# Construcciones y Auxiliar de Ferrocarriles, S.A.

Financial Statements for the year ended 31 December 2017 and 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 financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

Deloitte.

Deloitte, S.L.
Plaza Julio Caro Baroja, 2
20018 San Sebastián
España

Tel: +34 943 26 78 00
www.deloitte.es

*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 financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

## Report on the Financial Statements

### Opinion

We have audited the financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Company), which comprise the balance sheet as at 31 December 2017, and the statement of profit or loss, statement of recognised income and expense, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2017, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2 to the financial statements) and, in particular, with the accounting principles and rules contained therein.

### 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 Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the 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.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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** | **Procedures applied in the audit** |
| The Company engages mainly in the manufacture of rolling stock material and, in relation to long-term construction contracts, as indicated in Notes 11 and 12 to the accompanying 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 2017 by reference to the stage of completion amounted to EUR 844 million.<br><br>Determination of the stage of completion necessarily 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 number of hours incurred in each contract as a percentage of the total number of hours budgeted or the estimation of the margin taking into consideration the expected revenue and estimated costs to be incurred. Also, the stage of completion calculated by the Company on the basis of the hours incurred as a percentage of the total hours of the projects entails a significant risk as it is subject not only to the estimates of the total hours envisaged for each of the projects but also to the correct charging of hours by the staff engaged on each of the projects over the year. | Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the recognition of revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively, including the information system controls, for which we involved our internal technology and systems experts, and the performance of 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 assessing 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.<br><br>Notes 11 and 12 to the accompanying financial statements contain the disclosures and information relating to the Company's revenue by reference to the stage of completion. |

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

## Provisions for delays in deliveries and other contractual commitments

| Description | Procedures applied in the audit |
| --- | --- |
| It is standard practice in the industry in which the Company operates for long-term construction contracts to provide for obligations that require the recognition of liabilities in the event of any delays in the delivery of rolling stock material pursuant to the production schedule or other contractual commitments.<br><br>As described in Note 17 to the accompanying financial statements, the provisions recognised by the Company to meet these obligations amounted to EUR 119 million at 31 December 2017.<br><br>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 Company.<br><br>Accordingly, the situation described was considered to be a key matter in our audit. | Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process for recognising provisions for delays in deliveries. In particular, the controls whereby management assesses the status of each project. We obtained the detail of the estimates made by management in relation to the provisions recognised and, for a sample of contracts obtained on a selective basis, we assessed the reasonableness of the estimates made by management by comparing those estimates with the terms and conditions included in the aforementioned contracts, the circumstances prevailing in those contracts and historical experience. We also carried out substantive tests relating to the obtainment of confirmations from third parties.<br><br>Lastly, we also assessed the appropriateness of the disclosures provided in the financial statements (see Notes 17 and 22). |

## Other Information: Directors' Report

The other information comprises only the directors' report for 2017, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

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

a) A specific level that applies to the 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 directors' report, or, as the case may be, that the 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 directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those 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 the 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 in the preceding paragraphs, we have checked that the information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

## Responsibilities of the Directors and of the Audit Committee for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix 1 to this auditor's report. This description, which is on page 7, forms part of our auditor's report.

## Report on Other Legal and Regulatory Requirements

### Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 27 February 2018.

### Engagement Period

The Annual General Meeting held on 10 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution/resolutions of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 1990, 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 Múgica
Registered in ROAC under no. 18694

27 February 2018

**Appendix 1 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 financial statements.

## Auditor's Responsibilities for the Audit of the 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 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 entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the use by the 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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity'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 entity'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 entity's audit committee, we determine those matters that were of most significance in the audit of the 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.

# 2017 DIRECTORS' REPORT

# OF THE

# PARENT

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

## CAF BUSINESS MODEL AND OUTLOOK

CAF is a multinational company **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, from integrated transport systems to wheel sets, components, infrastructure, signalling and services (maintenance, refurbishing and financial services). Within the wheel-sets segment, which represents its core business, CAF offers a wide range of products that includes, among others, high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

With more than 85% of revenue relating to the international market and a significant focus on western Europe, the CAF Group has production plants in Spain, France, the US, Mexico and Brazil, in addition to a new plant currently under construction in the UK that will start up in 2018. The Company also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

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 focus on furthering the development of prior years' lines of action and setting 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. The backlog, which represented 4.2 x sales in 2017, and business alliances will support the Company in its pursuit of this objective. In this regard,the efforts already underway aimed at equipping the Company with industrial capacity in the UK in various areas of activity are worth mentioning (services, engineering and manufacture), to improve its response to requirements in that market.

- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, operation of railway systems, leasing, maintenance and/or refurbishing of trains and locomotives, and various value propositions to customers that might arise from the marketing of digital services (condition based maintenance, fleet management, etc.). In this regard, in 2017 the Company acquired RIFER, a leader in Italy in the provision of wheel set and railcar maintenance services. Based in Milan, very close to the Swiss border, at an important rail and intermodal transport hub, this strategic location will enable CAF MiiRA to offer products and services to Central European countries. With a headcount of more than 60 employees and annual billings of close to EUR 10 million, this company has experienced considerable growth over the last few years thanks to its commitment to modernising its facilities and production processes and methods.

- Significant growth in business related to the design and construction of turnkey transport systems and, when required by customers, the maintenance and operation thereof, by the Company on its own or through alliances, including capital investment depending on the circumstances.

- Continue making investments in technological development, in relation to technologies and high value-added marketable products at component, subsystem or material level, intended to be supplied to customers in all our lines of business (wheel sets, signalling, energy, data management, inspections, 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, Vectia, 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 ongoing strategy to gain a competitive advantage. The acquisition in July 2017 of the engineering company BWB, one of the UK's most prestigious consulting firms, forms part of this strategy. BWB has a headcount of around 300 people and has experienced significant growth in recent years thanks to the success of its business model.

- Make progress in the digitization of our operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0). These initiatives span innovative solutions for the services included in the Company's railway solutions, its production processes and IT systems, as a means to guarantee its long-term competitiveness.

- Systematic and recurring execution of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety and management of all the Company's business activities and areas, within a highly competitive environment. This includes:

    - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK, Urbos AXL, metro, etc.)

    - Gradual expansion of the Industrial Operations Transformation Plan.

    - Optimisation of the life cycle cost (LCC) of the product, an area that will increasingly define our competitiveness.

- Lastly, to make progress in fundamental areas of business management such as, corporate social responsibility, shareholder and investor attention, 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 clients' 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.

## BUSINESS PERFORMANCE AND RESULTS

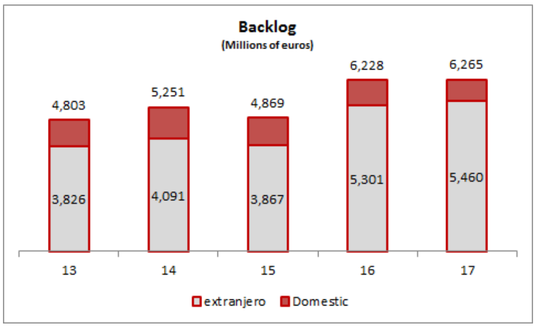
### *Main indicators (*)*

| | 2017 | 2016 | Change (%) |
|---|---|---|---|
| **Contracts-(**)** | | | |
| Backlog | 6,265 | 6,228 | 0.6% |
| Contracts in the year | 1,514 | 2,677 | -43% |
| | | | |
| **Profit and cash flow** | | | |
| Revenue | 1,013 | 858 | 18% |
| EBITDA | 31.8 | 10.4 | 206% |
| Profit for the year | 10.3 | 1.5 | 587% |
| Cash flow | 30.8 | 20.6 | 50% |
| Equity | 680 | 696 | -2% |
| | | | |
| **Proposed dividend per share** | 0.66 | 0.58 | 14% |

- The Company’s backlog is at record highs and continues to guarantee the continuation of the Company's normal business activities.
- The proposed distribution of profit consists of paying dividends of EUR 22.6 million.

(*) The indicators’ definitions are included in the “Alternative Performance Measures” section.
(**) Data of the consolidated group.

## *Commercial activity*




2017 ended with a new record for the volume of backlog, which amounts to EUR 6,265 million.

In addition to this landmark, the Group's vision for the future is also important, which translates into the development of new products and business lines to be able to maintain the growth trend in future years. In this connection we should highlight the agreement reached with Euskal Trenbide Sarea and EuskoTren to implement an autonomous driving system on Line 3 of the Bilbao metro, which is compatible with the ERTMS -European Rail Traffic Management System- signalling system. The Company will also collaborate with EuskoTren in the improvement of preventive maintenance of the 900 and 950 series in the "Study into predictive maintenance patterns" project.

Within the new business lines, mention should be made of the new ENEP car for transporting truck trailers by rail, thereby helping to reduce greenhouse gas emissions and heavy traffic on the roads. With this new car, which does not require investments in logistics terminals, and supported by the sound performance of the BITRAC locomotives, leased in recent years, the Company participated in the Expression of Interest launched simultaneously by the Spanish and French Governments for the operation of European rolling highways. Also, the ENEP car is capable of extending the rolling highway concept to all Iberian gauge tracks with a minimal investment in gauge-changing facilities.

Among the new projects obtained in 2017, mention should be made of the contract entered into at the beginning of the year with RATP - Régie Autonome des Transports Parisiens-, the Paris public transport operator, for twelve electric maintenance locomotives equipped with batteries to operate "catenary free", a solution aligned with the Company's commitment to environmental sustainability.

Tramway solutions were of notable importance in the backlog arranged in 2017; furthermore, CAF was selected to supply new trams for Vitoria - Gasteiz.

Specifically, four public authorities have renewed the trust previously placed in the company by exercising various options to extend their contracts. Storstockholms Lokaltrafik AB, the company responsible for the Stockholm transport network, signed two extensions in 2017 and acquired 20 new trams: ten four-car trams and ten three-car trams; its fleet for the Swedish capital now boasts 42 Urbos trams. In the Netherlands, specifically in the province of Utrecht, a contract was entered into for the manufacture of 22 seven-car trams, in addition to the initial the supply for 27 trams arranged in 2015. BKK -Budapesti Közlekedési Központ-, which manages the transport services in Budapest, the Hungarian capital, formalised an agreement for 21 five-car trams and five nine-car trams, taking the total number of cars to 46 and 17, respectively. In the US, Kansas City decided to increase its fleet of trams with the addition of two new three-car units.

Four new clients chose the Urbos platform to provide tramway services to their respective populations. In the US, specifically Washington State, Seattle Department of Transport (SDOT) entered into a contract for ten three-car trams that can operate on "catenary-free" sections using the energy accumulation system developed in house by CAF.

On the island of Mauritius, for the 26-km section connecting the island's main cities -Curepipe, Vacoas, Rose Hill, Quatre Bornes and the capital, Port Louis-, CAF will supply 18 seven-car Urbos trams and a signalling system, automatic vehicle location system and transit signal priority system, in addition to workshop equipment and a driving simulator. This is a turnkey project led by Larsen & Toubro Limited.

In Belgium, De Lijn -Flemish Transportation Company- entered into a contract for 48 trams that will operate in the provinces of Antwerp, West Flanders and East Flanders. In Italy, the Region of Calabria formalised a contract for the purchase of four five-car Urbos trams for the new tramway system in the city of Cosenza. In Germany, the public transport authority Zweckverband Schönbuchbahn arranged a contract for nine three-car light rail vehicles and maintenance over a 19-year period, to provide the essential structure for mobility within its network area.

CAF's light-rail vehicles will also operate in Manila, the capital of the Philippines, on Line 1 of the Manila Light Rail Transit System, as part of a project that the Department of Transport of the Philippine Republic arranged through Mitsubishi Corporation. 30 units of rolling stock will be supplied, strengthening the trust between the two companies by means of a new project, following previous successful collaborations on the Istanbul metro and the Canberra tram.

In the metro market, the city of Naples arranged a contract for the supply of ten six-car units for Line 1 of the metro of the capital of the Campania region of Italy. The relationship of trust between CAF and various Italian public authorities continues to grow with this new contract, which joins those entered into in the past with the Rome metro, Bari commuter trains, the Friuli-Venezia Giulia and Sardinia regions and Trenitalia.

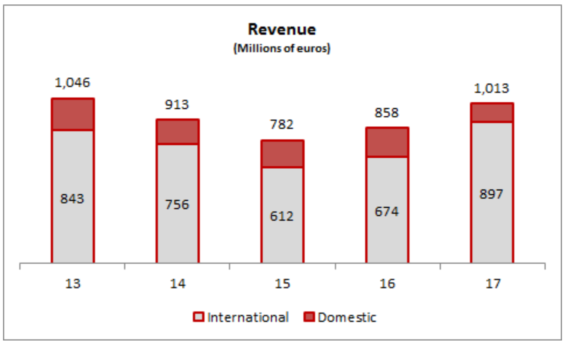
We conclude this summary by analysing the diesel and electric units contracted in the UK and New Zealand. On the other side of the world, the city of Auckland has renewed its trust in our trains by contracting an additional 15 electric units and maintenance over a period of eight years. These units are equipped with an on-board electricity storage device which enables them to operate on lines that are not electrified, as is the case of the Papakura–Pukekohe route, thereby avoiding the use of diesel trains that currently provide the service.

In the UK, the joint venture formed by Abellio, Japan East Railway Company and Mitsui & Co Ltd was awarded the operation of the West Midlands franchise and selected CAF for the manufacture and maintenance of 26 diesel multiple units (14 four-car units and twelve two-car units). The selection of CAF confirms the trust of UK operators in CAF's products, which enjoy a significant presence in the UK, as demonstrated by the tramway contracts in cities like Edinburgh and Birmingham, or wheel sets for the provision of services by operators such as First Group, Arriva and Serco.

Last, but by no means least, mention should be made of the sound commercial performance of, and contracts contributed by, the wheel sets business (MiiRA) and the Group's other businesses, which increased the total annual contracts to around EUR 1,500 million.

The Company, which is now more than 100 years old, faces 2018 with a renewed sense of optimism in light of the forecast investments from various operators, which include opportunities in the domestic market such as those announced by the Ministry of Public Works relating to imminent tenders by Renfe for various types of material.

## *Industrial activity*




Within 35 projects in the design, manufacture or delivery phase that were active in 2017, approximately 20 of them related to the manufacturing phase, which occupied the industrial activity of the Group's various plants.

Certain projects were completed in 2017, such as the project for twelve locomotives for the Saudi Arabian operator SAR, with the delivery of the remaining locomotive; or Euskotren's order for 28 units, the manufacture of the last six of which was completed; the eight trains for the Istanbul metro completing the order for 21 trains; the last of the 20 trains contracted by the Helsinki metro; and the six trams completing the contract for twelve arranged by the German city of Freiburg.

The manufacturing phase of other projects commenced in previous years continued, namely the order for 35 trains for the operator CPTM in the Brazilian city of Sao Paulo, of which nine units were manufactured, taking the total to 24 at the end of the year; or the project for the Santiago de Chile metro, with the manufacture of 18 units of the order for 41 trains; ten of the 16 trams under the contract arranged with the city of Saint Etienne; the 15 trains of the Civity platform for the city of Toluca (Mexico); eight trams for Utrecht; the first of the trams for Canberra; the first nine trams of the 21 arranged by Luxembourg and 15 trains for the Medellín city metro.

The first five trains for the Dutch operator Nederlandse Spoorwegen (NS) left the manufacturing plants. Four of the trains have four cars and the other train has three cars. This is the first delivery batch of the 118 trains of the aforementioned two types that make up the order.

As regards the other projects, which are in earlier phases of development, mention should be made of the projects arranged with the UK operators Arriva Northern and TransPennine, the first units of which were at different stages of completion at the end of 2017.

The most important products manufactured in 2017 were as follows:

| | **No. of Vehicles** |
|---|---|
| Long-distance Amtrak cars | 11 |
| Long-distance Caledonian cars | 16 |
| Locomotive for Saudi Railway Company (SAR) | 1 |
| Euskotren commuter trains | 18 |
| Commuter trains for CPTM | 72 |
| Commuter trains for Toluca | 75 |
| Commuter trains for NS (four-car units) | 16 |
| Commuter trains for NS (three-car units) | 3 |
| Chile metro | 90 |
| Istanbul metro | 48 |
| Helsinki metro | 4 |
| Medellín metro | 45 |
| Trams for Freiburg | 42 |
| Trams for Saint Etienne | 50 |
| Trams for Utrecht | 40 |
| Trams for Luxemburg | 63 |
| Trams for Canberra | 5 |
| **TOTAL** | **599** |

**BOGIES**

With welded chassis ....................................................................................877

**WHEEL SETS AND COMPONENTS UNITS (MiiRA)-**

Assembled axles ....................................................................................4,160
Loose axle bodies ....................................................................................6,211
Monoblock wheels.................................................................................... 47,816
Elastic wheels ....................................................................................867
Couplers ....................................................................................451
Gear units ....................................................................................2,482

## *Investments*

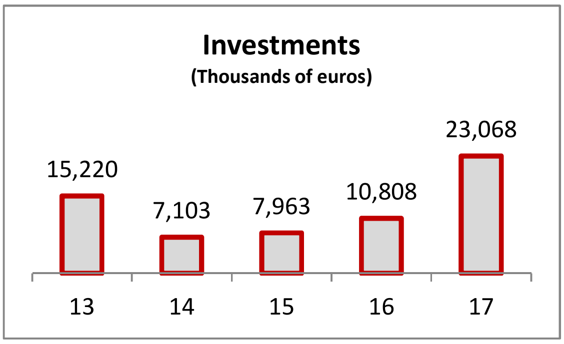
Capital expenditure by CAF in 2017 amounted to EUR 23,068 thousand. 2017 investments included:

At the Wheel Sets Business Unit (MiiRA), the investment for a new automatic axle machining and verification line was completed and the line came into service at the end of the year. Similarly, the adaptation of MiiRa's new offices was completed in early 2017 and they are now fully operational.

At the Rolling Stock Business Unit, a plan commenced in 2017 to improve the industrialisation model with the aim of equipping the Company with the capacity and facilities required to provide an optimal response to the considerable number of projects awarded in 2016. These measures included most notably the new engineering and R&D building being constructed in Beasain and investment in manufacturing areas, such as the refitting and renovation of the finishing warehouses applying the lean manufacturing methodology, implementation of new vehicle-platform-specific lines, the conditioning and equipping of the new kitting areas, acquisition of a new paint shop and the construction of a new tram test track.

With regard to investments in the Company's other departments, the existing offices were also reorganised and extended. The main departments affected by these investments were the Quality, Manufacturing Engineering, Purchasing and Planning departments.

Similarly in the IT area, the data warehousing system is currently being upgraded to provide a more modern hybrid infrastructure comprised of various types of data warehousing. A server consolidation process was also launched to equip servers with greater processing resources, thus minimising the number of incidents and reducing consumption.



## *R&D+i activity*

As regards CAF and CAF I+D, in 2017 CAF Group's new Technology Plan for 2018-2019 was completed which, aligned with the Strategic Plan, will set in motion a total of 47 new projects for CAF and its subsidiaries, and continue another 67.

Similarly, the Product Plan for 2018-2019 was completed, which is focused on the basic development of new types of vehicle to extend CAF's product range and on improving its existing offering.

The aforementioned projects obtained financial support for R&D activities from the following entities:

- Provincial Government of Guipúzcoa
- Basque Autonomous Community Government
- Ministry of Economy and Competitiveness
- Ministry of Industry, Energy and Tourism
- European Commission

The 2017-2018 Technology Plan implemented in 2017 fostered a total of 134 projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2017-2018 Technology Plan encompassed the following fields:

- Specific rolling stock products
- Basic railway technologies such as dynamics, aerodynamics, fluids, noise, EMC, etc., in addition to technologies such as Big Data, cybersecurity, communications and computer vision.
- Digital Train, which comprises projects using Big Data and Machine Learning, etc. technologies to gather and process data obtained in service for use in product and maintenance enhancements.
- Energy accumulation and management, comprising projects relating to the reduction and optimisation of energy consumption in trains (driving, ancillary systems, etc.) and in the railway system as a whole, capture and storage of energy in batteries and hydrogen, etc.
- Signalling (on-board and fixed)
- Traction
- Specific products and developments using wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

All of the above combined the execution of projects aimed at assimilating new 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, a project associated with the Digital Train developments funded by the strategic HAZITEK programme.
- SIP-SCIE, a project to develop energy capture technologies supported by the Spanish Centre for Industrial Technological Development (CDTI).
- ROLL2RAIL, a two-year project led by CAF on the technical side which precedes Shift2Rail, the aim of which is to develop a series of key technologies that will provide a significant leap in innovation in the rolling stock vehicle field.
- SHIFT2RAIL. As a founder member of the Shift$^2$Rail 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, PINTA, IMPACT, etc.) which are scheduled to continue until 2024.

The subsidiaries continued their normal technological development activity. The following activities are worthy of note:

- Development of proprietary, on-board ETCS DMI software in compliance with BL3 regulations, thereby eliminating the need to depend on software licensed from a third party.
- Certification of the generic on-board ETCS software for the Netherlands, including the country-specific CRs required by ProRail.
- ERTMS system L1 Infrastructure with temporary speed restrictions (PCE, L1EM, LEU) was completed It is being installed in the Atlantic Axis, Vandellós -Tarragona and Pamukova - Kosekoy projects.
- ATO system for the Mexico-Toluca project integrated in Laboratory.
- Modularisation of the traction platforms, including software.
- Complete validation and application of Full-Litio technology in customer projects, which enables "catenary-free" rolling stock to operate and extends its battery life.
- Development of hybrid renewable energy (mainly photovoltaic) systems and battery storage systems.

In addition to the development, enhancement and expansion of CAF's existing vehicle platforms, the most significant engineering projects undertaken in 2017 were as follows:

- Oaris high-speed trains for Flytoget (Norway)
- Diesel and electric multiple units for Arriva Northern (UK)
- Electric multiple units for First TransPennine Express (UK)
- LRVs for the Boston and Maryland metros (US)
- Push-pull cars for Caledonian and First TransPennine Express (UK)
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)
- Metros for Mexico City Line 1 (Mexico), Algiers (Algeria) and Quito (Ecuador).

The following projects entered into service in 2017:

- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Naples metro (Italy)
- Trams for Cosenza (Italy), Seattle (USA) and De Lijn (Belgium)

## *Main risks and uncertainties*

CAF 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, CAF'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 Company with a controlled volatility;

- Providing the utmost level of guarantees to shareholders;

- Protecting CAF's results and reputation;

- Defending the interests of shareholders, customers, other groups interested in the Company's operations and that of society in general; and

- Ensuring the Company's 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;
2) identification of the various risk types (due to their corporate or business-related nature) to which the Company is exposed;
3) analysis of the risks identified and what they entail for the Company as a whole;
4) risk assessment based on the defined risk appetite;
5) the measures envisaged to address the identified risks; and
6) regular monitoring and control of current and potential risks.

The Integrated Risk Management System adopted by the Company 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 the Company is facing 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 Company operates and the strategic planning and technological decisions adopted.

• Financial risks: these arise from fluctuations in the markets, and include the following risk subcategories:

- Market risk, which includes the following risks:

    - Interest rate risk: risk of fluctuations in interest rates that might give rise to changes in the Company's profit or loss and the value of its assets and liabilities.
    - Foreign currency risk: risk arising from fluctuations in exchange rates that have an 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 Company 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 15, "Derivative financial instruments", in the financial statements.

• Operational risks: these are the risks inherent to all the Company's activities, products, systems and processes that give rise to economic losses arising from human/technological errors, inappropriate/defective internal processes, or the participation of external agents. They include risks of a corporate nature and those related to the execution of projects. They include the following: personnel/employment law, human, social and environmental rights, among others, and are further detailed in their related sections.

