful life is less, without being transferred, leased or assigned to third parties for their use, with the exception of justified losses.

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 154,196 thousand (2018: EUR 133,760 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets, with no defined last year for deduction, amounting to EUR 12,785 thousand (2018: EUR 11,182 thousand).

The amount of the (unrecognised) tax credits, tax loss carryforwards and deferred tax assets and their schedule for use by the Group is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Expiring in 2020	316	7
Expiring in 2021	1,988	1,994
Expiring in 2022	666	8
Expiring in 2023	430	712
Expiring in 2024	380	788
Expiring in 2025	557	380
Expiring in 2026	1,604	352
Expiring in 2027	825	1,399
Expiring in 2028	657	817
Expiring in 2029 and subsequent years	106,093	88,625
Unlimited	53,465	49,860
	166,981	144,942

The differences between the estimated income tax for 2018 and the tax return ultimately filed gave rise to income of EUR 1,616 thousand (2018: expense of EUR 257 thousand).

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2019 year-end the Group had 2015 and subsequent years open for review by the tax authorities for income tax and 2016 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and, at the foreign companies, in accordance with local legislation. The Parent's directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Parent of the commencement of its general audit of various local taxes for the years 2009-2013 and in this connection the Parent had filed pleadings at the Regional Economic-Administrative Tribunal of Guipúzcoa. In 2019 the tribunal's decision was rendered with no adverse effect on the Parent and it is estimated that it will give rise to income of EUR 145 thousand.

Also, on 20 June 2017, the Parent was notified by the provincial tax authorities of Guipúzcoa of the commencement of partial tax audits in relation to the income tax of the Parent and of Tax Group no. 03/07/G for 2012 to 2015. The Parent submitted the information required for those proceedings, but the tax inspectors have yet to make any statement in relation thereto. The Group's directors do not expect any liabilities to arise as a result of these audits.

19. Public Authorities

The detail of the receivables from and payables to public authorities at 31 December 2019 and 2018 is as follows:

Concept	Thousands of euros							
	31/12/19				31/12/18			
	Assets		Liabilities		Assets		Liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Accrued social security taxes	-	11	-	22,102	-	3	-	15,260
Regular taxes								
VAT (Note 9-b)	32,058	79,247	-	38,441	30,055	80,802	-	45,785
Other	-	4,705	-	72	-	3,335	-	382
Personal income tax withholdings	-	-	-	13,192	-	-	-	11,358
Income Tax (Note 3-l)	-	12,417	-	9,113	-	13,633	-	6,447
Grants receivable	-	12,991	-	-	-	1,729	-	-
Total	32,058	109,371	-	82,920	30,055	99,502	-	79,232

In 2011 the Parent and certain subsidiaries were authorised to file consolidated VAT returns.

20. Short and long-term provisions

The changes in "Short-term Provisions" and "Long-term Provisions" in 2019 and 2018 were as follows (in thousands of euros):

	Long-term provisions	Short-term provisions				
		Contractual liability	Warranty and support services	Litigation	Other provisions	Total short-term provisions
Balance at 31/12/17	7,071	128,531	93,288	1,900	4,220	227,939
Adjustment due to IFRS 15	-	(83,612)	-	-	-	(83,612)
Adjusted balance at 01/01/18	7,071	44,919	93,288	1,900	4,220	144,327
Changes in the scope of consolidation	206	478	42,018	284	1,776	44,556
Net charge for the year (Note 3-j)	1,834	13,703	73,473	1,550	1,751	90,477
Amounts used charged to profit or loss	(2,574)	(236)	(50,309)	(848)	(1,180)	(52,573)
Translation differences	(1)	(258)	(552)	(88)	(300)	(1,198)
Transfers	341	(294)	(279)	-	(46)	(619)
Balance at 31/12/18	6,877	58,312	157,639	2,798	6,221	224,970
Changes in the scope of consolidation	213	-	135	-	281	416
Net charge for the year (Note 3-j)	44,474	15,868	69,316	274	6,311	91,769
Amounts used charged to profit or loss	(3,117)	(20,537)	(57,943)	(1,131)	(317)	(79,928)
Translation differences	(761)	(60)	671	3	12	626
Transfers	103	(656)	816	-	(635)	(475)
Balance at 31/12/19	47,789	52,927	170,634	1,944	11,873	237,378

Long-term provisions

As a result of the administrative decision in July 2019, arising as result of the investigation initiated in 2013 into the participation of various rolling stock manufacturers in possible anti-competitive practices described in Note 26, the Group recognised a provision amounting to EUR 38 million.