• 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 (including tax risks and contractual requirements): these risks arise from the Company's litigation, contractual requirements, the securities market law, the data protection law, environmental legislation, applicable employment law, the Spanish Criminal Code, local, national and international tax legislation, among others.

Due to its global risk scope, the Integrated Risk Management and Control System is continuously updated to include new risks that might affect the Company 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.

## NON-FINANCIAL INFORMATION AND CORPORATE SOCIAL RESPONSIBILITY STATEMENT

This section of the directors' report provides disclosures on the non-financial information as defined in the legislation in force ("non-financial information statement"), without prejudice to CAF also preparing 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 CAF's corporate strategy is that all persons that form part of CAF 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.

CAF'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 Company 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.

CAF's Corporate Social Responsibility for 2017 has been prepared in accordance with the Core option of the Global Reporting Initiative (GRI) G4.

For more information than that disclosed below, see the *"2017 Corporate Social Responsibility Report"*, which is available on CAF's website.

### *Environmental activity*

CAF 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 do this, CAF carries out numerous research and development activities included in the 2015-2017 Technology Plan in order to prioritise the demands of its customers and users: the quality, safety and eco-efficiency of its products.

- 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 pollutants; (ii) sub-optimal energy consumption; (iii) impact on water sources; (iv) impact on biodiversity; (v) greenhouse gas emissions; (vi) generation of waste; (vii) environmental impact of products and services; (viii) non-compliance with applicable environmental regulations; and (ix) non-compliance with requirements set by customer specifications.

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Company's Environmental Policy and the CSR Policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

In relation to the first area, and with the aim of offering 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 CAF developed the first verified Environmental Product Declaration (EPD) for a tram (the Urbos tram for Zaragoza) in the world under ISO 14025. This environmental impact study on the Zaragoza tram was quantified using a life cycle assessment (LCA) pursuant to ISO 14040 and ISO 14044. From 2011 CAF has continued to certify products in various segments (tram, metro, regional trains) and in 2017 it was one of the rolling stock manufacturers with the largest number of EPDs registered.

Furthermore, as regards how to minimise the environmental impact of its activities, the Company has implemented an Environmental Management System at its most important manufacturing centres (Beasain, Irún and Zaragoza) which is certified under ISO 14001:2004. The most recent maintenance audit for ISO 14001:2004 certification was performed in June 2017.

An audit was also carried out in order to identify gaps with respect to ISO 14001:2015 that will enable the establishment of an action plan to bring the system into line with the aforementioned standard and achieve certification. By doing so, in 2018 the Environmental Management Systems of all the centres will transition to the new version of ISO 14001:2015.

As regards the environmental indicators obtained in 2017, mention should be made, due to its importance, of the energy intensity indicator (energy use per man-hours). At the Company, this indicator stands at 0.70 Kwh per man hour. This figure has decreased considerably on 2016 due to the discontinuation of the steelworks activities at the Beasain factory at the beginning of 2017.

For more information on environmental matters, see Chapter 5 "Contributing to the care of the environment" in the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

### *Social matters*

CAF, as explained in its Corporate Social Responsibility Policy, is committed to the local, national and international community, and implements and fosters initiatives focused on improving the quality of life of the people in the communities where it operates and the areas of its activity. The Company's objective is to participate in the various communities with which it interacts through development cooperation and supporting the various public authorities and leading public and private entities.

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

These risks are fully integrated in the Company's risk management and control system and the procedures and controls that are applied stem from the Corporate Social Responsibility Policy. The risk management and control system regularly monitors the compliance and effectiveness of the measures adopted.

CAF engages in activities that contribute to the wellbeing and improvement of local communities; certain of these are intrinsic to its activity, 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.

The Company is committed to the local economy, which materialises on two fundamental, but not exclusive levels. The first of the levels is reflected in the generation of quality employment wherever it carries on its activities. The quality of employment results in appropriate general conditions and a vocation of employment stability. More than 90% of CAF's employees have permanent contracts.

The second level is related to specific initiatives and activities that might affect the economy of the locations where it operates, thereby contributing to fostering the growth of the business fabric with a different intensity and scope. CAF participates in this last line at regional and international level.

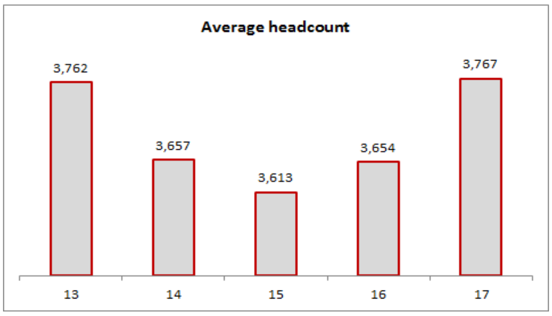
As in previous years, CAF continues to collaborate in order to generate knowledge where it carries on its activities. In 2017 the Company had various initiatives in progress that can be categorised into three types: Participation in governing or management bodies of research centres; long-term collaboration to develop knowledge with universities and research centres; and participation in public or private entities focusing on innovation.

Similarly, the Company 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. It highlights, within the international activity in 2017, the Company's promotion of internships for graduates at CAF Group headquarters in countries such as England and Scotland in the UK, Hungary, Italy, Germany, the Netherlands, Luxembourg, France and Chile, among others.

Lastly, CAF 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. Among these activities, mention should be made of the use of Basque in the Beasain and Irún workplaces; noting that in 2017 the Silver Bikain certificate was obtained. This certificate recognises the quality of the use of Basque in a professional environment.

For more information on Social matters, see Chapter 6 "The Social Value of Our Activity" in the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

### ***Human resources***




The people who are part of CAF are key to develop a sustainable project as is expressed explicitly in the Corporate Social Responsibility policy and Code of Conduct.

CAF promotes the professional development of the people taking into account the balance between the Company's objectives and the employees' needs and expectations, encouraging the adaptation and improvement of competencies and capabilities. The employees' experience, knowledge and motivation are reflected in each of the Company's products and services.

In addition, CAF is committed to use the necessary resources to eliminate or reduce the occupational hazards of all persons, as reflected in the current occupational risk prevention policy.

In his area are identified the followings risk related to the prevention of occupational hazards and the appropriate professional development of employees: (i) rotation of staff; (ii) insufficient training and professional development; (iii) lack of diversity and equal opportunities; and (iv) accidents and health effects.

These risks are fully integrated into the Group's risk management and control system; and the procedures and controls that apply derive from the policy of Corporate Social Responsibility, Policy of Prevention of Occupational Hazards and Code of Conduct of the Company. Within the control and risk management system, the compliance and effectiveness of the measures taken are periodically monitored.

In 2017 a significant programme for the incorporation resources was launched to respond to the growth initiatives of the various businesses. In this sense, CAF, S.A. has increased its headcount during 2017 to reach 3,929 employees. The average headcount of CAF S.A. in 2017 amounted to 3,767.

| CAF, S.A. in figures | 31/12/17 | 31/12/16 |
|---|---|---|
| **College graduates** | 1,064 | 909 |
| **Middle managers and administrative personnel** | 558 | 531 |
| **Production and Services** | 2,307 | 2,242 |
| **Total** | **3,929** | **3,682** |

In order to adapt the template to the Company's challenges, the relative weight of the group of university graduates has increased.

It is worth noting the permanent communication between employees, trade unions and the Company in order to understand their interests and expectations, which should allow reaching agreements beneficial to all. In the employment-law area, of note in 2017 was the agreement to sign the collective agreements for all the Parent's head offices applicable to 2017 and 2018.

With regard to training, the training process is key to structuring this activity and CAF demonstrates this. The indicator of activity and effectiveness of the training process at the end of 2017 show positive figures. More than 73,000 hours of training have been received, with 99% of the planned training activities being carried out, and the assistance has increased at 91%.

In CAF it is actively promoted freedom for discrimination, either direct or indirect, especially in terms on gender and the defense and effective implementation of the principle for employment equality among men and women, making progress in the establishment of measures that favour the work-life balance. The 12% out the total employees of CAF are women, a percentage that exceeds the one on the previous period.

In 2017 an audit of the maintenance of the certificate regarding management framework, based on the requirements expressed in standard OHSAS 18001:2007 for the plants located in Beasain and Irún, an audit for the renewal of the certificate OHSAS 18001:2007 and a regulatory audit for the plant in Zaragoza have been performed. Additionally, and in order to make an internal tracking of the management framework implemented according to the requirements of the standard one, internal audits were performed in each one of them.

The Occupational Risk Prevention Plans of each CAF head office define the prevention activities schedule and the annual targets in terms of occupational risk prevention.

With regard to the aim of accident rates, three indicators are mainly measured: the frequency rate, severity rate and absolute frequency rate.

| Prevention of occupational hazards in figures (2017) | Rolling stock business Main Manufacturing plants Rolling stock/components business | | | Railway Services business Headquarters |
|---|---|---|---|---|
| | Beasain | Irún | Zaragoza | |
| **Frequency Index** $FR = \frac{\text{Number of juries with leave} * 1{,}000{,}000}{\text{Hours worked}}$ | 23.83 | 32.6 | 32 | 39.67 |
| **Severity Index** $SR = \frac{\text{Number of lost Journeys} * 1{,}000}{\text{Worked hours}}$ | 0.56 | 0.5 | 0.51 | 1.44 |
| **Absolute Frequency Index** $AF2 = \frac{\text{Total injuries} * 1{,}000{,}000}{\text{Worked hours}}$ | 160.45 | 293.3 | 288 | 73 |

For more information on human resources matters, see Chapter 4 "Our Team's excellence" in the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

### *Respect for human rights*

CAF is committed to scrupulously respecting fundamental rights, the principles of equality and non-discrimination, protecting children from exploitation and any other principle included in the Universal Declaration of Human Rights and the United Nations Global Compact. These commitments are expressed both in the Code of Conduct and in the Corporate Social Responsibility Policy.

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.

These risks are fully integrated in the Company's risk management and control system and the procedures and controls that are applied stem from the Company's Code of Conduct, Psychological Harassment Prevention Protocol, Compliance Manual and the Corporate Social Responsibility policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

CAF has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 95% of the personnel included in the training plan established to this end have participated in these activities.

In addition, CAF is committed to maintaining the highest standards of professionalism and integrity in its commercial relationships. Specifically, as part of the supplier approval process CAF requires compliance with the ethical principles contained in the Code of Conduct.

CAF has certain measures to assess and guarantee compliance with the Code of Conduct in the supply chain, inter alia supplier approval audits, which include the assessment of human-rights related matters such as certification in this area or the verification of compliance with the Code of Conduct. Also, in 2017 an assessment of compliance with the Corporate Social Responsibility Policy was performed on 15 significant suppliers, whose importance was based both on the type of product they supply and their geographical location. All of the assessments carried out in this process were satisfactory.

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 “2017 Corporate Social Responsibility Report”, which is available on CAF's website.

## Fighting corruption and bribery

### Good corporate governance system

CAF carries on its activity by 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 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 CAF’s stakeholders.

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 CAF carries on its activities, including the approval and implementation of a Code of Conduct and a Corporate Compliance Manual.

Since 2011 CAF’s Code of Conduct has defined the series of general rules and principles of corporate governance and professional conduct applicable to all the Company’s professionals and any other entity or party that, as part of their professional activity, collaborates or has a professional relationship with the Company.

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

In implementing the Code of Conduct, a corporate compliance programme was established, which materialised in the Corporate Compliance Manual that was approved by CAF’s Board of Directors on 29 April 2015; the Manual complies with the provisions of the recent changes introduced in the Spanish Criminal Code and the Code of Conduct forms part thereof. The Manual is reviewed periodically and the most recent version, in force in 2017, was approved by the Board of Directors on 27 July 2016.

This Manual responds 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 CAF’s activities and the consequences of such offences.

**Risks and activities related to fighting corruption and bribery**

As indicated above, the analysis of criminal risks 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 CAF'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.

CAF'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 Corporate Compliance Manual provides a detailed analysis of each of the risk activities and how to manage them.

**Management of specific risks related to fighting corruption and bribery**

Specific management of the risks identified in the Corporate Compliance Manual is performed: (i) by applying specific conduct policies; (ii) by raising awareness among all individuals of CAF to whom the Manual 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 Manual; and (iv) by implementing the Manual at CAF's subsidiaries to ensure that it is applied at all the Group's companies.

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

<u>Specific conduct policies</u>

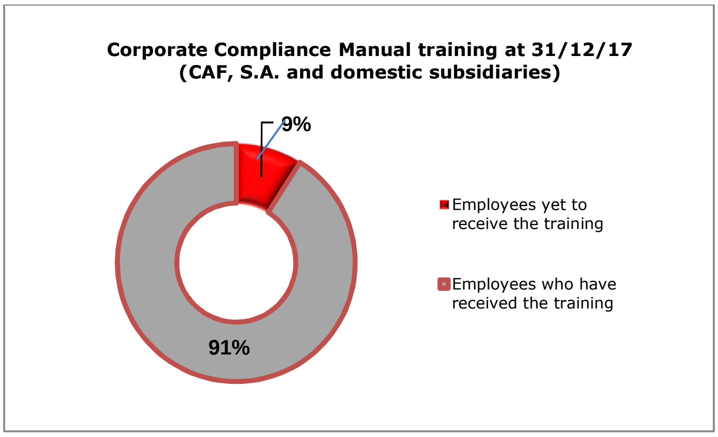
The Corporate Compliance Manual specifies the risk activities that the Group carries on and links them to potential criminal conduct that might be committed and assigns certain conduct policies that must be observed to avoid the commission of offences.

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 CAF Group to prevent the commission of criminal conduct in the performance of risk activities.

<u>Corporate Compliance Manual dissemination and training</u>

In 2017 CAF continued to provide to its personnel the training activities commenced in 2016 aimed at raising awareness of, disseminating and applying the Corporate Compliance Manual. At the end of the 2017, training had been provided to 91% of the personnel at the Parent and Spanish subsidiaries, in accordance with the Corporate Compliance Manual. More than 2,000 people have received training in this connection. Similarly, a system has been established to provide training to new employees.



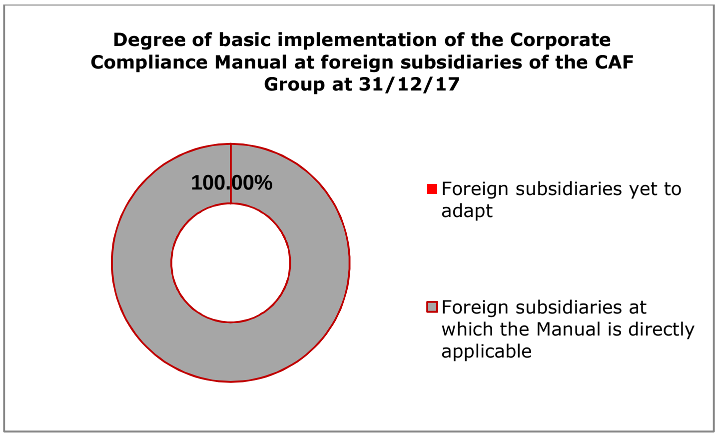

Whistleblowing channel

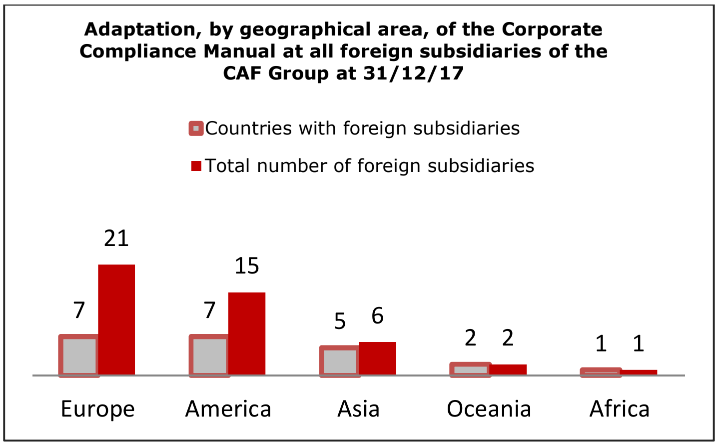
The Manual also establishes a single whistleblowing channel to report complaints, which is supervised by the Compliance Committee. This body regularly analyses the complaints received and, where applicable, takes the appropriate steps based on the specific circumstances of each complaint. If it considers that the complaint warrants greater attention, the Compliance Committee 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. An appropriate record is kept of all the complaints received, which ensures the confidentiality of the whistleblower and the content thereof.

Adaption of the Corporate Compliance Manual at subsidiaries

The Corporate Compliance Manual was immediately applicable to Spanish subsidiaries from the date of its approval, and a deadline of 31 December 2017 was established for its adaptation for foreign CAF Group subsidiaries.

The adaptation process was completed within the deadline at CAF's 45 foreign subsidiaries. These subsidiaries are located in 22 countries on the five continents.






For more information on combating corruption and bribery matters, see Chapter 2 "Good Corporate Governance" in the "2017 Corporate Social Responsibility Report", which is available on CAF Group's website.

## EVENTS AFTER THE REPORTING PERIOD

At 31 January 2018, the Group had a firm backlog of EUR 6,158,860 thousand.

## ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2017 neither Construcciones y Auxiliar de Ferrocarriles, S.A. nor its subsidiaries purchased or held treasury shares.

## PAYMENTS TO SUPPLIERS

The average period of payment to suppliers in 2017 was 81.30 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Company will make 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.

## ALTERNATIVE PERFORMANCE MEASURES

**Backlog**: this represents the volume of firm orders that will be recognised in the future under "Revenue" in the statement of profit or loss. An order is considered firm only where obligations between CAF 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).

**EBITDA:** the Company's EBITDA is calculated by deducting from "Profit from Operations" in the 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".

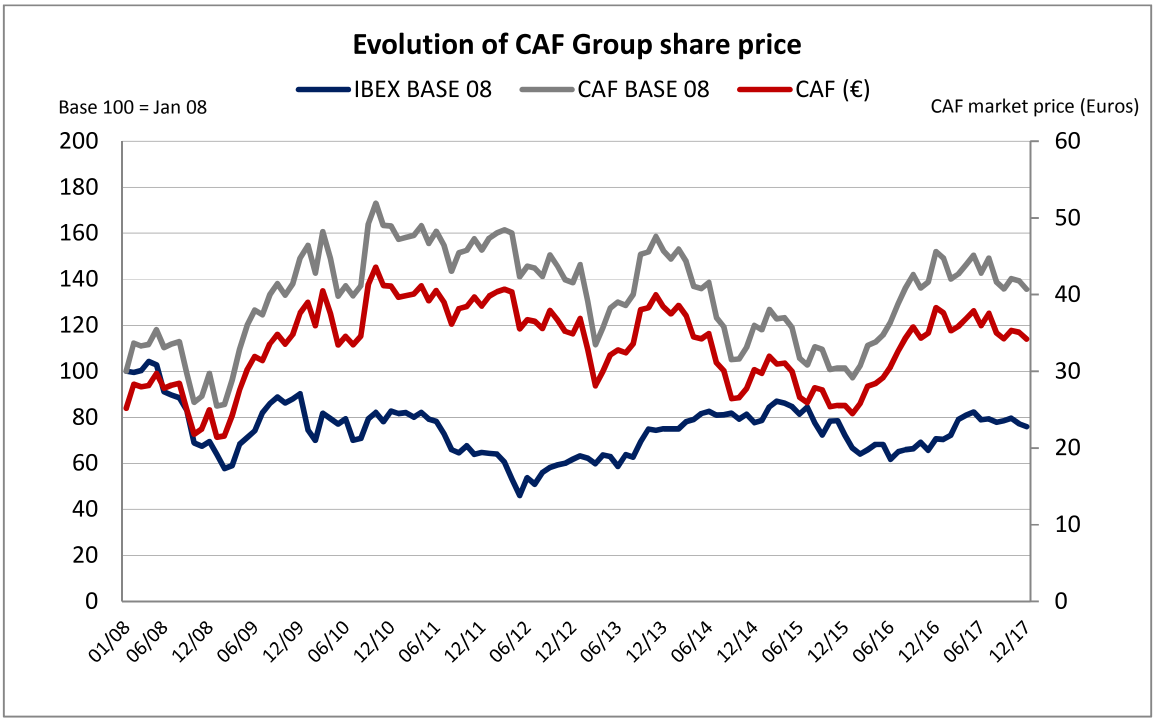
**Cash flow:** the Company's cash flow is calculated by deducting from "Profit for the Year" in the statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

**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 13 to the financial statements).

**Free-float rotation:** ratio that compares the volume of traded securities with 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.9.bis).

## STOCK MARKET INFORMATION

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Market price-** | | | | | |
| Market capitalisation at year-end (millions of euros) | 1,172 | 1,313 | 876 | 1,036 | 1,317 |
| Closing price (euros) | 34.18 | 38.30 | 25.55 | 30.23 | 38.43 |
| Low (euros) | 32.22 | 20.66 | 23.45 | 23.01 | 26.11 |
| High (euros) | 39.50 | 38.39 | 34.39 | 39.70 | 40.62 |
| **Data per share (euros)-** | | | | | |
| Earnings per share (EPS) | 1.24 | 1.02 | 1.20 | 1.74 | 2.63 |
| Dividend per share | 0.66 | 0.58 | 0.525 | 0.525 | 1.05 |
| **Market ratios-** | | | | | |
| PER (average market price/EPS) | 29.06 | 30.30 | 23.76 | 18.53 | 12.53 |
| Market price/EBITDA | 6.84 | 7.84 | 5.87 | 7.55 | 5.07 |
| PBV (average market price/BV) | 1.64 | 1.37 | 1.39 | 1.50 | 1.57 |
| Dividend yield | 1.84% | 1.87% | 1.85% | 1.63% | 3.18% |
| Pay-out ratio (Dividend/EPS) | 53.4% | 56.8% | 43.9% | 30.2% | 39.9% |
| **Liquidity ratios-** | | | | | |
| Free-float rotation | 71% | 89% | 99% | 123% | 109% |
| Traded volume (millions of shares) | 11.8 | 15.6 | 16.2 | 21.2 | 15.8 |



# 2017

# ANNUAL

# CORPORATE GOVERNANCE

# REPORT

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

# ANNEX I

# ANNUAL CORPORATE GOVERNANCE REPORT

# OF LISTED COMPANIES

ISSUER'S PARTICULARS

| | |
|---|---|
| **END OF FISCAL YEAR DATE** | 31/12/2017 |

| | |
|---|---|
| **TAX ID. NO.:** | A20001020 |

| |
|---|
| **COMPANY NAME** |
| CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. |

| |
|---|
| **REGISTERED OFFICE** |
| JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA |

# ANNUAL CORPORATE GOVERNANCE REPORT

# OF LISTED COMPANIES

## A OWNERSHIP STRUCTURE

### A.1 Complete the following table on the company's share capital.

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

Indicate whether different types of shares exist with different associated rights:

Yes ☐ No ☒

### A.2 List the direct and indirect holders of significant ownership interests in the Company at year-end, excluding directors:

| Name or corporate name of shareholder | Number of direct voting rights | Number of indirect voting rights | % over total voting rights |
|---|---|---|---|
| INVESCO LIMITED | 0 | 350,070 | 1.02% |
| CARTERA SOCIAL, S.A. | 8,727,191 | 0 | 25.46% |
| INDUMENTA PUERI, S.L. | 0 | 1,721,528 | 5.02% |
| BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA | 0 | 4,818,523 | 14.06% |
| TEMPLETON INVESTMENT COUNSEL, LLC | 0 | 1,030,590 | 3.01% |
| EDM GESTIÓN, S.A. S.G.I.I.C. | 0 | 1,035,107 | 3.02% |

| Name or company name of indirect holder of ownership interest | Via: Name or company name of direct holder of ownership interest | Number of voting rights |
|---|---|---|
| INVESCO LIMITED | GROUP COMPANIES | 350,070 |
| INDUMENTA PUERI, S.L. | GLOBAL PORTFOLIO INVESTMENTS, S.L. | 1,721,528 |
| BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA | KUTXABANK, S.A. | 4,818,523 |
| TEMPLETON INVESTMENT COUNSEL, LLC | GROUP COMPANIES | 1,030,590 |
| EDM GESTIÓN, S.A. S.G.I.I.C. | EDM INVERSIÓN FI | 1,035,107 |

Indicate the most significant movements in the shareholder structure during the year:

| Name or corporate name of shareholder | Date of the transaction | Description of the transaction |
|---|---|---|
| TEMPLETON INVESTMENT COUNSEL, LLC | 21/08/2017 | Ownership interest has risen above 3% of share capital |
| BESTINVER GESTIÓN S.A., S.G.I.I.C. | 01/09/2017 | Ownership interest has fallen below 3% of share capital |
| EDM GESTIÓN, S.A. S.G.I.I.C | 21/12/2017 | Ownership interest has risen above 3% of share capital |

### A.3 Complete the following tables on company directors holding voting rights through company shares:

| Name or company name of director | Number of direct voting rights | Number of indirect voting rights | % over total voting rights |
|---|---|---|---|
| MR. JUAN JOSÉ ARRIETA SUDUPE | 1,000 | 0 | 0.00% |
| MS. ANE AGIRRE ROMARATE | 750 | 0 | 0.00% |

| Total % of voting rights held by the Board of Directors | 0.00% |
|---|---|

Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company

A.4 Indicate, as appropriate, any relationships of a family, commercial, contractual or corporate nature existing between the holders of significant ownership interests, insofar as they are known to the company, unless they have scant relevance or arise from the ordinary course of business:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the company and/or its group, unless they are insignificant or arise from ordinary trading activities:

| Related name or company name |
|---|
| CARTERA SOCIAL, S.A. |
| CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. |

**Type of relationship:** Contractual

**Brief description:**

Employees' share instrument in CAF's share capital

| Related name or company name |
|---|
| KUTXABANK, S.A. |
| CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. |

**Type of relationship:** Corporate

**Brief description:**

Creation of an economic interest group for projects with Metro Barcelona and Serveis Ferroviaris de Mallorca

A.6. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Companies Law ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes ☐ No ☒

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes ☐ No ☒

Expressly indicate any amendment to or termination of such agreements or concerted action during the fiscal term:

Not applicable

## A.7 Indicate whether any natural o legal person currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Act. If so, identify:

Yes ☐ No ☒

| Comments |
|---|

## A.8 Complete the following tables on the company's treasury shares:

**At year-end:**

| Number of shares held directly | Number of indirect shares (*) | Total % on share capital |
|---|---|---|
| 0 | 0 | 0.00% |

**(*) Through:**

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

| Explain significant changes |
|---|

## A.9. Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

The Annual 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. This authorisation disregards the authorisation granted by resolution of General Shareholders' Meeting held on 5 June 2010.

## A.9.bis Estimated free float:

| | % |
|---|---|
| Estimated free float | 48.41 |

## A.10. Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes ☐ No ☒

## A.11. Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes ☐ No ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☐ No ☒

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

# B GENERAL MEETING

B.1 State if there are differences with the quorum provisions of the Companies Law in respect of General Meetings. If so, provide details.

Yes ☐ No ☒

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes ☐ No ☒

Describe how they differ from the rules established in the LSC.

B.3 Indicate the rules governing amendments to the company's Bylaws. Specifically, the required majorities for amending the bylaws shall be informed, as well as the provisions set forth for safeguarding the rights of the shareholders during the bylaw amendments, as the case may be.

The General Shareholders' Meeting shall be competent to agree on the amendments to the bylaws. In accordance with Articles 13 and 20 of the By-Laws, when adopting agreements on the issuance of convertible bonds or bonds conferring a stake in corporate earnings for bondholders, the increase or reduction of capital, the elimination or restriction of pre-emptive rights over new shares, the Company's transformation, merger or spin-off or overall assignment of assets and liabilities and the transfer of its domicile abroad and, in general, any amendment to the Bylaws, a Shareholders' Meeting must be held and have a quorum of at least 50% of the subscribed capital with voting rights at first call, present either in person or by proxy. On second call, the attendance of 25% percent of that share capital shall suffice. When on second call shareholders representing 25% or more but less than 50% of the subscribed capital with the right to vote attend the meeting, such resolutions may only be validly adopted with the favourable vote of two thirds of the capital, present or represented, at the General Meeting. Pursuant to Article 21 of the By-Laws, shareholders with one thousand or more shares in the Company may attend the General Shareholders' Meeting and take part in the discussions with a right to speak during the debates, as well as vote. Those holding less than a hundred shares may group together and give their representation to another shareholder who can then total one thousand or more shares. All shareholders eligible to attend the Meeting may be represented at the General Meeting by another person, even if he or she does not have the status of shareholder.

B.4 Indicate the data on attendance at the General Meetings held in the year to which this report refers and those related to the previous year:

| | Attendance data | | | | |
|---|---|---|---|---|---|
| Date of Annual General Meeting | % attendance in person | % attendance by proxy | % remote voting | | Total |
| | | | Electronic vote | Other | |
| 11/06/2016 | 45.10% | 27.92% | 0.00% | 0.00% | 73.02% |
| 10/06/2017 | 27.60% | 43.52% | 0.00% | 0.00% | 71.12% |

## B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings:

Yes [X] No [ ]

| | |
|---|---|
| **Number of shares required to attend a General Meeting** | 1,000 |

## B.6 Section repealed.

## B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

The corporate information is available under "Shareholders and investors" of the corporate website (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 13 June, on technical and legal specifications and information to be contained in the websites of listed companies and savings banks issuing securities admitted for trading in official secondary stock markets.

Apart from the current by-laws, specifically, the subsection on "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; structure of the Board of Directors and its committees; the Corporate Governance Annual Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, and other regulations and codes, By-Laws, Report on the Auditor's Independence 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 Spanish Capital Companies Act, at the moment of 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 MANAGEMENT STRUCTURE OF THE COMPANY

## C.1 Board of Directors

### C.1.1 List the maximum and minimum number of directors included in the Bylaws.

| | |
|---|---|
| **Maximum number of directors** | 15 |
| **Minimum number of directors** | 7 |

### C.1.2 Complete the following table with Board members' details.

| Name or corporate name of director | Representative | Director's condition | Board office | Date of first appoin | Date of last appoin | Procedure for election |
|---|---|---|---|---|---|---|
| MR. ANDRÉS ARIZKORRETA GARCIA | | Executive | CHAIRMAN AND CEO | 26/12/1991 | 08/06/2013 | APPOINTED AT THE ANNUAL GENERAL MEETING |

| Name or corporate name of director | Representative | Director's condition | Board office | Date of first appointment | Date of last appointment | Procedure for election |
|---|---|---|---|---|---|---|
| MR. JUAN JOSÉ ARRIETA SUDUPE | | Independent | COORDINATOR DIRECTOR | 07/06/2008 | 08/06/2013 | APPOINTED AT THE ANNUAL GENERAL MEETING |
| MR. JAVIER MARTÍNEZ OJINAGA | | Independent | DIRECTOR | 13/06/2015 | 13/06/2015 | APPOINTED AT THE ANNUAL GENERAL MEETING |
| MR. ALEJANDRO LEGARDA ZARAGÜETA | | Other External | DIRECTOR | 26/12/1991 | 13/06/2015 | APPOINTED AT THE ANNUAL GENERAL MEETING |
| MR. JOSE ANTONIO MUTILOA IZAGUIRRE | | Proprietary | DIRECTOR | 28/10/2015 | 28/10/2015 | COOPTION |
| MR. LUIS MIGUEL ARCONADA ECHARRI | | Other External | DIRECTOR | 29/01/1992 | 08/06/2013 | APPOINTED AT THE ANNUAL GENERAL MEETING |
| MS. MARTA BAZTARRICA LIZARBE | | Executive | DIRECTOR-SECRETARY OF THE BOARD | 22/01/2016 | 22/01/2016 | COOPTION |
| MS. CARMEN ALLO PÉREZ | | Independent | DIRECTOR | 11/06/2016 | 11/06/2016 | APPOINTED AT THE ANNUAL GENERAL MEETING |
| MR. JULIÁN GRACIA PALACÍN | | Independent | DIRECTOR | 10/06/2017 | 10/06/2017 | APPOINTED AT THE ANNUAL GENERAL MEETING |
| MS. ANE AGIRRE ROMARATE | | Independent | DIRECTOR | 19/12/2017 | 19/12/2017 | COOPTION |

| | |
|---|---|
| **Total number of directors** | 10 |

Indicate any removals of directors during the reporting period:

| Name or corporate name of director | Director’s condition upon termination | Date of termination |
|---|---|---|
| MR. XABIER GARAIALDE MAIZTEGI | Other External | 11/12/2017 |

C.1.3. Fill out the following tables on the members of the Board and their status:

## EXECUTIVE DIRECTORS

| Name or corporate name of director | Office per Company organisation chart |
|---|---|
| MR. ANDRÉS ARIZKORRETA GARCIA | Chairman and CEO |
| MS. MARTA BAZTARRICA LIZARBE | Director-Secretary of the Board |

| | |
|---|---|
| **Total number of executive directors** | 2 |
| **% of the board** | 20.00% |

## EXTERNAL PROPRIETARY DIRECTORS

| Name or corporate name of director | Name or company name of significant shareholder represented or proposing appointment |
|---|---|
| MR. JOSE ANTONIO MUTILOA IZAGUIRRE | KUTXABANK, S.A. |

| | |
|---|---|
| **Total number of proprietary directors** | 1 |
| **% of the board** | 10.00% |

## INDEPENDENT EXTERNAL DIRECTORS

### Name or corporate name of director:

MS. CARMEN ALLO PÉREZ

**Background:**

With a Degree in Exact Sciences from the University of Zaragoza and Master in Business Management from the Instituto de Empresa, she has spent most of her professional career in the financial sector, working as Senior Relationship Manager at the Rabobank Bank and formerly Corporate Bank Head for Spain and Portugal at the Royal Bank of Scotland, among others.

### Name or corporate name of director:

MR. JAVIER MARTÍNEZ OJINAGA

**Background:**

Attorney and economist. He has developed his professional career in companies within the electric sector as well as in project management and interim management. He has a broad experience in accounting and auditing.

### Name or corporate name of director:

MR. JUAN JOSÉ ARRIETA SUDUPE

**Background:**

PhD in economics and business administration. He has a broad experience in the management of renowned financial entities and business schools.

### Name or corporate name of director:

MR. JULIÁN GRACIA PALACÍN

**Background:**

Industrial engineer and MBA from ICADE. He has developed his professional career in industries such as telecommunications, logistics and consulting, acting as General Manager and Director at Haggen Batterien and Project Manager in Airtel S.A., among others. He is sole director of Samuelson Consulting, S.A. and Samuelson Logistics, S.A.

### Name or corporate name of director:

MS. ANE AGIRRE ROMARATE

**Background:**

Degree in Business and Economics and Master in Advanced Management from Deusto University. She has performed, among others, the functions of Knowledge Management Director, Training and Development Director at BBVA Group, and Talent Director at EiTB. She is the founder of Vesper consulting project, in which she currently performs her activity.

| | |
|---|---|
| **Total number of independent directors** | 5 |
| **Total % of the Board** | 50.00% |

Indicate whether any independent director receives any sums of money or benefits from the Company or from the Company's group, other than the directors' remuneration, or whether he or she currently has or formerly had, over the last year, a business relationship with the Company or with any Group company, whether on his/her behalf or as a significant shareholder, director or senior executive of an entity currently or formerly maintaining such a relationship.

No independent director has received any amount or benefit other than the directors' remuneration, nor has established a business relationship with the Company or with any Group company.

If so, please include a well-founded statement by the Board of Directors regarding the reasons why it considers this director suitable to perform duties as an independent director.

## OTHER EXTERNAL DIRECTORS

Other External directors will be identified and reasons will be provided on why these Other External directors cannot be considered either proprietary or independent members and their relations, whether with the company or its officers, or with its shareholders:

**Name or company name of director:**

MR. LUIS MIGUEL ARCONADA ECHARRI

**Company, officer or shareholder with whom relation is maintained:**

MR. LUIS MIGUEL ARCONADA ECHARRI

**Reason:**

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.

**Name or company name of director:**

MR. ALEJANDRO LEGARDA ZARAGÜETA

**Company, officer or shareholder with whom relation is Maintained:**

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

**Reason:**

Director Alejandro Legarda Zaragüeta has been CAF Managing Director until fiscal year 2014.

| | |
|---|---|
| **Total number of Other External directors** | 2 |
| **Total % of the Board** | 20.00% |

Indicate any variations in the status of each director that may have occurred during the year:

C.1.4 Fill out the following table with the information regarding the number of female directors during the last 4 fiscal years, as well as the nature of those female directors:

| | Number of female directors | | | | % of total directors of each type | | | |
|---|---|---|---|---|---|---|---|---|
| | Fiscal Year 2017 | Fiscal Year 2016 | Fiscal Year 2015 | Fiscal Year 2014 | Fiscal Year 2017 | Fiscal Year 2016 | Fiscal Year 2015 | Fiscal Year 2014 |
| **Executive** | 1 | 1 | 0 | 0 | 50.00% | 50.00% | 0.00% | 0.00% |
| **Proprietary** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Independent** | 2 | 1 | 0 | 0 | 40.00% | 33.33% | 0.00% | 0.00% |
| **Other External** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Total:** | 3 | 2 | 0 | 0 | 30.00% | 22.22% | 0.00% | 0.00% |

C.1.5 Explain the measures that would have been adopted, as the case may be, to attempt to include a number of women in the Board of Directors so as to reach a balanced number of men and women.

| Explanation of measures |
|---|

CAF has a Directors' Selection Policy aimed at, among others, favouring gender diversity in nominating the members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quindecies of the Companies Law. Particularly, the express purpose of the Directors' Selection Policy is that the number of female directors represent at least thirty percent of all Board of Directors' members by year 2020.
Board of Directors.
In particular, by way of the nomination of a third female Director, this goal has been achieved.

C.1.6 Explain the measures that would have been decided by the Nomination Committee, as the case may be, so that the selection processes are free of implicit biases hindering the selection of female directors, and so that the Company may deliberately headhunt and include among the potential candidates, women with the sought-after professional profile:

| Explanation of measures |
|---|

CAF's Nomination 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. Such role appears in Point 3 of the Company's Nomination and Remuneration Policy and is approved by the Board of Directors.
The Nomination and Remuneration Committee selected and issued the favourable reports for the appointment of the three female directors mentioned in section C.1.5 above during the fiscal years 2016 and 2017 respectively.

If in spite of the measures that have been adopted, as the case may be, the number of female directors is low or nil, please provide the reasons:

| Explanation of reasons |
|---|

--

C.1.6.bis Explain the Nomination Committee's conclusions on compliance verification of the directors' selection policy. In particular, how the policy is promoting the objective that by 2020 the number of female directors represents at least 30% of total board members.

| Explanation of conclusions |
|---|

Directors' nominations and ratifications approved since the entry into force of CAF's Directors Selection Policy have taken place in strict compliance with its provisions, and in particular with regard to the specific purpose that, in 2020, women Directors represent at least thirty per cent of the Board of Directors' members.
In particular, the Directors Selection Policy was followed, both in the candidates' selection process and in the final decision in terms of competence, experience, qualification, professional profile and availability of time necessary to fulfil the commitments and dedication required by the director's position.
Likewise, in the event that three female Directors are appointed as described in sections C.1.5 and C.1.6 above, their contribution to the diversity of experiences, knowledge and gender was taken into account within the Board. During the 2017 fiscal year, the Nomination and Remuneration Committee presented proposals for the appointment of two new independent board members. This Committee had concluded that for both cases the requirements established in the Directors Selection Policy and approved by the Board of Directors had been met. In particular, the objective envisaged for 2020 in the Directors Selection Policy was achieved through the appointment of a third female Director during this fiscal year, since at least thirty percent of the total number of directors on the Board of Directors are women.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

Significant shareholder KUTXABANK, S.A. is represented on the Board of Directors through Mr. Jose Antonio Mutiloa Izaguirre.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

State if formal requests for a presence of the Board have been rejected from shareholders with a shareholding equal to or greater than that of others who have been successfully appointed proprietary directors. If so, explain why these requests have not been entertained:

Yes ☐ No ☒

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

**Name of board member:**

MR. XABIER GARAIALDE MAIZTEGI

**Reasons for resignation:**

He has stepped down for voluntary and personal reasons reported in written to the Board of Directors.

C.1.10 Indicate what powers, if any, have been delegated to the Managing Director(s).

**Name or company name of director:**

MR. ANDRÉS ARIZKORRETA GARCIA

**Brief description:**

Delegation of all Board powers, pursuant to law and the Company Bylaws save for those which the law stipulates that cannot be delegated.

C.1.11 Identify, as appropriate, the Board members who hold office as directors or executives at other companies forming part of the listed company's group:

| Name or corporate name of director | Corporate name of the group entity | Position | Does he hold any executive |
|---|---|---|---|
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF RAIL AUSTRALIA PTY LTD | Chief Executive Officer | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF TURK SANAYI VE TICARET LIMITED SIRKETI | Natural person representing the Sole Director CAF, S.A. | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF DEUTSCHLAND GMBH | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF SISTEME FEROVIARE, S.R.L. | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF NEW ZEALAND LIMITED | Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF CHILE, S.A. | Chairman | NO |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF ARGELIA EURL | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF FRANCE SAS | Chairman | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S. | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF HUNGARY Korlátolt Felelösségu Társaság | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF INVESTMENT PROJECTS, S.A.U. | Joint Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF INDIA PRIVATE LTD | Managing Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U. | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF POWER AND AUTOMATION, S.L.U. | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF TURNKEY & ENGINEERING, S.L. | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | TRENES CAF VENEZUELA, C.A. | Sole Director | YES |
| MR. ANDRÉS ARIZKORRETA GARCIA | CAF NETHERLANDS B.V. | Sole Director | YES |
| MR. ALEJANDRO LEGARDA ZARAGÜETA | FERROCARRILES SUBURBANOS S.A.P.I. DE C.V. | Chairman Non Executive | NO |
| MS. MARTA BAZTARRICA LIZARBE | CTRENS COMPANHIA DE MANUTENÇAO, S.A. | Director | NO |
| MS. MARTA BAZTARRICA LIZARBE | PROVETREN, S.A. de C.V. | Director | NO |

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

| Name or corporate name of director | Corporate name of the group entity | Position |
|---|---|---|
| MR. ALEJANDRO LEGARDA ZARAGÜETA | VISCOFAN, S.A. | DIRECTOR |
| MS. CARMEN ALLO PÉREZ | NATRA, S.A. | DIRECTOR |

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes [X] No [ ]

| Explanation of rules |
|---|
| Article 23.2.b) of the Board of Directors' Regulations 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.1.14 Section repealed.

C.1.15 List the total remuneration paid to the Board of Directors in the year:

| | |
|---|---|
| **Board remuneration (thousands of euros)** | 1,721 |
| **Amount of the pension rights accumulated by current directors (in thousands of euros)** | 230 |
| **Amount of the pension rights accumulated by former directors (in thousands of euros)** | 0 |

C.1.16 Identify the senior executives who are not executive Directors, and indicate the total remuneration accrued for them during the year:

| Name or corporate name | Position |
|---|---|
| MR. JESUS ESNAOLA ALTUNA | GENERAL CHIEF SALES OFFICER |
| MR. AITOR GALARZA RODRIGUEZ | CHIEF FINANCIAL, CONTROLLING AND STRATEGY OFFICER |
| MR. JOSU VILLAR ELORZA | CHIEF OPERATING OFFICER |
| MR. JUAN GASTESI IRIARTE | CHIEF HUMAN RESOURCES OFFICER |
| MR. JOSU IMAZ MURGUIONDO | CHIEF CORPORATE OFFICER, BUSINESS AND TECHNOLOGY |
| MR. IÑIGO ONA LARUMBE | CHIEF CORPORATE DIGITAL OFFICER |
| MR. IBON GARCIA NEILL | CHIEF RAIL SERVICES OFFICER |
| MR. FELIX FERNANDEZ LOPETEGUI | CHIEF PROJECT OFFICER |
| MR. EDUARDO GALVEZ LISON | CHIEF QUALITY, SAFETY AND HOMOLOGATION OFFICER |
| MS. IRUNE LOPEZ FERNANDEZ | INTERNAL AUDITOR |

| | |
|---|---|
| **Total remuneration of senior executives (thousand Euros)** | 2,075 |

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any amendment has been made to the Board Regulations during the year:

Yes ☐ No ☒

C.1.19 Indicate the procedures for the appointment, re-election, evaluation and removal of directors. List the competent bodies, procedures and criteria used for each of these procedures.

SELECTION AND APPOINTMENT 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 cooption. The director does not need to be a shareholder. Disqualification on the grounds of conflict of interest or any other legal grounds shall apply (Article29 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 (Article33 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 that the Board membership of non-executive directors be greater than that of the executive directors, that the number of independent directors be at least one third of the total Board membership and that the relation between proprietary directors and independent directors should match the ratio of the capital represented on the board by proprietary directors to the remainder of the Company's capital. However, this last condition may be relaxed by recognising more significance to proprietary directors, upon existence of a plurality of shareholders represented in the Board with no links between them (Article 7 of the Board Regulations).
Additionally, Board Regulations establishes the following rules related to appointment of Directors: 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 cooption shall be preceded by the corresponding proposal by the Nomination 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 proposed appointment or re-election of any non-independent director shall also be preceded by a report from the Nomination 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 Nomination and Remuneration Committee. Should the Board decide not to follow the proposals of the Nomination 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 rules. Likewise, Directors should also be offered refresher programmes when circumstances so advise (Article15 of the Board Regulations).
With regard to the appointment of Non-Executive Directors, the Board of Directors shall ensure that candidates be individuals of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. The Board of Directors may not propose or appoint as Independent Directors any individuals who are or have been related to the Company or Group companies' management, or to a significant shareholder, or with family ties up to the second degree of kinship and blood relatives up to the third degree, professional or commercial relations with Executive Directors or any other senior executive, or significant shareholders of the Company or Group companies. Specifically, individuals matching the descriptions below shall not be proposed or appointed as Independent Directors: a) If they have been employed or acted as executive directors in Group companies, unless 3 or 5 years have elapsed since the termination of such a relationship, respectively. b) Individuals who are paid by the Company or the Group itself any amount or benefits other than the director compensation, unless they are not significant. Dividends or pension supplements received by the Director for his/her former professional or labour relationship shall not be taken into account, for the purposes of the paragraph above, insofar as such supplements be unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company. c) Individuals who are or have been in the last 3 years partners to the external auditor or person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company.

C.1.20. Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

| Description of changes |
| --- |

The Board of Directors and the independent external consultant participating in the annual evaluation process have both positively assessed the performance of the Board, its Board members and its Committees during 2017 and have ensured that all the Action Plans outlined for 2017 have been achieved.

Furthermore, within the scope of this evaluation process, the Board of Directors has established various Action Plans for the 2018 fiscal year, however, they have not led to any significant changes to the internal organisation or in the procedures concerning its activities.

C.1.20.bis Describe the assessment process and the areas evaluated by the Board of Directors assisted, if necessary, by an external consultant, regarding diversity in its composition and powers, operation and composition of its committees, performance of the Board of Directors' Chairman and the company's chief executive, as well as performance and contribution of each director.

In accordance with the provisions of Article 5.5 of the Regulations of the Board of Directors, the Board of Directors must conduct an annual evaluation of its own performance and that of its Committees and propose an action plan that redress any detected shortcomings on the basis of this outcome. For this purpose, the Board relies on reports submitted to it by the Committees with regard to its own evaluation and for the case of the Nomination and Remuneration Committee, it is based on the Board's evaluation.