Also, the Group recognises employment-related provisions under "Long-term Provisions" for present obligations arising from past events that it expects to settle when they fall due through an outflow of resources. The amount is based on the best estimate made by the Parent's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material.

Contractual liability and warranty and support services

The provisions for contractual liability relate mainly to provisions for onerous contracts. The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts. The expected period to settle the provisions varies on the basis of their nature, the average approximate period being:

- Contractual liability: 1-2 years
- Warranty: 1-4 years (varies on the basis of the contractual arrangement to which it relates)

The consolidated companies recognised an income of EUR 10,756 thousand under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss for 2019 (2018: expense of EUR 37,904 thousand) relating to the difference between the provisions required in this connection at 2019 year-end and the provisions recognised at 2018 year-end.

The expenses incurred in 2019 and 2018 in connection with the provision of contractual warranty services (approximately EUR 57,943 thousand and EUR 50,309 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated statements of profit or loss for 2019 and 2018.

21. Other non-current/current assets and liabilities

The detail of the Group's "Other Assets" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Assets for the right to recover (Note 3-f)	7,208	2,684
Other non-current assets	7,208	2,684
Prepayments	17,130	6,203
Assets for the right to recover (Note 3-f)	-	140
Other current assets	17,130	6,343

The detail of the Group's "Other Liabilities" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Advances received on sales or services rendered (Note 12)	51,059	41,228
Advances received on operating leases (Note 8)	28,935	37,993
Refund liabilities	6,643	2,965
Other non-current liabilities	86,637	82,186
Advances received on operating leases (Note 8)	4,257	4,964
Unearned revenue	1,666	631
Refund liabilities	1,352	219
Other current liabilities	7,275	5,814

As detailed in Note 3-f, certain bus sale agreements grant a right to recover to the customers. If it is determined that the contract is an operating lease, the billings received in advance are recognised under "Advances Received on Operating Leases". If, on the other hand, it is concluded that the contract is a sale with a right of return, the value of the asset to be repurchased by the company is recognised under "Assets for the Right of Return" and the amount expected to be paid to recover the asset is recognised under "Refund Liabilities".

22. Income and expenses

a) Procurements

	Thousands of euros	
	2019	2018
Materials used (*)	1,157,466	948,354
Work performed by other companies	231,312	141,586
Total	1,388,778	1,089,940

(*) 66% in euros, and the remainder mainly in US dollars, pounds sterling and Polish zlotys (2018: 78% in euros).

b) Other operating expenses

	Thousands of euros	
	2019	2018
Outside services	371,072	305,499
Taxes other than income tax	4,710	4,739
Change in operating provisions and allowances and other (Notes 12 and 20)	23,605	35,279
Other current operating expenses	8,711	2,088
Total	408,098	347,605

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 1,263 thousand in 2019 (2018: EUR 1,112 thousand). Of this amount, EUR 659 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2018: EUR 726 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 165 thousand were billed in 2019 (2018: EUR 230 thousand), EUR 144 thousand for audit-related attest services including six-monthly reviews (2018: EUR 146 thousand), EUR 7 thousand for tax services (2018: EUR 38 thousand) and the remainder for other services.

c) Information on the environment

In 2019 investments made in systems, equipment and facilities designed for environmental protection and improvement amounted to EUR 2,256 thousand (2018: EUR 0 thousand).

The Group did not receive any environmental grants in 2019.

At 31 December 2019 and 2018, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' Directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2019 the Group incurred environmental expenses amounting to EUR 825 thousand (2018: EUR 436 thousand).

d) Grants related to income

Most of the grants transferred to profit or loss in 2019 and 2018 related to grants awarded under various Spanish ministerial and European programme calls, in respect of which all the costs to be supported were incurred.

Grants must be refunded together with the related market interest if the R&D investments envisaged under the projects are not ultimately made.