As for the 2017 fiscal year, and while being in line with the membership numbers determined in Recommendation 36 of the Good Governance Code of Listed Companies, assistance was outsourced through an independent external consultant to conduct this annual evaluation. Within the scope of this process, the Company provided the consultant the minutes of the Board and its Committees along with other corporate documentation. Additionally, the consultant held interviews with the various Directors. This was for the purpose of independently analysing a series of elements that determine the performance of the Board and its Committees, along with the compliance with legal standards and with the recommendations of good governance.

The following core areas were examined:

a) The quality and effective performance of the Board of Directors.
b) The performance and membership of its committees.
c)The diversity of the structure and competences of the Board.
d) The performance of the Chairman and CEO of the Board of Directors.
e) The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

Following the results of this examination, the Board of Directors evaluated its performance and that of its Committees in a positive light for the 2017 fiscal year, being in line with the favourable opinion disclosed by the independent external consultant in its report.

C.1.20.ter Break down, if any, business relationships between the consultancy firm or any company in its group and the company or any company in its group.

C.1.21. Indicate the cases in which directors must 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 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 of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon 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 always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.22 Section repealed.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes ☐ No ☒

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the casting vote.

Yes ☐ No ☒

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors:

Yes ☐ No ☒

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors other than the one established by law.

Yes ☐ No ☒

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been set forth regarding the right delegating conditions beyond the limitations established by law. If so, give brief details.

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 instructions 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.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

| | |
|---|---|
| **Number of board meetings** | 8 |
| **Number of board meetings held without the Chairman's attendance** | 0 |

Should the chairman be an executive director, state if the number of meetings held without attendance of any executive director in person or by proxy and with the chairmanship of the coordinating director.

| | |
|---|---|
| **Number of meetings** | 0 |

Indicate the number of meetings of the various board committees held during the year:

| Committee | Number of Meetings |
|---|---|
| AUDIT COMMITTEE | 7 |
| NOMINATION AND REMUNERATION COMMITTEE | 8 |

C.1.30 State the number of meetings held by the Board of Directors during the financial year, with the attendance of all members. Attendance will also include proxies appointed with specific instructions:

| | |
|---|---|
| **Number of meeting with the attendance of all directors** | 8 |
| **% of attendances of the total votes cast during the year** | 100.00% |

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes [X] No [ ]

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

| Name | Positio |
|---|---|
| MR. ANDRÉS ARIZKORRETA GARCIA | CEO |
| MR. AITOR GALARZA RODRIGUEZ | Financial and Strategy Manager |

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

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 2017 and previous years were approved without qualifications.

C.1.33 Is the Secretary of the board also a director?

Yes [X] No [ ]

Complete the following table if the secretary is not a director:

C.1.34 Section repealed.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The Company has regulated the relationships with Markets and Auditors. The CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for: (A) Regarding relations with Markets (Article34): (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. (iii) The Board shall include information about the Company's rules of governance in its annual public report. (B) Regarding relations with Auditors (Art.35): (i) Company relations with external auditors shall be channelled through the Audit Committee, pursuant to the Audit Committee Bylaws and Regulations. (ii) The Board shall inform in the Financial Statements the remuneration paid to the audit firm in each period for services other than auditing. (iii) The Board shall prepare the Financial Statements in order to avoid auditor's qualifications. However, in case the Board considers its criteria should be maintained, the content and scope of the discrepancy shall be explained.
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 bis 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 Regulation (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. (ii) Establishing the appropriate relations with the external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit 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 in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. 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 detailed 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. (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 services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. (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. 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 the reasons for the same. 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 (Article3 of the Audit Committee Bylaws and Regulations).

In 2017 the favourable report on the auditor's independence was issued.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes ☐ No ☒

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes [X] No [ ]

| | Company | Group | Total |
|---|---|---|---|
| **Amount paid for non-audit work (in thousands euros)** | 0 | 275 | 275 |
| **Amount paid for non-audit work as a % of the total amount billed by the audit firm** | 0.00% | 33.00% | 33.00% |

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes [ ] No [X]

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

| | Company | Group |
|---|---|---|
| **Number of consecutive years** | 28 | 17 |
| **Number of years audited by current firm/number of years the company has been audited (as a %)** | 70.00% | 100% |

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes [X] No [ ]

| **Details of the procedure** |
|---|
| Directors have access to the hiring of advising services through the Audit Committee. Additionally, Article 21 of the Board Regulations grants Non-Executive Directors the power to seek expert advice at the Company's expense, if deemed necessary in furtherance of their duties. |

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

Yes [X] No [ ]

| **Details of the 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. Normally, a schedule is approved containing eight sessions per year, spread out with sufficient time in between them to study and prepare the necessary information. Ordinary Board meetings shall be convened at least 5 days in advance, although in practice this is done earlier and shall include 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.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the company's name or reputation, tendering their resignation as the case may be.

Yes [X] No [ ]

| Explain the rules |
|---|
| As established in Article 18, 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 disciplinary proceedings for serious or very serious misconduct instructed by the supervisory 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. 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.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC.

Yes [ ] No [X]

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

There are no such agreements.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

**Number of beneficiaries:** 1

**Type of beneficiary:**

Managing Director

**Description of resolution:**

Indemnification benefit due to termination ordered by the Company for reasons not related with the Director

State if such agreements should be reported and/or approved by the bodies of the Company or its group:

| | Board of Directors | Annual General Meeting |
|---|---|---|
| **Body approving clauses** | Yes | No |

| | Yes | No |
|---|---|---|
| Is the General Shareholders' Meeting informed of such clauses? | X | |

## C.2 Board of Directors' Committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and Other External directors:

**AUDIT COMMITTEE**

| Name | Positio | Category |
|---|---|---|
| MR. JAVIER MARTÍNEZ OJINAGA | CHAIRMAN | Independent |
| MR. JUAN JOSÉ ARRIETA SUDUPE | MEMBER | Independent |
| MR. ALEJANDRO LEGARDA ZARAGÜETA | MEMBER | Other External |

| | |
|---|---|
| **% of proprietary directors** | 0.00% |
| **% of independent directors** | 66.67% |
| **% of Other External directors** | 33.33% |

Explain the functions assigned to this Committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.

Organization:
The Audit Committee shall be made up of at least three directors, appointed by the Company's Board of Directors; At least two 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. In addition, the Audit Committee 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 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 adequate definition of the consolidation scope, and the correct application of accounting policies. ii. Monitor the independence and efficacy 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 financial information on its activities; and check that senior management is considering its recommendations and conclusions. iii. 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. 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 Regulation (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. f) Establishing the appropriate relations with the

external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit 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 in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. 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. 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 services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing.

Identify the directors in the Audit Committee assigned as per their skills and expertise in accounting, auditing or both areas, and report on the number of years the current Chairman of this Committee has been in this position.

| | |
|---|---|
| **Name of the experienced director** | MR. JAVIER MARTÍNEZ OJINAGA |
| **Number of years of chairman in office** | 2 |

## NOMINATION AND REMUNERATION COMMITTEE

| Name | Positio | Category |
|---|---|---|
| MR. JUAN JOSÉ ARRIETA SUDUPE | CHAIRMAN | Independent |
| MR. LUIS MIGUEL ARCONADA ECHARRI | MEMBER | Other External |
| MS. CARMEN ALLO PÉREZ | MEMBER | Independent |

| | |
|---|---|
| **% of proprietary directors** | 0.00% |
| **% of independent directors** | 66.67% |
| **% of Other External directors** | 33.33% |

Explain the functions assigned to this committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.

Organization:
The Committee shall be composed of no less than three (3) and no more than five (5) Directors, as determined by the Board of Directors, who will be non-executive directors only, 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 (Articles 4 and 5 of the Nomination and Remuneration Committee Regulations). The Chairman is responsible for summoning the Committee, organising the agenda for the meeting and acting as moderator during the debates. Committee members shall be appointed for a four-year term, and shall be re-elected for equal periods while their appointments as Company Directors are effective. (Article 7 of the Nomination and Remuneration Committee Regulations).
Functions:
The Nomination and Remuneration Committee has the following basic responsibilities: a) Evaluate the balance of skills, knowledge and experience on the Board. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. b) 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. c) Submit to the Board proposals for Independent Directors' appointment through cooption 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. d) Report the proposal for appointment of the remaining directors by cooption 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. e) Report the proposal for appointment and removal of high executives and the basic conditions of their contracts. f) 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. g) 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. (Article 3 of the Nomination and Remuneration Committee Regulations).
In addition, the Committee is responsible for the following tasks: (i) Reviewing 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. (ii) Ensure that potential conflicts of interests do not compromise the independence of the external advice received by the committee and (iii) Verifying 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.
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: i) Supervising compliance with internal codes of conduct and the corporate governance rules of the Company. ii) 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, (iii) Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value, (iv) Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance, (v) Supervising and evaluating the relations with the different stakeholders and (vi) Coordinating the process of reporting non-financial and diversity information, according to the applicable regulations and the international standards of reference.
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 the chaired by the most senior member among them.

C.2.2 Fill out the following table with the information regarding the number of female directors in the Board of Directors' Committees during the last four years:

| | **Number of female directors** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fiscal year 2017** | | **Fiscal year 2016** | | **Fiscal year 2015** | | **Fiscal year 2014** | |
| | **Number** | **%** | **Number** | **%** | **Number** | **%** | **Number** | **%** |
| AUDIT COMMITTEE | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| NOMINATION AND REMUNERATION COMMITTEE | 1 | 33.33% | 1 | 33.33% | 0 | 0.00% | 0 | 0.00% |

C.2.3 Section repealed

C.2.4 Section repealed.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

AUDIT 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. There have been no amendments on the Audit Committee Bylaws and Regulations in 2017.In the fiscal year 2017 an annual report has been prepared on the activities performed by this Committee.

NOMINATION 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. There have been no amendments on the Nomination and Remuneration Committee Bylaws and Regulations in 2017. In the fiscal year 2017 an annual report has been prepared on the activities performed by this Committee.

C.2.6 Section repealed.

# D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

## D.1 Explain and identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.

| Procedure to notify the approval of related-party transactions |
|---|
| As established in Articles 5 and 29 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to maintain confidential any Company transaction with a significant shareholder after it has received a report from the Audit Committee approving such. Furthermore, the Board of Directors has been attributed, but without the capacity to delegate, the duty to approve (subject to a prior report from the Audit Committee approving such) the transactions made by the Company or group companies for the Directors, for 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 persons related thereto, in accordance with the provisions of the Spanish Capital Companies Law. 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.<br>General authorisation of the operations line and its implementation conditions suffice for all other transactions that are considered to be related-party transactions (those not made for Directors, Significant Shareholders or related persons) that are conducted during the ordinary course of the company business or that are regular or recurrent in nature. |

## D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

## D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

## D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

## D.5 Indicate the amount from related-party transactions.

207,806 (in thousands of euros).

## D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, 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 such rules. 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 more than one group company listed in Spain?

Yes ☐ No ☒

Identify the listed subsidiaries in Spain:

**Listed Subsidiary**

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

| Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies |
|---|

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

| Mechanisms to resolve possible conflicts of interest |
|---|

# E RISK CONTROL SYSTEMS

## E.1. Describe the risk management system in place at the company, including the tax risks.

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 centralized 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 corporate procedures of the different businesses/projects are consistent with this Group's General Control and Risk Management Policy and Comprehensive Control and Risk Management System.

For the 2017 fiscal year, the Board of Directors approved the Corporate Fiscal Policy that 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.

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 responsible for preparing and implementing the risk management system, including the fiscal system.

Pursuant to Section 5 of the Regulations of the Board of Directors 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 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 Comprehensive Risk Management and Control System implemented and the procedures designed for its monitoring. This will be supported by the Internal Risk Management Function 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 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 includes, 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) the definition of the Fiscal Strategy or Policy; (ii) the definition of the fiscal risk management framework; (iii) the design of the fiscal risk management and control system, and (iv) making available the internal mechanisms required for the control and management of fiscal risk.

## E.3. Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

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: deriving from market fluctuations, which include the following risk subcategories:

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 counterparts 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 Financial Statements.

• 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. These include corporate risks and risks related to the performance of projects. Others are explained in greater detail in their corresponding sections and some of which are: people/labour, human rights, social and environmental risks.

• Corporate Governance Risks: arising from the potential non-compliance of the Group's Corporate Governance System, being composed of the: (i) By-Laws and other regulatory rules for corporate governance bodies, (ii) Corporate Policies and standards approved by the Board of Directors of the Group's parent company, and (iii) all other internal policies, standards and development protocols, approved by other competent bodies of the Group, regulating the design, integration and role of the Governance Bodies and its relationship with the Company's stakeholders, which are the basis of the commitment towards ethical principles, good practices and transparency, being articulated around preserving the Company's best interest and the creation of sustainable value.

• Compliance and Regulatory Risks (including those on tax and contractual requirements): arising from litigations involving the Group, contractual requirements, Securities Market governing regulations, data protection law, applicable environmental legislation, criminal law, regional, national and international tax regulations, among others.

## E.4. Identify if the company has a risk tolerance level, including the tax 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, cybersecurity and regulation, there is a zero tolerance level.

With regard to tax risks, the Board of Directors approved the Fiscal Policy that 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.

## E.5. Identify any risks, including tax risks, which have occurred during the year.

During 2017 no material or extraordinary risks were materialised, beyond those included in the Directors' Report and in 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 exchange rate risk to which the Company is exposed for its operation in the international sphere is managed in accordance with the Company's guidelines, which foresee, fundamentally, the establishment of financial or natural hedges, the constant monitoring of fluctuations in the exchange rates and other measures designed to mitigate this risk. However, during this year, the depreciation of the Brazilian real has had a negative impact on the Company's equity.

Lastly, it should be noted that the mechanisms that allow anticipating and managing adequately the consequences derived from Brexit have continued, both in the portfolio contracts and in future tenders.

## E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

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:

1. 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.

2. 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.

3. 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.

# F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the risk control and management systems in relation to the financial reporting process (ICFR) at the company.

## F.1 Company's control environment

Specify at least the following components with a description of their main characteristics:

### F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

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 during the audit. These functions are described in the Board's Audit Committee Regulation.

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

### F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.

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 area of the ICFR, 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, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

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 website, 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 27 July 2016.

In 2017, a training plan has been followed for this Crime Prevention Handbook aimed at raising awareness, dissemination and application by CAF personnel. At the end of the year, a total of 91% of employees from the parent company and its national subsidiaries received training in accordance with the Crime Prevention Handbook. More than 2,000 staff have received training on this matter. Also, a training system has been implemented for new employees.

Furthermore, the Crime Prevention Handbook was immediately applicable to national subsidiaries the moment it was approved and it was to be implemented no later than 31 December 2017 for foreign subsidiaries belonging to the CAF Group. The 45 foreign subsidiaries comprising the CAF Group have adhered to the Handbook within the established timeframe. These subsidiaries are distributed throughout 22 countries around the world.

• Whistle-blowing channel', for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

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 corresponding actions in response 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.

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.

• Training and update courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, 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 2017, the main reference indicators of this activity have been as follows:

• Number of participants in the training actions on this matter: 109
• Number of training hours received: 687.75 hours

The main training activities are focused on the technical updates within the economic and financial area, (regulatory, taxes, risks, treasury ...)

## F.2 Financial information risk assessment

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating 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.

• Whether the process covers all financial information objectives (existence and occurrence, completeness; valuation; presentation, disclosure and comparability; and rights and obligations), 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 Economic Department and the persons responsible for business areas and meetings to review the financial information reported by the subsidiaries.

• Whether a process is in place to define the consolidation scope, considering, without limitation, any complex corporate structures, special purpose vehicles or similar entities.

At least on a quarterly basis, the Economic 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 Economic Department.

• Whether the process considers the effects of other kinds of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

The process takes into account all risks identifiable insofar as they affect the financial statements.

• Finally, which of the company's governing bodies is responsible for overseeing the process.

The Audit Committee is the body responsible for overseeing the regulated financial information preparation process and presentation, which includes the risk identification process.

## F.3 Control tasks

Report, indicating its main characteristics, if it includes, at least, the following:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Certification of financial statements: The financial statements are certified by the Chairman and Managing Director and the Financial Manager. 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 control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

There is an Internal Information and Communication and Information Technology Management and Control Policy which defines the guidelines that are to inspire the management and control procedures on Communication and Information Technology. This policy is applicable to management of the ICT divisions of CAF Group.

The Policy establishes the scope and the guidelines for the following matters:
• Licences and regulatory requirements: Activities aimed at ensuring that the hardware and software installed complies with signed agreements.
• Access to information: Procedures that ensure that users only have access to the resources and tools they need to perform their duties (segregation of duties).
• Business continuity:
- Procedures to backup and recover critical data and to protect personal equipment units and servers
- Physical and environmental security of data processing centres
- Contingency plans
• Operating and monitoring: Procedures that ensure that all incidents are logged, identified, defined and resolved.
• Change management: procedures aimed at learning the impacts of new developments and reducing the risk of transferring elements to the production environment that should not be transferred, which jeopardise the data systems.

Applicable control activities have been identified for each one of these areas, with a person in charge of execution and oversight, a given timing, as well as the proper evidence that the activity has been performed.

In 2017, in accordance with ISO 27001, the rolling out of an Information Security Management System (ISMS) was implemented as one of the activities of the strategic plan for “Information systems supporting the CAF corporate processes and managed by the Corporate Digital Directorate”. As a result of this implementation, a Security Committee has been formed along with the appointment of a Security Officer, where the affected suppliers and staff have had to read the Security Policy, whereby expressly accepting the Terms and Conditions therein, and the Good Practices Handbook. For the following fiscal year, a third-party certification for the system and its scope within a corporate setting has been considered which is dependent upon the development of other initiatives, such as the adaptation to Regulation 2016/679 of the European Parliament and of the Council, dated 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation).

### F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

There is a Manual of Accounting and Financial Procedures and Policies applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing 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). Assessments by independent experts have been specifically requested (impairment tests). In these cases, the Company’s policy is to resort to firms of renowned background and independence.

## F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

CAF, S.A. economic 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 Manual of Accounting and Financial Procedures and Policies.

The Manual is available on CAF's website.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning 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 Economic 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 Economic 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 System operation supervision

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Furthermore, information will be reported on the scope of the ICFR assessment carried out during the fiscal year and on the procedure through which the assessor reports on its outcomes, as well as whether the company has an action plan describing any corrective measures, if applicable, and whether their impact on the financial information has been 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 perimeter of consolidation, as well as to oversee the proper internal controls risk management systems, including ICFR.

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.
• Is competent and has 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 2017 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. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. Likewise, it will report on the availability (or not) of an action plan aimed at correcting or mitigating any weakness observed.

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 2017, six Audit Committee meetings were held in which the Internal Audit Manager has reported on the Annual Work Plan's evolution and the existing action plans to implement recommendations for internal control improvement.

Likewise, in 2017 the external auditors have twice appeared before the Audit Committee to report on the results of the financial statements audit and the semi-annual financial statements limited review, and on regulatory developments (new accounting report and standards). During 2017, auditors have not revealed significant internal control weaknesses.

Additionally, the external auditors attended a Board of Directors meeting to report on the progress of the audit for 2017, and on the Audit report according to the Law 22/2015 on Account Auditing.

## F.6 Other disclosures

There is no other relevant information regarding the ICFR not included in this report.

### F.7 External auditor report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The external auditor's report regarding the financial information internal control system (ICFR) is attached hereto as an annex.

## G- DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies [X] Explain [ ]

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

   a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

   b) The mechanisms in place to resolve possible conflicts of interest.

Complies [ ] Partly complies [ ] Explain [ ] Not Applicable [X]

3. During the General Annual Shareholders' Meeting, in addition to the written dissemination of the annual corporate governance report, the Chairman of the Board of Directors orally informs the shareholders, in sufficient detail, of the most relevant aspects of the company's corporate governance and, in particular:

   a) Any changes that have taken place since the last annual general meeting.

   b) The specific reasons why the Company failed to observe any of the recommendations contained in the Code of Corporate Governance and, if any, the alternative rules applied on such matter.

Complies [X] Partly complies [ ] Explain [ ]

4. The company establishes and furthers a policy of communication and contact with the shareholders, institutional investors and proxy advisors that is fully in line with the rules on market abuse and provides for equal treatment of shareholders in the same position.

In addition, the company makes said policy publicly available on its website, including information concerning the way in which it has been implemented in practice, identifying the representatives or authorities responsible for executing that policy.

Complies [X] Partly complies [ ] Explain [ ]

5. The board of directors does not submit to the shareholders for discussion at a general meeting a proposed delegation of powers, to issue stock or convertible securities without pre-emptive rights for a sum exceeding 20% of the capital at the time of such delegation.

   In addition, when the board of directors approves any issue of stock or convertible securities without pre-emptive rights, the company immediately posts the reports on such exclusion provided for in commercial laws on its website.

Complies [X] Partly complies [ ] Explain [ ]

6. Any listed companies that prepare the following reports, either mandatorily or voluntarily, post them on their websites sufficiently in advance of the annual general shareholders' meeting, even if the disclosure of such reports is not a mandatory requirement:

   a) Report on the auditor's independence.

   b) Reports on the performance of the Audit Committee and the Nomination and Remuneration Committee.

   c) Report from the Audit Committee on related transactions.

   b) Report on corporate social responsibility policy.

Complies [X] Partly complies [ ] Explain [ ]

7. The company provides a live broadcast of the general shareholders' meetings on its website.

Complies [X] Explain [ ]

8. The Audit Committee ensures that the board of Directors presents the financial statements to the General Shareholders' Meeting without qualifications in the audit report. Should such qualifications exist, both the chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

Complies [X] Partly complies [ ] Explain [ ]

9. The company's website permanently features the requirements and procedures that will be accepted to establish shares ownership or the right attend the general shareholders' meeting and the exercise or delegation of voting rights.

   In addition, such requirements and procedures favour attendance and the exercise of shareholder rights, and apply in a non-discriminatory manner.

Complies [X] Partly complies [ ] Explain [ ]

10. When a recognized shareholder has, prior to the general shareholders' meeting, exercised the right to add to the agenda or submit new proposed decisions, the company:

a) Immediately publicizes such additional agenda items and new proposed decisions.

b) Publish the attendance card model or voting delegation or remote delegation form with the specific amendments to vote on the new items of the agenda and alternative proposals, under the same conditions as those proposed by the Board of Directors.

c) Submits all such items and alternative proposals for voting and subjects them to the same voting rules as established by the board of directors, including, in particular, any presumptions or inferences on the direction of a given vote.

d) After the general shareholders' meeting, it reports a breakdown of how such additional items or alternative proposals were voted on.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

11. If the company has decided to offer attendance fees for the general shareholders' meeting, it has established in advance a general policy on such fees, and such policy is stable.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

12. The Board of Directors must perform its functions with a single purpose and an independent criterion, provide the same treatment to all shareholders under the same circumstances and follow social interest, which is understood to imply seeking a profitable and sustainable business in the long term, promoting its continuity and maximising the Company's economic value.

In its efforts to act in the company's best interest, in addition to abiding by the laws and regulations and behaving based on good faith, ethics and the observance of generally accepted conventions and good practices, it strives to reconcile its own corporate interests with, as the case may be, the legitimate interests of its employees, providers, customers and any other stakeholders that might be affected, as well as the impact of the company's activities in the life of the community as a whole and the environment.

Complies ☒ Partly complies ☐ Explain ☐

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise from five to fifteen members.

Complies ☒ Explain ☐

14. The Board should approve a director selection policy that:

a) Is specific and verifiable;

b) Ensures that proposals for appointment or reappointment are based on a previous analysis of the Board's needs;

c) Favours diversity of knowledge, experience and gender.

The result of the previous analysis of the Board's needs should be rendered from the Nomination Committee's supporting report disclosed when convening the Annual General Meeting in which each Director will be ratified, appointed or reappointed.

The director selection policy should promote the objective that by 2020 at least 30% of the Board members will be female directors.

The Nomination Committee will monitor compliance with the director selection policy annually and will report on it in the Annual Corporate Governance Report.

Complies [X] Partly complies [ ] Explain [ ]

15. Proprietary and independent directors should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies [X] Partly complies [ ] Explain [ ]

16. The percentage of proprietary directors over all non-executive directors should be no greater than the proportion between the capital represented on the Board by said proprietary directors and the remainder of the Company's capital.

    This criterion can be relaxed:

    a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

    b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Complies [X] Explain [ ]

17. The number of independent directors should represent at least one half of all board members.

    However, when the company is not large cap or when, despite being so, it has one shareholder or shareholders acting concertedly controlling over 30% of share capital, the number of independent directors should represent at least one third of all Board members.

Complies [X] Explain [ ]

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

    a) Professional experience and background.

    b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, regardless of their nature.

    c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with.

    d) The date of their first and subsequent appointments as a Company director.

    e) Shares held in the Company and any options on the same.

Complies [X] Partly complies [ ] Explain [ ]

19. The Annual Corporate Governance Report, upon verification by the Nomination Committee, should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

21. 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 Nomination Committee. In particular, just cause will be presumed when directors incur new obligations or hold new positions preventing them from dedicating the time needed to the proper performance of the directors' relevant duties; when they are in breach of their fiduciary duties or come under one of the disqualifying grounds for being independent directors.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 16.

Complies [X] Explain [ ]

22. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in the Companies Law, the Board should examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

Complies [X] Partly complies [ ] Explain [ ]

23. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

25. The Nomination Committee should ensure that the non-executive directors have enough free time for the right performance of their duties.

    And the Board Regulations should determine the number of directorships their Board members can hold.

Complies [X] Partly complies [ ] Explain [ ]

26. The board should meet with the necessary frequency to properly perform its functions, and at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

Complies [X] Partly complies [ ] Explain [ ]

27. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. And that, when they should occur, a representation with instructions must be provided.

Complies [X] Partly complies [ ] Explain [ ]

28. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

29. The company should establish suitable channels for directors to receive the advice and guidance they need to carry out their duties, including, if applicable, external advise at the company's expense.

Complies [X] Partly complies [ ] Explain [ ]

30. Regardless of the knowledge directors' circumstances perform their duties, they should also be offered ongoing learning programs when circumstances so dictate.

Complies [X] Explain [ ] Not applicable [ ]

31. The agenda of the meetings should clearly state the matters about which the Board shall make a decision or reach an agreement so directors may obtain or assess accurate information in advance for its application.

    When, in urgent and exceptional cases, the Chairman wishes to submit for the approval by the Board decisions or agreements that were not included in the agenda, the prior express consent of the majority of the attending directors shall be required, which will be recorded in the minute book.

Complies [X] Partly complies [ ] Explain [ ]

32. Directors should be informed on a regular basis about shareholding changes and about the opinion that significant shareholders, investors and rating agencies keep of the Company and the Group.

Complies [X] Partly complies [ ] Explain [ ]

33. The Chairman, as the person responsible for the proper operation of the Board, in addition to carrying law or Bylaws and statutory duties, should prepare and submit to the Board a calendar and agenda; he should organize and coordinate the regular evaluations of the Board and, where appropriate, those of the company's chief executive; he should be responsible for the Board's direction and its proper operation; he should ensure enough time is devoted to discuss strategic matters, as well as accept and review ongoing learning programs for each director when circumstances so dictate.

Complies [X] Partly complies [ ] Explain [ ]

34. When there is a coordinating director, in addition to powers conferred by law, the By-laws or the Board regulations should delegate the following duties to said director: to chair the Board of Directors when the chairman and deputy chairmen, if applicable, are not present; hearing the concerns of non-executive directors, to be in contact with investors and shareholders in order to learn their points of view and form an opinion about their concerns, especially about the Company's corporate governance; and to coordinate a succession plan for the chairman.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

35. The Secretary should take care to ensure that the Board's actions and decisions consider the good governance recommendations of the Unified Code that are applicable to the Company.

Complies [X] Explain [ ]

36. The Board in full should evaluate and adopt, on an annual basis, if applicable, an action plan aimed at correcting deficiencies found regarding:

a) The quality and effective performance of the Board of Directors.

b) The performance and structure of its committees.

c) The diversity of the structure and competences of the Board.

d) The performance of the Board's Chairman and of the Company's chief executive.

e) The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

The evaluation of the different committees will be based on the reports submitted by said committees to the Board, and the evaluation of the Board will be based on the report submitted by the Nomination Committee.

Every three years, the Board will perform the evaluation with the support of an external advisor, whose independence will be verified by the Nomination Committee.

Business dealings between the advisor or any company of his group and the company or any company of its group shall be detailed in the Annual Corporate Governance Report.

The process and the assessed areas will be described in the Annual Corporate Governance Report.

Complies [X] Partly complies [ ] Explain [ ]

37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Executive Committee's minutes.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

39. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management and the majority of those members should be independent directors.

Complies [X] Partly complies [ ] Explain [ ]

40. Under the supervision of the Audit Committee, there should be a unit in charge of internal audit that ensures the proper operation of internal control and reporting systems, and the operation of this unit will be dependent on the non-executive chairman of the Board or of the Audit Committee.

Complies [X] Partly complies [ ] Explain [ ]

41. The head of internal audit should submit an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, submit an activities report at the end of each year.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

42. In addition to those established by law, the Audit Committee should have the following functions:

1. With regard to internal control and reporting systems:

   a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

   b) Monitor the independence and efficacy 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 financial information on its activities; and check that senior management is considering its recommendations and conclusions.

   c) 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.

2. With respect to the external auditor:

   a) In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation.

   b) Ensure that the external auditor's compensation for his work does not compromise its quality or independence.

   c) 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 the reasons for the same.

   d) 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.

   e) 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.

Complies [X] Partly complies [ ] Explain [ ]

43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies [X] Partly complies [ ] Explain [ ]

44. The Audit Committee should 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.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

45. Control and risk management policy should specify at least:

   a) The different types of financial and non financial risks affecting the Company (operational, technology, social, legal, environmental, reputational, political, fiscal etc.) with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

   b) The determination of the risk level the Company sees as acceptable.

   c) Measures in place to mitigate the impact of risk events should they occur.

   d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies [X] Partly complies [ ] Explain [ ]

46. Under direct supervision of the Audit Committee or, if applicable, of a specialized committee of the Board, there should be an internal function of risk control and management carried out by a unit or internal department of the Company with the following functions:

   a) Ensure the proper operation of risk control and management systems and, specifically, that all important risks faced by the Company are properly identified, managed and quantified.

b) Actively participate in the development of the risk strategy and in the important decisions about its management.

c) Ensure that risk control and management systems mitigate risks adequately in accordance with the policy framework set forth by the Board.

Complies [X] Partly complies [ ] Explain [ ]

47. The members of the Nomination and Remuneration Committee —or of the Nomination Committee and the Remuneration Committee, if they are separated— should be designated seeking to ensure that they have the knowledge, skills and experience required for the duties they will perform, and that the majority of said members are independent directors.

Complies [X] Partly complies [ ] Explain [ ]

48. Large cap companies should have two separate committees, a Nomination Committee and a Remuneration Committee.

Complies [ ] Explain [ ] Not applicable [X]

49. The Nomination Committee should consult with the Board's Chairman and company's chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies [X] Partly complies [ ] Explain [ ]

50. The Remuneration Committee should perform its duties independently, and in addition to those conferred by law, it should have the following functions:

a) Proposing to the Board of Directors the basic conditions governing high-executive contracts.

b) Verifying the compliance with the remuneration policy established by the Company.

c) Reviewing 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.

d) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee.

e) Check the information on the remuneration received by directors and senior officers contained in different corporate documents, including the Annual Report on Director's Remuneration.

Complies [X] Partly complies [ ] Explain [ ]

51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies [X] Partly complies [ ] Explain [ ]

52. The rules on structure and operation of the supervision and control committees should be established on the Regulations of the Board of Directors and should be consistent with those that are legally binding and applicable to committees, pursuant to previous recommendations, including:

a) They must be exclusively made up of non-executive directors, with a majority of independent directors.

b) Committees should be chaired by an independent director.

c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each Committee, and it should discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting.

d) The Committees may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Minutes of meeting proceedings should be drawn up and a made available to all Board members.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

53. The job of supervising compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be entrusted to one or several committees of the Board, namely, the Audit Committee, the Nomination Committee, the Corporate Social Responsibility Committee, if applicable, or a specialized committee created by the Board, exercising its power to self-organize, which should have the following minimum functions:

a) Supervising compliance with internal codes of conduct and the corporate governance rules of the Company.

b) Supervising the strategies of communication and relation with shareholders and investors, including small and medium shareholders.

c) 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.

d) Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value.

e) Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance.

f) Supervising and evaluating the relations with the different stakeholders.

g) Evaluating everything related to the Company's non-financial risks, including operational, technological, financial, legal, social, environmental, political and reputational risks.

h) Coordinating the process of reporting non-financial and diversity information, according to the applicable regulations and the international standards of reference.

Complies [X] Partly complies [ ] Explain [ ]

54. The corporate social responsibility policy should include the principles and commitments the Company takes on voluntarily in relation to the different stakeholders, and it should identify, at least:

a) The objectives of the corporate social responsibility policy and the development of support instruments.

b) The corporate strategy related to sustainability, the environment and social affairs.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social affairs, the environment, diversity, fiscal responsibility, related to human rights and the prevention of illegal behaviour.

d) Methods or systems to monitor the results of the implementation of the specific practices detailed in the preceding item, the associated risks and their management.

e) Mechanisms for the supervision of non-financial risks, ethics and business conduct.

f) Channels for communication, participation and dialogue with groups of interest.

g) Responsible communication practices that prevent information manipulation and protect integrity and honour.

Complies [X] Partly complies [ ] Explain [ ]

55. The Company should report, in a separate document or in the directors' report, matters related to corporate social responsibility using some of the internationally accepted methods.

Complies [X] Partly complies [ ] Explain [ ]

56. Directors remuneration should be sufficient to attract and retain directors with the desired profile and to compensate them for the dedication, abilities and responsibility that the position entails; but should not be so high as to compromise the independence of criterion of non-executive directors.

Complies [X] Explain [ ]

57. Variable remuneration linked to the Company's performance, individual performance, and remuneration comprising the delivery of shares, share options or other share-based instruments, and long-term saving systems such as pension plans, retirement systems or other systems of social provision should be confined to executive directors.

The delivery of shares for the remuneration of non-executive directors may be considered when they are obliged to retain them until the end of their tenure. The foregoing will not be applicable to shares that the director needs to sell in order to afford the expenses related to their acquisition.

Complies [X] Partly complies [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not only the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

And, specifically, variable components of remuneration should:

a) Be linked to predetermined and measurable performance criteria that consider the risk incurred to obtain a result.

b) Promote the Company's sustainability and include non-financial criteria adequate for the creation of long term value, in addition to compliance with the Company's rules and internal procedures, and its risk management and control policies.

c) Be designed based on a balance between the accomplishment of short, medium and long term objectives that allow for the remuneration of continuous performance over a period that is sufficiently long to appreciate their contribution to the creation of value, in a way that the measurement elements of that performance do not only revolve around specific, occasional or extraordinary events.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

59. The payment of a material portion of compensation variable components must be deferred for a minimum period of time that is sufficient to prove that the return conditions previously established have

been fulfilled.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

61. A relevant percentage of the variable remuneration of non-executive directors should be linked to the delivery of shares or other share-based financial instruments.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

62. Once shares, share options or rights over shares of remuneration systems have been attributed, directors cannot transfer ownership of a number of shares equal to twice their fixed annual remuneration and cannot make use of said options or rights for, at least, three years after they are attributed.

The foregoing will not be applicable to shares that the director needs to sell in order to afford the expenses related to their acquisition.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

63. Contractual agreements should include a clause allowing the company to ask for a reimbursement of the variable components of remuneration when payment was not adjusted to performance conditions or when payment was made pursuant to data that is later deemed inaccurate.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

64. Payments due to the termination of the agreement should not exceed the established amount equivalent to two years of the total annual remuneration and should not be paid until the company can verify that the director has fulfilled the performance criteria that were previously established.

Complies ☒ Partly complies ☐ Explain ☐ Not applicable ☐

## H OTHER INFORMATION OF INTEREST

1. If the Company or Group companies are dealing with any relevant matters in terms of corporate governance that have not been addressed in the rest of the sections in this report, but which must be included so as to provide more complete and reasoned information on the structure and governance practices of the entity or that of its group, please provide a brief description.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If so, please state the code in question and the date of adherence.

A.3. As the system only allows for two 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%.

C.1.19. d) Executive Directors or senior management of a different company where a Company Executive Director or Senior Manager is Non-Executive. e) Individuals who maintain or have maintained in the last year an important business relation with the Company or Group companies, whether on his/her behalf or as 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. f) Individuals who may be significant shareholders, executive directors or senior executives of an entity who receives or may have received any major donations from the Company or its Group over the past 3 years. Mere owners 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 Nomination 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 (Article16 of the Board Regulations).
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.

RE-ELECTION 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 (Article29 of the bylaws). The Board of Directors shall be renewed upon members' office expiration. (Article 30 of the bylaws).

ASSESSMENT The Nomination 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 Nomination and Remuneration Committee has the following basic responsibilities: 1.- Evaluate the balance of skills, knowledge and experience on the Board. 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 cooption 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 the proposal for appointment of the remaining directors by cooption 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.
5.- Report on proposals for appointment and removal of senior managers and the basic terms of their contracts. 6.- Examine and organize 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. (Article3 of the Nomination and Remuneration Committee Regulations).
Any Director shall request the Committee to consider them in case they are adequate potential candidates to cover Directors' vacancies.

REMOVAL 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 of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon 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 shall report and, if applicable, resign if they are involved in a situation that may be detrimental to the Company's name and reputation (Article 18 of the Board Regulations).

The Directors' Selection Policy, approved by CAF's Board of Directors during this fiscal year, repeats the functions applicable to the

Nomination and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, and the conditions to be met by candidates, putting special emphasis on the essential purpose of favouring gender diversity in appointing members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quindecies of the Companies Law.

C.2.1. AUDIT COMMITTEE

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 the reasons for the same. 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 the 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: 1º The financial information that the Company must make public on a periodic basis. 2.° 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 Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. Report on any other proposal for amending the above said Regulations. The provisions of sections e), f) and g) will be understood notwithstanding the regulatory standards of account auditing. (Article 3 of the Audit Committee Bylaws and Regulations).

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.- The Committee shall at any time request, through the Chairman of the Board, personal collaboration or reports from any member of the Company or Group companies' executive team when deemed necessary or convenient for the furtherance of the Committee's duties, as well as the presence of any of them, or any employee, at the meetings thereof convened and even require their presence in the absence of any other officer. (Article 9 of the Audit Committee Bylaws and Regulations).

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: i) Supervising the strategies of communication and relation with shareholders and investors, including small and medium shareholders and ii) Evaluating everything related to the Company's non-financial risks, including operational, technological, financial, legal, social, environmental, political and reputational risks.

Operation:

The Committee shall convene upon the Chairman's decision to perform its functions. The Committee shall convene at least twice a year. The Committee shall also convene upon request of, at least, one of its members. The request shall be submitted to the Committee Chairman and shall include the agenda with the matters to be addressed by the Committee. (Article 5 of the Audit Committee Bylaws and Regulations). The Chairman of the Committee is responsible for summoning it. The notice call, except for special emergency reasons considered by the Chairman, shall be issued to Committee members at least five calendar days in advance by post, fax, telegram or electronic mail. The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss matters not included in the cited agenda. (Article 6 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 the absence or inability, the Secretary shall be replaced by the member of the Committee of less age. (Article 7 of the Audit Committee Bylaws and Regulations). Resolutions 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 8 of the Audit Committee Bylaws and Regulations).

During 2017, the Audit Committee held seven meetings. Most important actions in the year:

The main activities undertaken by the Committee during the fiscal year may be grouped into the following areas: Activities concerning financial and non-financial information and the associated internal control mechanisms:

(i) 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 2016 fiscal year. (ii) The examination of the individual and consolidated quarterly and half-yearly financial statements, prior to being submitted before the Board of Directors for its approval, (iii) 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. In this sense, the analysis of the public documentation required for the implementation of a Euro-Commercial Paper Program (ECP), prior to its submission and approval by the Board of Directors. (iv) Ongoing monitoring with the Manager of Internal Audit, the Economic-Financial Department and that of Strategy on the proper performance of the internal control systems, including the ICFR, whereby identifying any significant weaknesses therein, where appropriate. Activities associated with related-party transactions: (i) Review of these related transactions within the scope of the financial reports that the Company approves and submits to the National Securities Market Commission (CNMV). Review of significant related-party transactions, for their inclusion in the Annual Corporate Governance Report. (ii) Regular information for the Board of Directors concerning related-party transactions carried out by the Company. Activities relating to the corporate social responsibility policy and its terms of implementation during the year: corporate social responsibility activities correspond entirely to the Nomination 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. Activities relating to risk management and control: (i) Ongoing evaluation of the internal control system of financial information (ICFR) and the analysis of the recommendations and improvement plans thereof, proposed by Internal Audit. (ii) Periodic risk map supervision for the risks identified and evaluated during the various processes throughout the Organisation. (iii) Monitoring and supervision of the work entrusted to external advisors with regard to high-level corporate risk diagnosis. (iv) Supervision of the risk management models implemented by the Company, both during the tendering phase and in the execution phase. (v) Supervision of the development and exercise of the internal risk department. (vi) Supervision of the actions of the Company's Internal Fiscal Department, which is accountable for the control and management of the Group's fiscal risks. (vii) Supervision of the Corporate Fiscal Policy, which is proposed by the Fiscal Department and submitted before the Board of Directors. (viii) Analysis on the request for the creation of an entity, domiciled in a country that could be considered a tax haven, to undertake local works for an international project for its presentation and approval by the Board of Directors. (ix) Prior review of the corporate acquisitions and other corporate operations conducted by the Company. Activities relating to Internal Audit: The Committee has directly and continuously analysed and supervised the actions carried out by the Company’s Internal Audit. Apart from the outcomes of the foregoing, the Committee has conducted the following actions: (i) Supervision of the Internal Audit Work Plan compliance for the year 2016. (ii) Approval of the 2017 Internal Audit Work Plan. (iii) Monitoring of the development of the Internal Audit Work Plan and the degree of compliance with the issued recommendations. Activities of the external auditor: (i) Meetings held with the external auditor to reveal the most significant aspects following the review of the financial statements and the findings of the audit work relating to the financial statements. (ii) Meetings held with the external auditor regarding the reports on the limited review of accounts and semi-annual financial statements, and on the supervision of the internal control and risk management systems. (iii) In conjunction with the external auditors, the analysis of regulatory changes impacting on the Company, especially in matters relating to accounting and to the Audit Report. (iv) Preparation of the external auditor independence report. (v) Preparing the proposal for renewal of the external auditor for its submission before the Annual General Meeting. (vi) Approval of the budget for outsourcing non-audit services in 2018. (vii) Approval of a percentage threshold on non-audit service fees that is stricter than the maximum allowed by the legislation on account auditing. (viii) Call for an external auditor to appear before the plenary session of the Board of Directors for the purpose of reporting on the audit work and the accounting and risk situation of the Company. Monitoring activities of the Committee's own action plans: Throughout the current year, the Committee has continuously monitored the 2017 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 20 December 2016, where it declared that all of such had been satisfactorily completed.

NOMINATION AND REMUNERATION COMMITTEE

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 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 fiscal year 2017, the Nomination and Remuneration Committee held eight meetings.
Most important actions in the year: The main activities undertaken by the Committee during the fiscal year may be grouped into the following areas:
Activities regarding appointments: (i) Analysis of the Board of Directors’ needs and the evaluation of nominations so as to provide advice on any vacancies that could arise in its membership. (ii) Propose the appointment of a new independent Director to the Board of Directors, to be later submitted before the General Meeting. (iii) Propose the co-opted appointment of an independent Director before the Board of Directors. (iv) Directors Selection Policy compliance. Activities regarding remuneration: (i) Proposal of the 2016 Directors Remuneration Report to be presented before the General Shareholders’ Meeting. (ii) Proposal and favourable opinion of the Directors Remuneration Policy and presented at the Board of Directors to be raised before the General Shareholders’ Meeting. (iii) Proposal of the Directors Remuneration before the Board of Directors in their capacity as directors for the 2017 fiscal year. (iv) Analysis of the amounts and remuneration concepts of senior executives and executive directors so as to present the corresponding proposal to the Board of Directors. Activities regarding corporate governance: (i) Appointment of an independent external consultant responsible for assisting the Board of Directors in conducting the annual evaluation of its performance during the 2017 fiscal year, pursuant to Recommendation 36 of the Good Governance Code of Listed Companies. (ii) Approving the Report on the annual evaluation of its own performance, in compliance with the provisions of Recommendation 36 of the Good Governance Code of Listed Companies. (iii) Reporting on the evaluation of the Board of Directors, with regard to the findings and recommendations of the evaluation process carried out by the external advisor. Monitoring activities of the Committee’s own action plans: The Committee has continuously monitored the 2017 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 20 December 2016, where all of such had been satisfactorily completed. Other activities: (i) Review of the situation regarding liability insurance for Company directors and executives. Comparative analysis of the current policy with other offers provided by various companies, where the conditions of the current liability insurance conditions for directors and executives have been improved, and their coverage limit has also been extended. (ii) Submission of the proposed redistribution the Executive Committee roles before the Board of Directors.

D.5
The transactions performed with other related parties amount to EUR 207,806 thousand. The abovementioned transactions are broken down in Note 10 to the Group's consolidated financial statements.

This Annual Corporate Governance Report was approved by the Company’s Board of Directors at its meeting held on 27/02/2018.

State if there were any directors who voted against or abstained from the approval of this Report.

Yes ☐ No ☒

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

Auditor's Report on the "Information Relating to the System of Internal Control over Financial Reporting (ICFR)" for the year ended 31 December 2017

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

Deloitte, S.L.
Plaza Julio Caro Baroja, 2
20018 San Sebastián
España

Tel: +34 943 26 78 00
www.deloitte.es

*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 2017

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 18 October 2017, 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 2017, 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 2017 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.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

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 established in CNMV Circular no. 7/2015, of 22 December 2015.

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 consolidated 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 of CNMV Circular no. 7/2015, of 22 December 2015, for the purposes of the description of the ICFR system in annual corporate governance reports.

Deloitte, S.L.