The grants related to income recognised in 2019 under "Other Operating Income" in the accompanying consolidated statement of profit or loss amounted to EUR 4,633 thousand (2018: EUR 4,495 thousand).

23. Average headcount and staff costs

The average headcount in 2019 and 2018 is as follows:

Professional category	Average number of employees	
	2019	2018
Board members	2	2
Senior executives	11	10
Employees	5,894	4,590
Manual workers	6,577	5,028
Total (*)	12,484	9,630

(*) At 31 December 2019, there were 13,179 employees (31 December 2018: 11,433 employees).

The breakdown, by gender, of the average headcount in 2019 and 2018 is as follows:

Professional category	2019		2018	
	Men	Women	Men	Women
Board members	1	1	1	1
Senior executives	10	1	9	1
Employees	4,364	1,530	3,364	1,226
Manual workers	6,282	295	4,852	176
Total	10,657	1,827	8,226	1,404

At 31 December 2019, the Parent's Board of Directors comprised 7 men and 3 women. At 31 December 2018, the Parent's Board of Directors comprised 7 men and 3 women.

The detail of staff costs is as follows (in thousands of euros):

	2019	2018
Wages and salaries (Note 3-k)	490,537	389,987
Social security costs	138,050	107,248
Other expenses (Note 3-j)	26,020	21,238
Total	654,607	518,473

24. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 2019 additional to the portion relating to the note 3-j description, the total remuneration of the Parent's Board of Directors amounted to approximately EUR 1,907 thousand (2018: EUR 1,902 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. During 2019, the Parent made contributions to long-term savings plans, instrumented by a long-term collective savings insurance under the defined contribution system, from which the Parent is a policy holder and beneficiary, for an amount of EUR 1,300 thousand (2018: EUR 1,000 thousand). At 31 December 2019 and 2018, neither the Board of Directors of the Parent nor the boards of the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

In 2019 EUR 59 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2018: EUR 59 thousand).

b) Information regarding situations of conflict of interest involving the directors

In 2019 and 2018 neither the members of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the other members of the Board of any direct or indirect conflict of interest that they might have with the Parent.

25. Remuneration of senior executives

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, additional to the remuneration that may be payable to them as described in Note 3-j, amounted to EUR 3,008 thousand in 2019 (2018: EUR 2,613 thousand).

In 2019 and 2018 there were no other transactions with senior executives outside the ordinary course of business.

26. Other disclosures

a) Guarantees and other contingent assets and liabilities

At 31 December 2019, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 3,330,658 thousand (31 December 2018: EUR 3,259,219 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 10,556 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (Note 15) and other government agencies (31 December 2018: EUR 12,973 thousand); and EUR 17.5 million related to the guarantee provided for the future contribution the Group will make in 2024 in the investee Momentum Trains Holding Pty Ltd.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. In July 2019 the CADE tribunal rendered its administrative decision and thereby ordered the subsidiary to pay a penalty amounting to BRL 167,057,982.53 (EUR 37,872 thousand) and recommended the competent authorities not to grant the subsidiary certain tax benefits for five years. The Group recognised this amount with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss and a credit to "Long-Term Provisions" in the accompanying consolidated balance sheet (see Note 20). The amount of the fine was increased by the related interest cost in accordance with the Brazilian Special System for Settlement and Custody (SELIC) interest rate and EUR 958 thousand were recognised in 2019 with a charge to "Finance Costs" in the accompanying consolidated statement of profit or loss. At the date of authorisation for issue of these consolidated financial statements, CADE's decision was not effective for legal purposes, as various outstanding administrative matters had not been resolved; however the directors do not expect any change in the final decision rendered by the CADE tribunal.

The subsidiary rejects CADE's assessment of events when imposing the aforementioned penalty and alleges that its actions in relation to the matter under investigation were always carried out in strict compliance with the applicable legislation. Once the CADE's decision comes into effect, the subsidiary will file the corresponding appeal at the Brazilian courts. The subsidiary's legal advisers consider that there is reasonable chance that the final amount of the penalty imposed will be reduced to a quantity substantially lower than the aforementioned amount, all without prejudice to the possibility of the fine being completely annulled. Also, at the date of authorisation for issue of these consolidated financial statements, there are no other claims in this connection relating to the various Group companies that are not described in these consolidated financial statements. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 203 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, initiated court against which the Group has filed the corresponding defences. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleas in the first half of 2016. Subsequent to the ruling of the Court of Auditors which considered the existence of irregularities of any kind to be unproven, a request was made for these proceedings to be closed and dismissed. This request is awaiting a decision. Lastly, also as a result of CADE's investigations, an administrative proceeding was initiated by the São Paulo Court of Auditors in relation to which the subsidiary submitted its initial pleadings in the second half of 2018.