Pablo Múgica
27 February 2018

# Construcciones y Auxiliar de Ferrocarriles, S.A.

## Balance Sheets as at 31 December 2017 and 2016 (Notes 1 to 3)
**(Thousands of euros)**

| Assets | 31/12/17 | 31/12/16 (*) |
|---|---|---|
| **Non-current assets:** | | |
| **Intangible assets (Note 6):** | | |
| Other intangible assets | 22,601 | 15,857 |
| | **22,601** | **15,857** |
| **Property, plant and equipment (Note 7)** | **119,926** | **112,108** |
| **Non-current investments in Group companies and associates (Notes 9, 10 & 15)** | **761,198** | **674,817** |
| **Non-current financial assets (Notes 8 & 15)** | **25,743** | **22,017** |
| **Deferred tax assets (Note 16)** | **71,791** | **66,250** |
| **Total non-current assets** | **1,001,259** | **891,049** |
| **Current assets:** | | |
| **Inventories (Note 11)** | **37,995** | **28,320** |
| **Trade and other receivables (Notes 10, 11 & 12):** | | |
| Trade receivables for sales and services | 863,441 | 887,465 |
| Other receivables (Notes 8, 14 & 16) | 25,737 | 27,025 |
| | **889,178** | **914,490** |
| **Current investments in Group companies and associates (Note 10)** | **97,072** | **88,581** |
| **Current financial assets (Notes 8 & 15)** | **77,817** | **88,768** |
| **Current prepayments and accrued income** | **731** | **284** |
| **Cash and cash equivalents** | **179,189** | **248,109** |
| **Total current assets** | **1,281,982** | **1,368,552** |
| **Total assets** | **2,283,241** | **2,259,601** |

| Equity and liabilities | 31/12/17 | 31/12/16 (*) |
|---|---|---|
| **Equity (Note 13):** | | |
| **Shareholders' equity** | | |
| **Share capital:** | | |
| Registered share capital | 10,319 | 10,319 |
| | **10,319** | **10,319** |
| **Share premium** | **11,863** | **11,863** |
| **Reserves** | **648,916** | **672,024** |
| **Profit for the Year** | **10,333** | **1,546** |
| | **681,431** | **695,752** |
| **Valuation adjustments (Note 15):** | | |
| Hedges | (1,586) | (142) |
| | **(1,586)** | **(142)** |
| **Grants, donations and legacies received** | **74** | **240** |
| **Total equity** | **679,919** | **695,850** |
| **Non-current liabilities:** | | |
| **Long-term provisions (Note 17)** | **2,039** | **1,626** |
| **Non-current payables (Notes 14 & 15):** | | |
| Bank borrowings | 356,779 | 306,378 |
| Other financial liabilities | 54,266 | 41,285 |
| | **411,045** | **347,663** |
| **Non-current payables to Group companies and associates (Note 10)** | **-** | **-** |
| **Deferred tax liabilities (Note 16-f)** | **208** | **2,735** |
| **Total non-current liabilities** | **413,292** | **352,024** |
| **Current liabilities:** | | |
| **Short-term provisions (Note 17)** | **184,826** | **177,491** |
| **Current payables (Notes 14 & 15):** | | |
| Bank borrowings, debt instruments and other marketable securities | 10,298 | 15,784 |
| Other financial liabilities | 71,222 | 80,222 |
| | **81,520** | **96,006** |
| **Current payables to Group companies and associates (Note 10)** | **18,048** | **8,960** |
| **Trade and other payables:** | | |
| Payable to suppliers (Note 10) | 399,164 | 344,091 |
| Other payables (Notes 10, 11, 14 & 16) | 484,317 | 567,499 |
| | **883,481** | **911,590** |
| **Other current liabilities (Note 14)** | **22,155** | **17,680** |
| **Total current liabilities** | **1,190,030** | **1,211,727** |
| **Total equity and liabilities** | **2,283,241** | **2,259,601** |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the balance sheet as at 31 December 2017.

*Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

# Construcciones y Auxiliar de Ferrocarriles, S.A.

## Statements of Profit or Loss for the years ended 31 December 2017 and 2016 (Notes 1 to 3) (Thousands of euros)

| | (Debit) Credit | |
|---|---|---|
| | 2017 | 2016 (*) |
| **Continuing operations:** | | |
| Revenue (Notes 10 & 19-a) | 1,012,918 | 857,788 |
| +/- Changes in inventories of finished goods and work in progress | (56,882) | (80,745) |
| In-house work on non-current assets | 3,966 | 3,139 |
| Procurements (Notes 10 & 19-b) | (486,758) | (413,755) |
| Other operating income (Notes 3-j, 10 & 15) | 2,714 | 11,808 |
| Staff costs (Note 19-d) | (256,002) | (233,009) |
| Other operating expenses (Notes 10, 17 & 19-e) | (188,411) | (135,134) |
| Depreciation and amortisation charge (Notes 6 & 7) | (20,427) | (23,530) |
| Allocation to profit or loss of grants related to non-financial non-current assets and other grants (Note 13-h) | 230 | 354 |
| Impairment and gains or losses on disposals of non-current assets (Note 7) | - | 4,431 |
| **Profit (loss) from operations** | **11,348** | **(8,653)** |
| Finance income (Notes 8 & 10) | 34,253 | 40,313 |
| Finance costs (Notes 10, 14 & 15) | (26,833) | (23,632) |
| Exchange differences (Note 18) | (3,124) | 640 |
| Impairment and gains or losses on disposals of financial instruments (Notes 8 & 9) | (3,097) | (6,583) |
| **Financial profit** | **1,199** | **10,738** |
| **Profit before tax** | **12,547** | **2,085** |
| Income tax (Note 16) | (2,214) | (539) |
| **Profit for the year from continuing operations** | **10,333** | **1,546** |
| **Profit for the year** | **10,333** | **1,546** |
| **Earnings per share (in euros)** | | |
| Basic | 0.301 | 0.045 |
| Diluted | 0.301 | 0.045 |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the statement of profit or loss for 2017.

*Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

# Construcciones y Auxiliar de Ferrocarriles, S.A.

## Statements of Recognised Income and Expense for 2017 and 2016 (Notes 1 to 3) (Thousands of euros)

| | 2017 | 2016 (*) |
|---|---|---|
| **A) Profit for the year per statement of profit or loss** | **10,333** | **1,546** |
| **B) Income and expense recognised directly in equity** | **(6,311)** | **651** |
| Arising from cash flow hedges (Note 15) | (2,138) | (86) |
| Arising from actuarial gains and losses and other adjustments (Note 3-k) | (5,525) | 990 |
| Tax effect (Notes 16-c & 16-f) | 1,352 | (253) |
| **C) Transfers to profit or loss** | **(70)** | **(151)** |
| Arising from cash flow hedges (Note 15) | 133 | 144 |
| Grants, donations and legacies received (Note 13-h) | (230) | (354) |
| Tax effect (Notes 16-c & 16-f) | 27 | 59 |
| **Total recognised income and expense (A+B+C)** | **3,952** | **2,046** |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the statement of recognised income and expense for 2017.

## Construcciones y Auxiliar de Ferrocarriles, S.A.

### Statements of Changes in Total Equity for 2017 and 2016 (Notes 1 to 3)

(Thousands of euros)

| | Shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Reserves | Profit for the year | Valuation adjustments | Grants, donations and legacies received | Total equity |
| **Ending balance at 31 December 2015 (*)** | **10,319** | **11,863** | **659,221** | **30,088** | **(184)** | **494** | **711,801** |
| **Total recognised income and expense** | **-** | **-** | **712** | **1,546** | **42** | **(254)** | **2,046** |
| **Transactions with shareholders - dividends paid (Note 13)** | **-** | **-** | **12,091** | **(30,088)** | **-** | **-** | **(17,997)** |
| **Ending balance at 31 December 2016 (*)** | **10,319** | **11,863** | **672,024** | **1,546** | **(142)** | **240** | **695,850** |
| **Total recognised income and expense** | **-** | **-** | **(4,771)** | **10,333** | **(1,444)** | **(166)** | **3,952** |
| **Transactions with shareholders - dividends paid (Note 13)** | **-** | **-** | **(18,337)** | **(1,546)** | **-** | **-** | **(19,883)** |
| **Ending balance at 31 December 2017** | **10,319** | **11,863** | **648,916** | **10,333** | **(1,586)** | **74** | **679,919** |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the statement of changes in total equity for 2017.

*Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

## Construcciones y Auxiliar de Ferrocarriles, S.A.

### Statements of Cash Flows for 2017 and 2016 (Notes 1 to 3) (Thousands of euros)

| | 2017 | 2016 (*) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES (I)** | **41,541** | **323,994** |
| **Profit for the year before tax** | 12,547 | 2,085 |
| **Adjustments for:** | | |
| - Depreciation and amortisation charge (Notes 6 & 7) | 20,427 | 23,530 |
| - Impairment losses (Note 7) | - | 2,555 |
| - Changes in provisions (Notes 12 & 17) | 8,399 | (2,891) |
| - Recognition of grants in profit or loss (Note 13) | (230) | (354) |
| - Gains/Losses on derecognition and disposal of non-current assets (Note 7) | - | (6,986) |
| - Gains/Losses on derecognition of and valuation adjustments to financial instruments (Notes 8 & 9) | 3,097 | 6,583 |
| - Finance income | (34,253) | (40,313) |
| - Finance costs | 26,833 | 23,632 |
| - Exchange differences (Note 18) | 1,189 | (640) |
| - Other income and expenses | 2,699 | 4,091 |
| **Changes in working capital** | | |
| - Inventories (Note 11) | (8,290) | 37,343 |
| - Trade and other receivables | 30,184 | (46,869) |
| - Other current assets | (256) | 1,471 |
| - Trade and other payables | (31,780) | 302,846 |
| - Other non-current assets and liabilities | (795) | (1,164) |
| **Other cash flows from operating activities** | | |
| - Income tax recovered (paid) (Note 16) | (889) | (286) |
| - Other amounts received (paid) (interest and dividends) (net) | 12,659 | 19,361 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES (II)** | **(125,894)** | **(154,543)** |
| **Payments due to investment** | | |
| - Group companies and associates (Notes 9 & 10) | (114,204) | (162,580) |
| - Intangible assets (Note 6) | (13,305) | (7,444) |
| - Property, plant and equipment (Note 7) | (15,934) | (5,672) |
| - Other financial assets (Note 8) | (1,183) | (4,592) |
| **Proceeds from disposal** | | |
| - Group companies and associates (Notes 9 & 10) | 17,148 | 5,496 |
| - Property, plant and equipment (Note 7) | - | 13,500 |
| - Other financial assets (Note 8) | 1,584 | 6,749 |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES (III)** | **15,605** | **(142,387)** |
| **Proceeds and payments relating to financial liability instruments** | | |
| - Proceeds from issue of borrowings from Group companies and associates (Note 10) | 1,620 | 971 |
| - Proceeds from issue of bank borrowings (Note 14) | 69,917 | 99,487 |
| - Proceeds from issue of other borrowings (Note 14) | 519 | 7,539 |
| - Repayment of bank borrowings (Note 14) | (25,737) | (196,020) |
| - Repayment of other borrowings (Note 14) | (8,114) | (11,124) |
| - Repayment of borrowings from Group companies and associates (Nota 10) | (2,717) | (25,243) |
| **Dividends and returns on other equity instruments paid** | | |
| - Dividends (Note 13) | (19,883) | (17,997) |
| | | |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)** | **(172)** | **1,370** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)** | **(68,920)** | **28,434** |
| | | |
| Cash and cash equivalents at beginning of year | 248,109 | 219,675 |
| Cash and cash equivalents at end of year | 179,189 | 248,109 |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the statement of cash flows for 2017

*Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

# Construcciones y Auxiliar de Ferrocarriles, S.A.

## Notes to the Financial Statements for the Year Ended 31 December 2017

### 1. Company activities

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Company") was incorporated in 1917 for an indefinite period of time in San Sebastián (Guipúzcoa), and its registered office is in Beasain (Guipúzcoa).

The Company's object is described in Article 2 of its bylaws.

The Company currently engages mainly in the manufacture of rolling stock materials.

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements of the CAF Group for 2017 were formally prepared by its directors at the Board of Directors Meeting held on 27 February 2018. The consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting of Construcciones y Auxiliar de Ferrocarriles, S.A. on 10 June 2017, and were filed at the Guipúzcoa Mercantile Registry.

### 2. Basis of presentation of the financial statements

#### *a) Regulatory financial reporting framework applicable to the Company*

These financial statements were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

a) The Spanish Commercial Code and all other Spanish corporate law.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007 and its industry adaptations, in particular the industry adaptation for construction companies.

c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.

d) All other applicable Spanish accounting legislation.

#### *b) Fair presentation*

The accompanying financial statements for 2017, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Company's equity, financial position, results of operations, changes in equity and cash flows for 2017. These financial statements, which were formally prepared by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes.

The financial statements for 2016, which were formally prepared by the directors, were approved by the shareholders at the Annual General Meeting on 10 June 2017 (see Note 13).

***c) Non-obligatory accounting principles applied and changes in accounting policies***

No non-obligatory accounting principles were applied. The directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

In 2017 there were no significant changes in accounting policies with respect to those applied in 2016.

***d) Use of estimates***

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein.

Although these estimates were made on the basis of the best information available at 2017 year-end, 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 (see Notes 6, 7, 8, 11, 15, 16 and 17).

***e) Comparative information***

The information relating to 2016 contained in these notes to the financial statements is presented, for comparison purposes, with the information for 2017.

***f) Grouping of items***

Certain items in the balance sheet, statement of profit or loss, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

***g) Consolidated Group and basis of consolidation***

As indicated in Note 9, the Company has ownership interests in the share capital of other (unlisted) companies which are equal to or greater than 20%.

The Company’s long-term investments in Group companies and associates are presented in accordance with the corporate legislation in force (see Note 9). Consequently, CAF’s financial statements for 2017 do not reflect the financial and equity changes arising from the application of consolidation methods to these ownership interests or to the transactions performed by them. These changes, which are significant, are however reflected in the CAF Group’s consolidated financial statements for 2017.

The main aggregates in the consolidated financial statements of the CAF Group for 2017 and 2016, prepared in accordance with Final Provision Eleven of Law 62/2003, of 30 December, applying International Financial Reporting Standards as adopted by European Union Regulations, are as follows:

*2017 consolidated financial statements*

| | Thousands of euros |
|---|---|
| **Total assets** | **3,115,254** |
| **Equity-** | **760,200** |
| Of the Parent | 750,417 |
| Of non-controlling interests | 9,783 |
| **Revenue** | **1,477,039** |
| **Profit for the year-** | **42,517** |
| Of the Parent | 42,406 |
| Of non-controlling interests | 111 |

*2016 consolidated financial statements*

| | Thousands of euros |
|---|---|
| **Total assets** | **3,233,437** |
| **Equity-** | **783,677** |
| Of the Parent | 771,971 |
| Of non-controlling interests | 11,706 |
| **Revenue** | **1,318,200** |
| **Profit for the year-** | **37,280** |
| Of the Parent | 35,013 |
| Of non-controlling interests | 2,267 |

### h) Correction of errors

In preparing the accompanying financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2016.

## 3. Accounting policies

The principal accounting policies used by the Company in preparing its financial statements as at 31 December 2017 and 2016, in accordance with the Spanish National Chart of Accounts, were as follows:

### a) Intangible assets

Computer software and development projects for which there are no doubts as to their technical and commercial success are measured at their acquisition cost (or, where appropriate, at their accumulated production cost applied in accordance with inventory measurement bases - see Note 3-e). Computer software is amortised on a straight-line basis over five years from its acquisition. 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 (see Note 6).

### *b) Property, plant and equipment*

Property, plant and equipment are initially recognised at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 3-c. The acquisition cost was revalued pursuant to the related legislation, including Guipúzcoa Regulation 11/1996, of 5 December, Guipúzcoa Regulation 13/1991, of 13 December, and Guipúzcoa Regulation 1/2013, of 5 February (see Note 13-c).

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 Company on its items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (see 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 | 6 - 10 |
| Other fixtures, tools and furniture | 3 - 10 |
| Other items of property, plant and equipment | 10 - 20 |

In 2017 and 2016 the Company did not capitalise any borrowing costs to "Property, Plant and Equipment", as it did not have any significant projects the construction period of which exceeded one year and it considered the attributable general-purpose borrowings to be very insignificant.

### *c) Impairment of assets*

At each balance sheet date, the Company 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.

### *d) Financial instruments*

*Trade and other receivables*

Trade and other receivables are initially recognised at fair value in the balance sheet and are subsequently measured at amortised cost using the effective interest method.

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph.

The Company recognises an allowance for debts in an irregular situation due to late payment, suspension of payments, insolvency or other reasons, after performing a case-by-case collectability analysis (see Note 12). Also, the Company derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the risks relating to default and delinquency and the rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred. At 31 December 2017, the Company had factored without recourse receivables amounting to EUR 46,055 thousand (31 December 2016: EUR 89,728 thousand).

*Financial assets*

In accordance with the classification criteria established, the Group classifies its financial assets in the following categories:

(1) Loans and other long-term receivables. Loans and other long-term receivables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectability. The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to all its cash flows.

(2) Held-to-maturity investments. Financial assets with fixed maturity that the Company has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.

(3) Held-for-trading financial assets classified as at fair value through profit or loss. These assets must have any of the following characteristics:

- They have been classified as held-for-trading because they have been acquired to generate a profit through short-term fluctuations in their prices.

- They are financial derivatives provided that they have not been designated as part of a hedging relationship.

- They have been included in this category of assets since initial recognition.

(4) Available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These assets are measured in the balance sheet at fair value which, in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in fair value are recognised directly under "Equity - Valuation Adjustments - Available-for-Sale Financial Assets" in the balance sheet until the investments are disposed of, at which time the cumulative balance of this heading relating to the investments disposed of is recognised in full in the statement of profit or loss. In this regard, (permanent) impairment is presumed to exist if the market value of the asset has fallen by more than 40% or if there has been a prolonged fall in market value over a period of 18 months without the value having recovered.

Equity investments in unlisted companies, the fair value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost, unless there are indications of impairment, in which case they are recognised in profit or loss.

(5) Investments in Group companies, associates and jointly controlled entities. These are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

In the case of equity investments in Group companies affording control over the subsidiary, since 1 January 2010 the fees paid to legal advisers and other professionals relating to the acquisition of the investment have been recognised directly in profit or loss.

Company management determines the most appropriate classification for each asset on acquisition, which is subsequently reviewed at the end of each year.

At least at each reporting date the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the statement of profit or loss.

*Cash and cash equivalents*

"Cash and Cash Equivalents" in the accompanying balance sheet includes cash and demand deposits.

*Derivative financial instruments*

The Company uses these instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. Basically, it does so to hedge the foreign currency risk to which its project contracts, certain investments in investees and the financing received are exposed, and to hedge the interest rate risk arising from loan drawdowns (see Notes 5 and 15).

The Company 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 Company's risk management policy.

CAF 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 "Changes in Fair Value of Financial Instruments" in the accompanying statement of profit or loss.

- 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 Company for those 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 firm commitments, 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 effective portion of the hedging instrument are charged or credited to "Impairment and Gains or Losses on Disposals of Financial Instruments" in the statement of profit or loss, and are adjusted in the line item that includes the value of the investment by the portion of the hedge that meets the criteria to be considered effective. These hedges are used for the equity of CAF USA, Inc.

The fair value of the derivative financial instruments was calculated including the Company's own credit risk and that of the counterparty (see Note 15).

***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:

1. Materials and expenses allocated to each project: at the average acquisition or production cost.

2. 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.

3. For inventories that necessarily take a period of more than twelve months to become available for sale, the cost includes the related borrowing costs.

***f) Recognition of contract revenue and profit***

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Maintenance revenue is recognised on an accrual basis. The Company has certain maintenance contracts billed on a straight-line basis which envisage the performance of in-depth inspections from time to time. In these cases, the difference between the costs billed and the costs incurred, determined as the proportion that contract costs incurred bear to the total contract costs, is recognised with a charge to "Revenue" and a credit to "Trade and Other Payables - Other Payables" in the accompanying balance sheet.

For construction contracts, the Company 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 total budgeted costs. Potential losses on project contracts are recognised in full when they become known and can be estimated.

The Company 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.

Once the projected profit or loss on each contract has been determined, the Company 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 in the contracts in the long term.

- From 10% onwards, a percentage of profit and revenue equal to the percentage of completion is recognised.

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 heading in the statement of profit or loss and a credit to "Inventories" on the asset side of the balance sheet (see Note 11).

Sales of products, basically wheel sets and components, are recognised when the goods and title thereto are transferred (see Note 19).

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. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

***g) Customer advances and completed contract work***

The difference between revenue recognised on each project (see Note 3-f) and the amount billed for the project is recognised as follows:

- If the difference is positive, under "Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (deferred billings) (see Note 11).

- If the difference is negative, under "Trade and Other Payables – Other Payables - Advances Received on Orders" (prebillings) (see Note 11).

***h) Foreign currency transactions and other obligations***

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing (see Note 18). Any resulting gains or losses are recognised directly in the statement of profit or loss in the year in which they arise. Foreign currency transactions for which the Company decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3-d.

### *i) Current/Non-current classification*

Items are classified under "Current Assets" and "Current Liabilities" (prebillings, deferred billings and short-term provisions) which may be realised or settled in more than twelve months, since they form part of the Company's normal operating 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 (see Notes 11 and 17).

### *j) Government grants*

The Company accounts for grants, donations and legacies received as follows:

a) Non-refundable grants, donations and legacies related to assets: these are measured at the fair value of the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss, except for grants received from shareholders or owners, which are recognised directly in equity and do not give rise to the recognition of any income (see Note 13-h).

b) Refundable grants: while they are refundable, they are recognised as a liability.

c) Grants related to income: grants related to income are credited to income when definitively granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to profit or loss in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred. The Company recognised income of EUR 2,272 thousand and EUR 944 thousand in 2017 and 2016, respectively, in this connection under "Other Operating Income" in the accompanying statement of profit or loss.

### *k) Post-employment benefits*

The Company's legal and contractual obligations to certain of its 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 2017 for various groups of employees amounted to EUR 6,777 thousand (2016: EUR 3,809 thousand). The impact of these obligations on the statement of profit or loss for 2017 amounted to EUR 4,085 thousand (2016: EUR 4,799 thousand) with a charge to "Staff Costs". In 2017 a net actuarial loss of EUR 5,525 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2016: a net actuarial gain of EUR 990 thousand).

In accordance with the accrual basis of accounting, at 31 December 2017 the Company recognised a liability of EUR 2,833 thousand under "Current Liabilities" and a current asset of EUR 268 thousand under "Current Assets" in the balance sheet, calculated by an independent valuer. The sum of these amounts 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 2016: an asset of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (see Notes 4, 16 and 19-d).

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 Company contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (see Notes 19, 20 and 21).

### *l) Early retirements and termination benefits*

At 31 December 2017, "Non-Current Payables - Other Financial Liabilities" and "Current Payables - Other Current Liabilities" in the accompanying balance sheet included approximately EUR 5,892 thousand and EUR 3,113 thousand, respectively (31 December 2016: EUR 3,165 thousand and EUR 2,529 thousand), relating to the present value estimated by the directors of the future payments to be made to employees with whom hand-over contracts had been entered into in December 2017. The net provision for 2017 was recognised with a charge of EUR 6,272 thousand to "Staff Costs" (2016: EUR 3,041 thousand with a charge to "Staff Costs") in the statement of profit or loss (see Notes 14, 16 and 19-d).

### *m) Income tax*

The expense for income tax and other similar taxes are recognised in the 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 there will be sufficient taxable profits in the future against which the deferred tax assets can be utilised, which at the Company are deemed to be those that will be earned in the period covered by its backlog.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### *n) Leases*

The Company classifies as finance leases, lease arrangements whereby the lessor transfers all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

At 31 December 2017 and 2016, the Company had not entered into any finance leases in which it acted as lessee. In finance leases in which the Company acts as the lessor, at inception of the lease an account receivable is recognised equal to the present value of the minimum lease payments receivable plus the residual value of the asset, discounted at the interest rate implicit in the lease. The difference between the account receivable recognised and the amount to be received, which relates to unearned finance income, is allocated to profit or loss as earned using the effective interest method (see Note 8-a).

At 31 December 2017, the Company had various outstanding operating leases for which it had recognised an expense of EUR 2,258 thousand in 2017 (2016: EUR 1,165 thousand) with a charge to "Other Operating Expenses" in the accompanying statement of profit or loss. The Company expects to continue to lease these assets (principally computer hardware and real estate), the costs of which are tied to the CPI.

The payment commitments for future years in relation to outstanding operating leases at 31 December 2017 amounted to EUR 4,394 thousand over the next few years, of which EUR 1,460 thousand are due in 2018 (31 December 2016: EUR 1,874 thousand committed).

Expenses arising in connection with leased properties and equipment are allocated to "Other Operating Expenses" in the statement of profit or loss over the term of the lease on an accrual basis.

### *ñ) Related party transactions*

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

## 4. Distribution of profit

The proposed distribution of the profit for 2017 that the Company'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 | 10,333 |
| Voluntary reserves | 12,292 |
| | **22,625** |
| **Distribution** | |
| Dividends | 22,625 |
| | **22,625** |

## 5. Financial risk management

CAF 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.

These risks include financial risks: market risk (inter alia: foreign currency risk, interest rate risk and commodity price risk), credit risk, liquidity risk and financing risk.

The financial risk management policy adopted by CAF focuses on managing the uncertainty of financial markets and aims to minimise the potential adverse effects on the achievement of the Company's objectives.

The Company's Financial Department identifies, analyses, assesses and defines the treatment, and performs the monitoring and control, of the financial risks in accordance with the global risk management policies established by the Board of Directors.

### *a) Market risk*

*a.1) Cash flow and fair value interest rate risk*

The Company's interest rate risk arises on borrowings. The Company's policy for working capital financing transactions is to resort to third-party borrowings in the form of debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure (see Note 14). For long-term financing transactions, the Company sets an objective, to the extent permitted by the markets, of maintaining a borrowing cost structure balanced between fixed and floating interest rates the goal of which is to maintain an adequate balance between the cost of long-term financing and the risk of changes in interest rates.

At 31 December 2017, the Company has a liability exposure of EUR 103 million in relation to changes in market interest rates (31 December 2016: EUR 62 million) and of EUR 263 million in relation to fixed interest rates (31 December 2016: EUR 260 million), of which EUR 13.3 million were fixed as a result of interest rate derivatives (see Notes 14 and 15).

a.2) Foreign currency risk

The Company operates on an international stage and, therefore, is exposed to foreign currency risk in its foreign currency transactions (currently the US dollar, the Brazilian real, the pound sterling, the New Taiwan dollar, the Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Japanese yen, the Canadian dollar and the Hungarian forint, among others).

The Company uses forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency of the Company (the euro).

The Company’s standard practice is to hedge, provided that the cost is reasonable, the market risk associated with contracts denominated in currencies other than the Company’s functional currency. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Company's results present fairly its industrial and services activity.

At 31 December 2017 and 2016, the Company had used currency forwards to hedge substantially all of its foreign currency accounts receivable from and payable to customers and suppliers, and its loans in foreign currency with Group companies. A 10% fall in the exchange rate in relation to the unhedged positions in Brazilian reais against the euro at 31 December 2017 would have a negative impact of EUR 2,354 thousand, although exposure to other currencies would not be significant (31 December 2016: this had a negative impact of EUR 2,725 thousand in relation to the Brazilian real and the Mexican peso).

At 31 December 2017 and 2016, the Company 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 CAF USA Inc., the exposure of which is hedged (see Notes 9 and 15).

a.3) Commodity price risk

For the most significant commodities, the Company'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 Company's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Company'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 2017 and 2016, the Company 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 (see Note 12).

### c) *Liquidity and financing risk*

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Company's financial obligations fully and effectively (see Notes 8 and 14).

The Company manages liquidity 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.

## 6. Intangible assets

The changes in “Intangible Assets” in the balance sheet in 2017 and 2016 were as follows:

**2017**

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | 31/12/16 | Additions or charge for the year | Disposals or reductions | Transfers to inventories | 31/12/17 |
| **Cost:** | | | | | |
| Development expenditure | 86,199 | 11,134 | - | (1,384) | 95,949 |
| Computer software | 15,905 | 2,171 | - | - | 18,076 |
| **Total cost** | **102,104** | **13,305** | **-** | **(1,384)** | **114,025** |
| **Accumulated amortisation:** | | | | | |
| Development expenditure | 57,065 | 4,254 | - | - | 61,319 |
| Computer software | 12,562 | 923 | - | - | 13,485 |
| **Total accumulated amortisation** | **69,627** | **5,177** | **-** | **-** | **74,804** |
| **Impairment:** | | | | | |
| Development expenditure | 16,620 | - | - | - | 16,620 |
| **Total impairment** | **16,620** | **-** | **-** | **-** | **16,620** |
| **Intangible assets, net** | **15,857** | **8,128** | **-** | **(1,384)** | **22,601** |

**2016**

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | 31/12/15 | Additions or charge for the year | Disposals or reductions | Transfers to inventories | 31/12/16 |
| **Cost:** | | | | | |
| Development expenditure | 81,515 | 5,989 | - | (1,305) | 86,199 |
| Computer software | 14,450 | 1,455 | - | - | 15,905 |
| **Total cost** | **95,965** | **7,444** | **-** | **(1,305)** | **102,104** |
| **Accumulated amortisation:** | | | | | |
| Development expenditure | 52,955 | 4,110 | - | - | 57,065 |
| Computer software | 11,828 | 734 | - | - | 12,562 |
| **Total accumulated amortisation** | **64,783** | **4,844** | **-** | **-** | **69,627** |
| **Impairment:** | | | | | |
| Development expenditure | 16,620 | - | - | - | 16,620 |
| **Total impairment** | **16,620** | **-** | **-** | **-** | **16,620** |
| **Intangible assets, net** | **14,562** | **2,600** | **-** | **(1,305)** | **15,857** |

The additions to "Development Expenditure" in 2017 and 2016 correspond to the costs incurred in the development of new products, including most notably, among others, the high-speed train, the development of critical safety platforms and the development of highly automated signalling systems.

As discussed in Note 3-a, in 2017 the Company transferred to inventories approximately EUR 1,384 thousand of the development costs that it had charged to various contracts it had won that incorporated the technology developed (2016: EUR 1,305 thousand).

Research and development expenditure incurred in 2017 and recognised in profit or loss amounted to EUR 3,895 thousand (2016: EUR 2,569 thousand).

At 2017 year-end the Company had fully amortised intangible assets in use and/or whose technology was still being applied, amounting to EUR 54,447 thousand (31 December 2016: EUR 37,638 thousand).

*Impairment losses*

The Company did not recognise any impairment losses on its intangible assets in 2017 and 2016.

## 7. Property, plant and equipment

The changes in the years ended 31 December 2017 and 2016 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

**2017**

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | 31/12/16 | Additions or charge for the year | Disposals or reductions | Transfers | 31/12/17 |
| **Cost:** | | | | | |
| Land | 13,482 | 288 | - | (188) | 13,582 |
| Buildings | 138,199 | 10,719 | - | 191 | 149,109 |
| Plant and machinery | 227,305 | 8,624 | (1,767) | (5) | 234,157 |
| Other fixtures, tools and furniture | 12,923 | 1,380 | - | 2 | 14,305 |
| Other items of property, plant and equipment | 34,138 | 2,057 | - | - | 36,195 |
| **Total cost** | **426,047** | **23,068** | **(1,767)** | **-** | **447,348** |
| **Accumulated depreciation:** | | | | | |
| Buildings | 82,512 | 4,512 | - | - | 87,024 |
| Plant and machinery | 198,120 | 8,316 | (1,767) | - | 204,669 |
| Other fixtures, tools and furniture | 10,651 | 609 | - | - | 11,260 |
| Other items of property, plant and equipment | 20,101 | 1,813 | - | - | 21,914 |
| **Total accumulated depreciation** | **311,384** | **15,250** | **(1,767)** | **-** | **324,867** |
| **Impairment** | **2,555** | **-** | **-** | **-** | **2,555** |
| **Property, plant and equipment, net** | **112,108** | **7,818** | **-** | **-** | **119,926** |

**2016**

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31/12/15 | Additions or charge for the year | Disposals or reductions | 31/12/16 |
| **Cost:** | | | | |
| Land | 15,660 | - | (2,178) | 13,482 |
| Buildings | 144,603 | 3,366 | (9,770) | 138,199 |
| Plant and machinery | 222,395 | 6,708 | (1,798) | 227,305 |
| Other fixtures, tools and furniture | 12,714 | 277 | (68) | 12,923 |
| Other items of property, plant and equipment | 33,861 | 457 | (180) | 34,138 |
| **Total cost** | **429,233** | **10,808** | **(13,994)** | **426,047** |
| **Accumulated depreciation:** | | | | |
| Buildings | 82,655 | 5,332 | (5,475) | 82,512 |
| Plant and machinery | 189,327 | 10,591 | (1,798) | 198,120 |
| Other fixtures, tools and furniture | 10,027 | 650 | (26) | 10,651 |
| Other items of property, plant and equipment | 18,169 | 2,113 | (181) | 20,101 |
| **Total accumulated depreciation** | **300,178** | **18,686** | **(7,480)** | **311,384** |
| **Impairment** | **-** | **2,555** | **-** | **2,555** |
| **Property, plant and equipment, net** | **129,055** | **(10,433)** | **(6,514)** | **112,108** |

The main additions in 2017 and 2016 relate to the new technical office building, the new wheel sets and components division offices and certain facilities and machinery for the improvement and automation of the machining processes.

In 2013 the Company revalued its property, plant and equipment pursuant to Guipúzcoa Regulation 1/2013, of 5 February, paying a one-off rate of 5% of the revalued amount. Previously, the Company had availed itself of other legislation relating to revaluations, namely, Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 (see Note 13-c).

The 2013 revaluation was made applying the rates established in legislation on the acquisition cost, based on the year of acquisition of the property, plant and equipment. In the case of improvements, the year in which they are made was taken into account. Also, the established rates were applied to the depreciation taken for accounting purposes on the acquisition or production cost that was deductible for tax purposes, based on the year in which it was applied. In the case of assets revalued pursuant to Guipúzcoa Regulation 11/1996, the rates were applied to the acquisition price and to the depreciation that was deductible for tax purposes, without taking into account the net increase in value arising from the revaluations.

The Company revalued items recognised such as buildings, plant, machinery and tools. The revaluation of the balance sheet items amounted to EUR 46,170 thousand and the adjustment to the depreciation charge amounted to EUR 19,676 thousand.

The net increase in value arising from the revaluations is depreciated over the tax periods in the remaining useful lives of the assets. The effect of the revaluations on the depreciation charge for the year was EUR 1,483 thousand (2016: EUR 2,173 thousand).

The effect of the revaluations of the property, plant and equipment in accordance with Guipúzcoa Regulation 1/2013, Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 on the depreciation charges for the year and the accumulated depreciation recognised in 2017 and in prior years amounted to approximately EUR 1,593 thousand and EUR 11,697 thousand, respectively (2016 and prior years: EUR 2,297 thousand and EUR 10,128 thousand).

At 31 December 2017, the Company recognised EUR 13,542 thousand (31 December 2016: EUR 6,408 thousand) under "Current Payables - Other Financial Liabilities" in relation to non-current asset suppliers (see Note 14).

At 2017 year-end the Company had firm investment commitments amounting to EUR 3,096 thousand in relation mainly to the new automatic axle machining line (2016 year-end: EUR 7,892 thousand). In principle, these investments will be equity financed.

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2017 and 2016 the property, plant and equipment were fully insured against these risks.

At 31 December 2017, the gross cost of fully depreciated property, plant and equipment still in use amounted to approximately EUR 246,841 thousand (31 December 2016: approximately EUR 220,974 thousand), of which at 31 December 2017 EUR 45,789 thousand related to "Buildings" (2016: EUR 41,516 thousand), EUR 180,855 thousand to "Plant and Machinery" (2016: EUR 160,370 thousand) and EUR 20,197 thousand to "Other Fixtures, Tools and Furniture" and "Other Items of Property, Plant and Equipment" (2016: EUR 19,088 thousand).

In 2017 no gains or losses arose in relation to disposals of items of property, plant and equipment (2016: gains of EUR 6,986 thousand).

The Company has no future dismantling or restoration commitments and, accordingly, no asset was recognised in this connection.

At 31 December 2017 and 2016, the Company did not have any investments in property, plant and equipment located abroad for significant amounts.

In prior years the Company transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled. Following an impairment test performed on the locomotives, the Company's directors considered that they were not impaired. At 31 December 2017, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand (31 December 2016: EUR 9,155 thousand). At 31 December 2017, a portion of these locomotives had been leased to third parties.

Of the Company's property, plant and equipment, at the end of 2017 and 2016 there were no significant assets that were not being used directly in operations, except for the aforementioned locomotives.

*Impairment losses*

At the end of 2016, the Company discontinued its activities at the steelworks at its Beasain plant. Consequently, the Company's directors evaluated the recoverability of the related net assets, based on the appraisal performed by an independent valuer, recognising impairment with a charge to profit or loss for 2016 (2017: no additional impairment was recognised).

## 8. Financial assets (non-current and current)

### a) Non-current financial assets

The detail of "Non-Current Financial Assets" at the end of 2017 and 2016 is as follows (in thousands of euros):

| Classes / Categories | Non-current financial assets | | | | | |
|---|---|---|---|---|---|---|
| | Equity instruments | | Loans, derivatives and other | | Total | |
| | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 |
| **Held-to-maturity investments** | - | - | 367 | 114 | 367 | 114 |
| **Loans and receivables** | - | - | 9,536 | 10,757 | 9,536 | 10,757 |
| **Available-for-sale financial assets-** | | | | | | |
| Measured at cost | 1,438 | 1,450 | - | - | 1,438 | 1,450 |
| **Financial derivatives (Note 15)** | - | - | 14,402 | 9,696 | 14,402 | 9,696 |
| **Total** | **1,438** | **1,450** | **24,305** | **20,567** | **25,743** | **22,017** |

The detail of loans and receivables is as follows (thousands of euros):

| | 31/12/17 | 31/12/16 |
|---|---|---|
| Non-current trade receivables | 4,932 | 6,015 |
| Loans to employees | 4,604 | 4,686 |
| Share ownership scheme obligations | - | 56 |
| **Total** | **9,536** | **10,757** |

*Non-current trade receivables*

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 4,932 thousand at long term (31 December 2016: EUR 6,015 thousand) and EUR 1,245 thousand at short term (31 December 2016: EUR 1,173 thousand) relating to a finance lease of rolling stock for an initial amount of EUR 10,570 thousand, under which the Company will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2017 EUR 1,500 thousand (2016: EUR 1,500 thousand) were received and EUR 490 thousand (2016: 564 thousand) were credited to "Finance Income" in the accompanying statement of profit or loss, based on the interest rate implicit in the transaction (see Note 3-n).

*Loans to employees*

In accordance with the agreements entered into with employees, the Company grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Company does not discount these amounts since it considers that the effect of doing so is scantly material.

*Share ownership scheme*

The share ownership scheme was set up in 1994 to promote permanent employees' ownership of CAF's share capital through the creation of Cartera Social, S.A. This company is the owner of CAF's shares and eight employees of the Company act as trustees thereat. Since that date, Cartera Social has sold the rights on the shares it owns in CAF to the Company. At 31 December 2017, all the rights had been transferred to the employees.

At 31 December 2017, Cartera Social, S.A. owned 8,727,191 CAF, S.A. shares, equal to 25.46% of its share capital (see Note 13). At 31 December 2016, the percentage was 25.58% of the capital.

"Other Receivables - Sundry Accounts Receivable" in the balance sheet as at 31 December 2017 includes an account receivable from Cartera Social, S.A. amounting to EUR 145 thousand (31 December 2016: EUR 115 thousand).

*Available-for-sale financial assets (measured at cost)*

The Company owns 14.18% of Iniciativa FIK, AIE, the company object of which is research and development and the exploitation of scientific and technological knowledge. The par value of the shares amounts to EUR 3,125 thousand. At 31 December 2017, there were no capital payments payable. The ownership interest has been written down by EUR 2,085 thousand (31 December 2016: EUR 2,073 thousand) and impairment of EUR 12 thousand was recognised in 2017 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss.

Albali Señalización, S.A. was incorporated on 23 November 2011, with shares representing 9% of the share capital subscribed by CAF. In 2012 the Company sold a portion of the shares it had subscribed, leaving its ownership interest at 3%. At 31 December 2017, the par value of the shares subscribed amounted to EUR 398 thousand.

The detail, by maturity, of "Non-Current Financial Assets", excluding equity instruments, is as follows (in thousands of euros):

**2017**

| | 2019 | 2020 | 2021 | 2022 and subsequent years | Total |
|---|---|---|---|---|---|
| Held-to-maturity investments | 278 | - | - | 89 | 367 |
| Loans and receivables | 1,997 | 2,038 | 2,038 | 3,463 | 9,536 |
| Financial derivatives | 12,585 | 1,817 | - | - | 14,402 |
| **Total** | **14,860** | **3,855** | **2,038** | **3,552** | **24,305** |

**2016**

| | 2018 | 2019 | 2020 | 2021 and subsequent years | Total |
|---|---|---|---|---|---|
| Held-to-maturity investments | 114 | - | - | - | 114 |
| Loans and receivables | 1,929 | 1,907 | 1,918 | 5,003 | 10,757 |
| Financial derivatives | 6,527 | 2,656 | 513 | - | 9,696 |
| **Total** | **8,570** | **4,563** | **2,431** | **5,003** | **20,567** |

*Impairment losses*

In 2017 and 2016 the Company did not recognise any changes under "Non-Current Financial Assets - Loans and Receivables" as a result of impairment losses.

### b) Current financial assets

The detail of "Current Financial Assets" at the end of 2017 and 2016 is as follows (in thousands of euros):

| | 31/12/17 | 31/12/16 |
|---|---|---|
| Held-for-trading financial assets | 55,120 | 54,732 |
| Loans and receivables | - | 476 |
| Financial derivatives (Note 15) | 22,697 | 33,560 |
| **Total** | **77,817** | **88,768** |

The Company invests cash surpluses in government debt securities, repos, short-term deposits, term deposits, promissory notes or fixed-income investment funds These are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying statement of profit or loss. In 2017 the Company recognised income in this connection amounting to approximately EUR 696 thousand (2016: approximately EUR 138 thousand).

## 9. Group companies and associates

The detail of "Non-Current Investments in Group Companies and Associates" at 31 December 2017 and 2016 is as follows (in thousands of euros):

| | 31/12/16 | Change | 31/12/17 |
|---|---|---|---|
| Ownership interests | 492,069 | 40,462 | 532,531 |
| Impairment losses on ownership interests | (92,061) | (10,899) (*) | (102,960) |
| Non-current loans (Note 10) | 274,809 | 56,818 | 331,627 |
| **Total** | **674,817** | **86,381** | **761,198** |

(*) Including a net amount recognised of EUR 3,115 thousand under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss for 2017 and a net amount recognised of EUR 7,784 thousand relating to the impact of derivatives related to net investments in foreign operations.

| | 31/12/15 | Change | 31/12/16 |
|---|---|---|---|
| Ownership interests | 451,149 | 40,920 | 492,069 |
| Impairment losses on ownership interests | (88,515) | (3,546) (*) | (92,061) |
| Non-current loans (Note 10) | 183,528 | 91,281 | 274,809 |
| **Total** | **546,162** | **128,655** | **674,817** |

(*) Including a net amount recognised of EUR 6,261 thousand under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss for 2016 and a net reversal of EUR 2,715 thousand relating to the impact of derivatives related to net investments in foreign operations.

The most significant information in relation to investments in Group companies and associates the end of 2017 and 2016 is as follows (in thousands of euros):

## 2017

| Name | Location | Line of business | Percentage of ownership | | | Carrying amount at CAF, S.A. | | Basic financial data (1) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | | | Share capital | Reserves and accumulated profits or losses | Profit (Loss) from operations | Profit (Loss) for 2017 |
| **Industrial** | | | | | | | | | | | |
| CAF USA, Inc. | Delaware | Manufacturing | 100% | - | | 53,221 | (13) | 54,283 | 2,340 | 1,579 | 627 |
| CAF México, S.A. de C.V. (2) | Mexico City | Manufacturing and maint. | 99.94% | 0.06% | (3) | 6,755 | | 6,773 | 1,699 | 1,993 | 2,863 |
| CAF Brasil Industria e Comercio, S.A. (2) | Sao Paulo | Manufacturing and maint. | 1.18% | 98.82% | (5) | 1,756 | (18) | 181,758 | (29,998) | (8,964) | (30,089) |
| CAF Argentina, S.A. | Buenos Aires | Repairs and maint. | 97.61% | 2.39% | (3) | 1,143 | (14) | 2 | 952 | 223 | (14) |
| CAF Rail UK, Ltda. | Belfast | Manufacturing and maint. | 100% | - | | 108 | | 108 | 868 | 700 | 493 |
| CAF Italia, S.R.L. | Rome | Repairs and maint. | 100% | - | | 100 | | 100 | 417 | 713 | 353 |
| CAF Chile, S.A. | S. de Chile | Manufacturing and maint. | 99% | 1% | (3) | 1 | | 1 | 1,495 | 771 | 774 |
| CAF Turquía, L.S. | Istanbul | Manufacturing and maint. | 99.94% | 0.06% | (3) | 715 | (10) | 2,659 | (1,822) | 166 | (121) |
| CAF Argelia, E.U.R.L. | Algiers | Manufacturing and maint. | 100% | - | | 1,978 | (19) | 2,171 | (114) | (270) | (310) |
| Trenes CAF Venezuela, C.A. | Caracas | Manufacturing and maint. | 100% | - | | 16 | (20) | 18 | (18) | 84 | 4 |
| CAF Rail Australia Pty. Ltd. | Sydney | Manufacturing and maint. | 100% | - | | 74 | | 74 | 132 | 134 | 167 |
| CAF India Private Limited | Delhi | Manufacturing and maint. | 3.11% | 96.89% | (12) | 110 | | 3,917 | 4,818 | 55 | 57 |
| Trenes de Navarra, S.A.U. | Navarre | Manufacturing | 100% | - | | 4,874 | (7) | 4,270 | 364 | (746) | (442) |
| Construcciones Ferroviarias de Madrid, S.L.U. | Madrid | Manufacturing | 100% | - | | 2,500 | | 2,500 | 786 | 424 | 319 |
| Construcciones Ferroviarias - CAF Santana, S.A. | Jaén | Manufacturing and engineering | 100% | - | | 1,396 | (9) | 1,521 | (495) | 155 | 117 |
| Tradinsa Industrial, S.A. | Lleida | Repairs and maint. | 82.34% | 17.66% | (4) | 3,215 | | 3,850 | 908 | 317 | 131 |
| CAF New Zealand, Ltd. | Auckland | Manufacturing and maint. | 100% | - | | 48 | | 48 | 599 | 789 | 469 |
| CAF Sisteme Feroviare, S.R.L. | Bucharest | Manufacturing and maint. | 100% | - | | - | | - | 109 | 19 | 4 |
| CAF Colombia, S.A.S. | Medellín | Manufacturing and maint. | 100% | - | | 456 | | 36 | 387 | 172 | 112 |
| CAF Arabia, Co. | Riyadh | Manufacturing and maint. | 95% | 5% | (3) | 301 | | 316 | - | 1,938 | 158 |
| CAF Deutschland GmbH | Munich | Manufacturing and maint. | 100% | - | | 25 | | 25 | 91 | 74 | 45 |
| CAF Hungary, K.F.T. | Budapest | Manufacturing and maint. | 100% | - | | 160 | | 24 | 132 | 66 | (5) |
| Ferrocarril Interurbano, S.A. de C.V. | Mexico City | Manufacturing and equip. | 17.20% | 32.43% | (17) | 68 | | 385 | 49 | 131 | 441 |
| CAF Netherlands, B.V. | Utrecht | Manufacturing and maint. | 100% | - | | 180 | | 180 | - | 44 | 33 |
| **Technology** | | | | | | | | | | | |
| CAF I+D, S.L. (Sole-Shareholder Company) | Guipúzcoa | R&D | 100% | - | | 5,734 | | 4,705 | 7,270 | (581) | (577) |
| CAF Power & Automation, S.L.U. (2) | Guipúzcoa | Electronic and power equipment | 100% | - | | 18,530 | | 6,090 | 13,200 | (3,871) | (982) |
| CAF Turnkey & Engineering, S.L.U. (2) | Vizcaya | Engineering | 76.85% | 23.15% | (5) | 7,250 | | 5,703 | 2,636 | 5,200 | 4,764 |
| Centro de Ensayos y Análisis Cetest, S.L. | Guipúzcoa | Tests | 58.55% | 41.45% | (5) | 5,650 | | 9,650 | 1,471 | 434 | 257 |
| Geminys, S.L. | Guipúzcoa | Operating manuals | 100% | - | | 172 | | 150 | 575 | 548 | 395 |
| CAF Signalling, S.L.U. (2) | Guipúzcoa | Signalling | 100% | - | | 13,076 | (11) | 11,000 | 4,692 | (1,579) | (2,600) |
| BWB Holdings, Ltd. (2) (22) | Nottingham | Engineering | 60% | - | | 18,434 | | 229 | 1,834 | 223 | 52 |

| | | | Percentage of ownership | | | | | Basic financial data (1) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Location | Line of business | Direct | Indirect | | Carrying amount at CAF, S.A. | | Share capital | Reserves and accumulated profits or losses | Profit (Loss) from operations | Profit (Loss) for 2017 |
| **Services** | | | | | | | | | | | |
| Actren, S.A. | Madrid | Maintenance | 51% | - | | 1,530 | | 3,000 | 1,198 | 4,009 | 3,087 |
| Sermanfer, S.A. (2) | Madrid | Maintenance | 100% | - | | 301 | | 301 | 1,074 | 471 | 284 |
| CAF Investment Projects, S.A.U (2) | Guipúzcoa | Business development | 100% | - | | 241,536 | (8) | 179,056 | 75,875 | 109,222 | 16,988 |
| Urbanización Parque Romareda, S.A. | Zaragoza | Holding company | 100% | - | | 60 | | 60 | 203 | (2) | (2) |
| Ferrocarriles Suburbanos, S.A. de C.V. | Mexico City | Transport services | 28.05% | 15.3% | (5) | - | (15) | 16,301 | (8,997) | 10,025 | (7,398) |
| Ennera Energy and Mobility, S.L. (2) | Guipúzcoa | Power generation | 39.7% | 60.3% | (5) | 1,960 | (16) | 4,282 | 1,411 | (731) | (216) |
| Rail Line Components, S.L.U. | Guipúzcoa | Marketing | 100% | - | | 60 | | 60 | 3,653 | 1,430 | 1,022 |
| Consorcio Traza, S.A. (6) | Zaragoza | Holding company | 25% | - | | 18,184 | | 575 | 53,328 | 6,439 | 22 |
| CAF Group UK, Ltd. (2) | Coventry | Holding company | 100% | - | | 11,926 | (21) | 11,968 | (66) | (40) | (49) |
| Rifer S.R.L. (22) | Milan | Component maintenance | 51% | - | | 4,713 | | 20 | 428 | 500 | 270 |
| Other investments | | | | | | 1,255 | | - | - | - | - |
| | | | | | | **429,571** | | | | | |