The CAF Group continues to defend its interests in these proceedings. However, at the reporting date it was not possible to determine the result or the impact that these proceedings might have on the Group's consolidated financial statements should the outcome be unfavourable and, therefore, no liabilities were recognised therein in this connection.

At 31 December 2019, the Group was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and, therefore, it is difficult to assess its possible impact; however, the Parent's directors consider that the likelihood of this situation giving rise to losses for the Group is low, since there are causes that have given rise to delays that can in no case be attributed to the consortium, the amounts claimed are greater than the damage caused to the customer, and there are claims for cost overruns incurred by the consortium attributable to the customer. At 2019 year-end, a report justifying the delays was issued by an independent expert and no decision had yet been handed down in this proceeding at the date of authorisation for issue of these consolidated financial statements.

On 27 August 2018, the Spanish National Markets and Competition Commission ("CNMC") instituted penalty proceedings in connection with purported anti-competitive practices against various companies, which included CAF Signalling, S.L.U. and its parent Construcciones y Auxiliar de Ferrocarriles, S.A. as it is jointly and severally liable.

CAF is employing the legal actions to which it is entitled to defend its interests, and is at present unaware of the conduct and practices of which CAF Signalling, S.L.U. and Construcciones y Auxiliar de Ferrocarriles, S.A. are accused. The investigation is ongoing at 31 December 2019.

b) Disclosures on the average period of payment to suppliers

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2019	2018
	Days	Days
Average period of payment to suppliers	86.18	80.77
Ratio of transactions settled	86.90	84.41
Ratio of transactions not yet settled	83.94	69.95
	Thousands of euros	Thousands of euros
Total payments made	905,557	731,817
Total payments outstanding	234,650	246,651

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services included in "Payable to Suppliers" and "Other Payables" under current liabilities in the balance sheet.

The statutory maximum payment period applicable to the Parent in 2019 under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, was 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

27. Events after the reporting period

At 31 December 2019, the firm backlog, net of progress billings, amounted to approximately EUR 9,446,468 thousand (31 December 2018: EUR 7,716,487 thousand) (Note 11).

Also, in January 2020 the subsidiary Euromaint entered into an agreement the operator VY for the maintenance of the Bergan (Norway) railway fleet. It will also supply five additional metro units to the operator of the Helsinki metro. The sum of these contracts exceeds EUR 100 million.

28. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPROVAL BY THE BOARD OF DIRECTORS

ANDRÉS ARIZKORRETA GARCÍA
CHAIRMAN

JUAN JOSÉ ARRIETA SUDUPE
DIRECTOR

CARMEN ALLO PÉREZ
DIRECTOR

JAVIER MARTÍNEZ OJINAGA
DIRECTOR

JOSÉ ANTONIO MUTILOA IZAGUIRRE
DIRECTOR

LUIS MIGUEL ARCONADA ECHARRI
DIRECTOR

ANE AGIRRE ROMARATE
DIRECTOR

JULIÁN GRACIA PALACÍN
DIRECTOR

IGNACIO CAMARERO GARCÍA
DIRECTOR

MARTA BAZTARRICA LIZARBE
DIRECTOR-SECRETARY

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JULIÁN GRACIA PALACÍN

IGNACIO CAMARERO GARCÍA

MARTA BAZTARRICA LIZARBE

Certificate issued by the Secretary of the Board of Directors attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (consolidated) for the year ended 31 December 2019 by the Board of Directors at its meeting on 27 February 2020, the directors have signed this document, consisting of 204 sheets numbered sequentially from 1 to 204, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2020.

Approved by

THE CHAIRMAN

ANDRÉS ARIZKORRETA GARCÍA

Signed

THE SECRETARY OF THE BOARD

MARTA BAZTARRICA LIZARBE