1) After adjustments and unifying entries for consolidation purposes. The financial statements in foreign currencies were translated to euros using the "year-end exchange rate" method, which means that any translation gains or losses and valuation adjustments on hedges are recognised under "Translation Differences - Reserves" and "Valuation Adjustments - Reserves.
2) Head of a group of companies. The information on reserves and accumulated profits or losses, profit or loss from operations and profit or loss for 2017 is presented at sub-consolidated level. The information on the companies that form part of the CAF Group is presented in the consolidated financial statements.
3) Through Urbanización Parque Romareda, S.A.
4) Through Sermanfer, S.A.
5) Through CAF Investment Projects, S.A.U.
6) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
7) Including impairment losses of EUR 11,296 thousand, with total of EUR 240 thousand reversed in 2017.
8) Formerly Inversiones en Concesiones Ferroviarias, S.A., this includes impairment losses of EUR 3,113 thousand relating to the impact of derivatives related to net investments in foreign operations.
9) Including impairment losses of EUR 3,866 thousand, with a total of EUR 306 thousand reversed in 2017.
10) Including impairment losses of EUR 1,942 thousand, of which a total of EUR 289 thousand were recognised in 2017.
11) Including impairment losses of EUR 15,985 thousand, of which a total of EUR 2,444 thousand were recognised in 2017.
12) Through CAF Investment Projects, S.A.U. (96.73%) and Urbanización Parque Romadera, S.A (0.16%).
13) Including a balance payable of EUR 1,062 thousand relating to the impact of derivatives related to net investments in foreign operations.
14) Including impairment losses of EUR 2,874 thousand, of which a total of EUR 83 thousand were recognised in 2017.
15) Including impairment losses of EUR 60,925 thousand.
16) Including impairment losses of EUR 641 thousand of which EUR 338 thousand were recognised in 2017.
17) Through CAF Turnkey & Engineering, S.L.U, CAF México, S.A. de C.V. and CAF Signalling, S.L.U.
18) Including impairment losses of EUR 1,009 thousand, of which EUR 263 thousand were recognised in 2017.
19) Including impairment losses of EUR 193 thousand recognised in full in 2017.
20) Including impairment losses of EUR 9 thousand recognised in full in 2017.
21) Including impairment losses of EUR 43 thousand recognised in full in 2017.
22) Profit or loss since the obtainment of control of these companies by the Group in 2017. The options described in Note 9 to these financial statements are not included.

## 2016

| Name | Location | Line of business | Percentage of ownership | | | Carrying amount at CAF, S.A. | | Basic financial data (1) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | | | Share capital | Reserves and accumulated profits or losses | Profit (Loss) from operations | Profit (Loss) for 2016 |
| **Industrial** | | | | | | | | | | | |
| CAF USA, Inc. | Delaware | Manufacturing | 100% | - | | 61,005 | (13) | 54,283 | 9,967 | 1,966 | 216 |
| CAF México, S.A. de C.V. (2) | Mexico City | Manufacturing and maint. | 99.94% | 0.06% | (3) | 6,755 | | 6,773 | 785 | (1,315) | 2,092 |
| CAF Brasil Industria e Comercio, S.A. (2) | Sao Paulo | Manufacturing and maint. | 1.41% | 98.59% | (5) | 2,019 | (18) | 154,858 | 3,202 | (3,225) | (15,935) |
| CAF Argentina, S.A. | Buenos Aires | Repairs and maint. | 97.61% | 2.39% | (3) | 1,225 | (14) | 2 | 1,174 | 127 | 113 |
| CAF Rail UK, Ltda. | Belfast | Manufacturing and maint. | 100% | - | | 108 | | 108 | 510 | 538 | 400 |
| CAF Italia, S.R.L. | Rome | Repairs and maint. | 100% | - | | 100 | | 100 | 199 | 393 | 218 |
| CAF Chile, S.A. | S. de Chile | Manufacturing and maint. | 99% | 1% | (3) | 1 | | 1 | 706 | 876 | 824 |
| CAF Turquía, L.S. | Istanbul | Manufacturing and maint. | 99.94% | 0.06% | (3) | 1,003 | (10) | 2,659 | (1,517) | 306 | (129) |
| CAF Argelia, E.U.R.L. | Algiers | Manufacturing and maint. | 100% | - | | 2,171 | | 2,171 | 172 | 57 | 53 |
| Trenes CAF Venezuela, C.A. | Caracas | Manufacturing and maint. | 100% | - | | 25 | | 18 | (13) | 69 | 4 |
| CAF Rail Australia Pty. Ltd. | Sydney | Manufacturing and maint. | 100% | - | | 74 | | 74 | 185 | 36 | (37) |
| CAF India Private Limited | Delhi | Manufacturing and maint. | 3.11% | 96.89% | (12) | 110 | | 3,917 | 5,504 | (44) | (83) |
| Trenes de Navarra, S.A.U. | Navarre | Manufacturing | 100% | - | | 4,635 | (7) | 4,270 | 1,686 | (1,193) | (1,321) |
| Construcciones Ferroviarias de Madrid, S.L.U. | Madrid | Manufacturing | 100% | - | | 2,500 | | 2,500 | 429 | 476 | 358 |
| Construcciones Ferroviarias - CAF Santana, S.A. | Jaén | Manufacturing and engineering | 83.73% | - | | 923 | (9) | 2,130 | (572) | (714) | (531) |
| Tradinsa Industrial, S.A. | Lleida | Repairs and maint. | 82.34% | 17.66% | (4) | 3,215 | | 3,850 | 793 | 317 | 114 |
| CAF New Zealand, Ltd. | Auckland | Manufacturing and maint. | 100% | - | | 48 | | 48 | 420 | 546 | 282 |
| CAF Sisteme Feroviare, S.R.L. | Bucharest | Manufacturing and maint. | 100% | - | | - | | - | 82 | 50 | 30 |
| CAF Colombia, S.A.S. | Medellín | Manufacturing and maint. | 100% | - | | 456 | | 36 | 427 | 5 | 24 |
| CAF Arabia, Co. | Riyadh | Manufacturing and maint. | 95% | 5% | (3) | 301 | | 316 | 449 | (14) | (398) |
| CAF Deutschland GmbH | Munich | Manufacturing and maint. | 100% | - | | 25 | | 25 | 42 | 86 | 48 |
| CAF Hungary, K.F.T. | Budapest | Manufacturing and maint. | 100% | - | | 160 | | 24 | 130 | 85 | 2 |
| Ferrocarril Interurbano, S.A. de C.V. | Mexico City | Manufacturing and equip. | 17.20% | 32.43% | (17) | 68 | | 385 | (15) | 20 | 159 |
| **Technology** | | | | | | | | | | | |
| CAF I+D, S.L. (Sole-Shareholder Company) | Guipúzcoa | R&D | 100% | - | | 5,734 | | 4,705 | 7,383 | 7 | (112) |
| CAF Power & Automation, S.L.U. (2) | Guipúzcoa | Electronic and power equipment | 100% | - | | 18,530 | | 6,090 | 13,025 | (2,920) | (534) |
| CAF Turnkey & Engineering, S.L.U. (2) | Vizcaya | Engineering | 76.85% | 23.15% | (5) | 7,250 | | 5,703 | 2,643 | 345 | 918 |
| Centro de Ensayos y Análisis Cetest, S.L. | Guipúzcoa | Tests | 58.55% | 41.45% | (5) | 5,650 | | 9,650 | 2,337 | 174 | (866) |
| Geminys, S.L. | Guipúzcoa | Operating manuals | 100% | - | | 172 | | 150 | 147 | 445 | 427 |
| CAF Signalling, S.L.U. (2) | Guipúzcoa | Signalling | 100% | - | | 10,520 | (11) | 10,200 | 3,242 | (1,814) | (2,917) |

| Name | Location | Line of business | Percentage of ownership | | Carrying amount at CAF, S.A. | Basic financial data (1) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Share capital | Reserves and accumulated profits or losses | Profit (Loss) from operations | Profit (Loss) for 2016 |
| **Services** | | | | | | | | | |
| Actren, S.A. | Madrid | Maintenance | 51% | - | 1,530 | 3,000 | 1,198 | 6,957 | 6,133 |
| Sermanfer, S.A. (2) | Madrid | Maintenance | 100% | - | 301 | 301 | 1,140 | (57) | (55) |
| Inversiones en Concesiones Ferroviarias, S.A. (2) | Guipúzcoa | Business development | 100% | - | 241,536 (8) | 179,056 | 81,415 | 108,415 | 31,350 |
| Urbanización Parque Romareda, S.A. | Zaragoza | Holding company | 100% | - | 60 | 60 | 200 | (1) | 4 |
| Ferrocarriles Suburbanos, S.A. de C.V. | Mexico City | Transport services | 28.05% | 15.3% (5) | - (15) | 16,303 | (152) | 2,286 | (14,527) |
| Ennera Energy and Mobility, S.L. (2) | Guipúzcoa | Power generation | 39.7% | 60.3% (5) | 2,299 (16) | 4,282 | 1,952 | (520) | (445) |
| Rail Line Components, S.L.U. | Guipúzcoa | Marketing | 100% | - | 60 | 60 | 2,984 | 948 | 669 |
| Consorcio Traza, S.A. (6) | Zaragoza | Holding company | 25% | - | 18,184 | 575 | 49,136 | 7,929 | 968 |
| Other investments | | | | | 1,255 | - | - | - | - |
| | | | | | **400,008** | | | | |

1) After adjustments and unifying entries for consolidation purposes. The financial statements in foreign currencies were translated to euros using the "year-end exchange rate" method, which means that any translation gains or losses and valuation adjustments on hedges are recognised under "Translation Differences - Reserves" and "Valuation Adjustments - Reserves.
2) Head of a group of companies. The information on reserves and accumulated profits or losses, profit or loss from operations and profit or loss for 2016 is presented at sub-consolidated level. The information on the companies that form part of the CAF Group is presented in the consolidated financial statements.
3) Through Urbanización Parque Romareda, S.A.
4) Through Sermanfer, S.A.
5) Through Inversiones en Concesiones Ferroviarias, S.A.
6) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
7) Including impairment losses of EUR 11,535 thousand, of which a total of EUR 1,321 thousand were recognised in 2016.
8) Including impairment losses of EUR 3,113 thousand relating to the impact of derivatives related to net investments in foreign operations.
9) Including impairment losses of EUR 4,172 thousand, of which a total of EUR 440 thousand were recognised in 2016.
10) Including impairment losses of EUR 1,654 thousand, of which a total of EUR 302 thousand were recognised in 2016.
11) Including impairment losses of EUR 13,542 thousand, of which a total of EUR 3,114 thousand were recognised in 2016.
12) Through Inversiones en Concesiones Ferroviarias, S.A. (96.73%) and Urbanización Parque Romadera, S.A (0.16%).
13) Including a balance payable of EUR 6,721 thousand relating to the impact of derivatives related to net investments in foreign operations.
14) Including impairment losses of EUR 2,792 thousand, of which a total of EUR 105 thousand were recognised in 2016.
15) Including impairment losses of EUR 60,925 thousand.
16) Including impairment losses of EUR 302 thousand, of which EUR 232 thousand were recognised in 2016.
17) Through CAF Turnkey & Engineering, S.L.U, CAF México, S.A. de C.V. and CAF Signalling, S.L.U.
18) Including impairment losses of EUR 746 thousand recognised in 2016.

In 2017 a fully paid capital increase of EUR 5,000 thousand was performed at CAF Signalling, S.L.U. (including a share premium of EUR 4,200 thousand).

Also, capital increases of EUR 180 thousand and EUR 11,968 thousand were performed at CAF Netherlands, B.V. and CAF Group UK, Ltd., respectively, which were both incorporated in 2017. In the last quarter of 2017, 16.27% of the shares of Construcciones Ferroviarias - CAF Santana, S.A. were acquired for EUR 167 thousand.

In addition, CAF Brasil Industria e Comercio, S.A.'s ownership interest was diluted following the capital increase which was fully subscribed by the controlling shareholder, which belongs to the CAF Group.

Lastly, in 2017 the Company acquired majority ownership interests which grant control over the following companies:

- BWB Holdings, Ltd., the head of a group of companies based in the UK which engages in engineering activities. The Company acquired 60% of the shares representing the share capital of BWB Holdings, Ltd. for EUR 9,301 thousand. Also, there are cross call and put options for the other 40% of the share capital, to be exercised in 2018 and 2020, the amount of which is linked to certain financial parameters on the date the option is taken (net financial debt and EBITDA) for an estimated amount of EUR 9,133 thousand. The amount was recognised with a charge to "Non-Current Investments in Group Companies and Associates". Based on their maturity, EUR 2,825 thousand were recognised with a credit to "Current Payables - Other Financial Liabilities" and EUR "6,308 thousand were recognised with a credit to "Non-Current Payables - Other Financial Assets" in the balance sheet as at 31 December 2017 (see Note 14).

- Rifer, S.R.L., a company located in Italy which engages in providing rolling stock material maintenance services. The Company acquired 51% of the shares representing the share capital for EUR 650 thousand. Also, there are cross call and put options for the other 49% of the share capital, to be exercised in 2019 and 2020, the amount of which is linked to certain financial parameters on the date the option is taken (net financial debt and EBITDA) for an estimated amount of EUR 4,063 thousand, and which were recognised with a charge and credit, respectively, to "Non-Current Investments in Group Companies and Associates" and "Non-Current Payables - Other Financial Liabilities" in the accompanying balance sheet as at 31 December 2017 (see Note 14).

In 2016 various fully paid capital increases amounting to EUR 35,920 thousand and EUR 5,000 thousand were performed at CAF USA, Inc. and CAF Signalling, S.L.U., respectively (including a share premium of EUR 4,900 thousand). In addition, CAF Brasil Industria e Comercio, S.A.'s ownership interest was diluted following the capital increase which was fully subscribed by the controlling shareholder, which belongs to the CAF Group.

## 10. Balances and transactions with related parties

The detail of the transactions with related parties (in addition to those specified in Notes 8 and 22) in 2017 and 2016 is as follows:

**2017**

| Company | Thousands of euros (*) | | | | |
|---|---|---|---|---|---|
| | Finance income | Services provided or sales recognised | Services received or purchases recognised | Dividends received | Finance costs |
| **Industrial** | | | | | |
| CAF USA, Inc. | 1,057 | 4,256 | 39,083 | - | - |
| CAF México, S.A. de C.V. | 69 | 137,277 | 114 | - | 53 |
| CAF Brasil Industria e Comercio, S.A. | - | 8,744 | 11 | - | - |
| CAF Rail UK, Ltda. | 16 | 2,081 | 2,896 | - | 1 |
| CAF Italia, S.R.L. | 46 | 102 | 7,270 | - | - |
| CAF Chile, S.A. | - | 988 | - | - | - |
| CAF Turquía, L.S. | 88 | 1,707 | 2,521 | - | - |
| CAF Argelia, E.U.R.L. | - | 502 | - | - | - |
| CAF India, Private Limited | - | - | 595 | - | - |
| Trenes de Navarra, S.A. | 80 | - | 1,986 | - | - |
| Construcciones Ferroviarias de Madrid, S.L. | - | - | 7,007 | - | - |
| Construcciones Ferroviarias - CAF Santana, S.A. | - | 447 | 4,138 | - | 1 |
| Tradinsa Industrial, S.A. | 131 | 2 | 3,859 | - | - |
| CAF Rail Australia, Pty. Ltd. | 10 | 301 | 867 | - | - |
| Trenes CAF Venezuela, C.A. | - | - | 182 | - | - |
| CAF Arabia, Co. | 428 | 4,316 | 7,157 | - | - |
| CAF New Zealand, Ltd. | - | 3,491 | 539 | - | - |
| CAF Colombia, S.A.S. | - | - | (3) | - | - |
| CAF Sisteme Feroviare, S.R.L. | 2 | - | 592 | - | - |
| CAF Deutschland GmbH | 6 | - | 1,650 | - | - |
| CAF Taiwan, Ltd | 308 | (5,964) | - | - | - |
| CAF Hungria, K.F.T. | 33 | 61 | 1,713 | - | - |
| CAF France, S.A.S. | 65 | 8,156 | 5,631 | - | - |
| CAF Argentina, S.A. | - | - | 14 | - | - |
| CAF Netherlands, B.V. | - | - | 404 | - | - |
| **Technology** | | | | | |
| CAF I+D, S.L. | - | 174 | 4,534 | - | 4 |
| CAF Power & Automation, S.L.U. | - | 970 | 37,883 | - | 2 |
| Nuevas Estrategias de Mantenimiento, S.L. (NEM, S.L.) | - | - | 960 | - | - |
| CAF Turnkey & Engineering, S.L.U. | - | - | 10,370 | - | - |
| Centro de Ensayos y Análisis Cetest, S.L. | - | 343 | 4,723 | - | 1 |
| Lander Simulation and Training Solutions, S.A. | 2 | - | - | - | - |
| Geminys, S.L. | - | - | 3,798 | - | - |
| CAF Signalling, S.L.U. | 57 | 70 | 12,826 | - | - |
| Vectia Mobility, S.L. | 69 | - | - | - | - |
| BWB Holdings, Ltd. | 94 | - | - | - | - |
| **Services** | | | | | |
| Actren, S.A. | - | 12,327 | 1,650 | 3,128 | - |
| Sermanfer, S.A. | - | - | 5,159 | - | - |
| CAF Investment Projects, S.A.U. | 27,054 | - | - | - | - |
| Ennera Energy and Mobility, S.L. | 13 | - | (10) | - | - |
| Rail Line Components, S.L. | - | 146 | 4,168 | - | - |
| Plan Metro, S.A. | - | 13,043 | - | - | - |
| Ctrens Companhia de Manutençao, S.A. | - | 67 | - | 201 | - |
| CAF Group UK, Ltd. | 20 | - | - | - | - |
| **Construction** | | | | | |
| Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V. | - | 847 | - | - | 26 |
| **Total** | **29,648** | **194,454** | **174,287** | **3,329** | **88** |

(*) These transactions are carried out on an arm's length basis.

## 2016

| Company | Thousands of euros (*) | | | | |
|---|---|---|---|---|---|
| | Finance income | Services provided or sales recognised | Services received or purchases recognised | Dividends received | Finance costs |
| **Industrial** | | | | | |
| CAF USA, Inc. | 1,339 | 2,240 | 2,246 | - | - |
| CAF México, S.A. de C.V. | 101 | 44,290 | 1,763 | - | 258 |
| CAF Brasil Industria e Comercio, S.A. | - | 16,078 | 13 | - | - |
| CAF Rail UK, Ltda. | - | 806 | 2,997 | - | 11 |
| CAF Italia, S.R.L. | 14 | 1,199 | 3,923 | 2,000 | - |
| CAF Chile, S.A. | - | 2,473 | - | - | - |
| CAF Turquía, L.S. | 213 | 1,301 | 1,417 | - | - |
| CAF Argelia, E.U.R.L. | - | 717 | - | - | - |
| CAF India, Private Limited | - | - | 542 | - | - |
| Trenes de Navarra, S.A. | 42 | - | 850 | - | - |
| Construcciones Ferroviarias de Madrid, S.L. | - | 1 | 9,400 | 1,088 | - |
| Construcciones Ferroviarias - CAF Santana, S.A. | - | 457 | 3,029 | - | - |
| Tradinsa Industrial, S.A. | 150 | 58 | 2,865 | - | - |
| CAF Rail Australia, Pty. Ltd. | 9 | - | 1,051 | - | - |
| Trenes CAF Venezuela, C.A. | - | - | 234 | - | - |
| CAF Arabia, Co. | 499 | 3,005 | 5,210 | - | - |
| CAF New Zealand, Ltd. | 25 | 3,835 | 1,317 | - | - |
| CAF Colombia, S.A.S. | - | - | 16 | - | - |
| CAF Sisteme Feroviare, S.R.L. | 3 | - | 645 | - | - |
| CAF Deutschland GmbH | 14 | - | 1,225 | - | - |
| CAF Taiwan, Ltd | 387 | (4,069) | 132 | - | - |
| CAF Hungary, K.F.T. | 25 | 37 | 1,769 | - | - |
| CAF France, S.A.S. | 92 | 11,028 | 1,568 | - | - |
| CAF Argentina, S.A. | - | 60 | 41 | - | - |
| **Technology** | | | | | |
| CAF I+D, S.L. | - | 264 | 4,321 | - | 3 |
| CAF Power & Automation, S.L.U. | - | 259 | 39,643 | 5,000 | 1 |
| Nuevas Estrategias de Mantenimiento, S.L. (NEM, S.L.) | - | - | 1,245 | - | - |
| CAF Turnkey & Engineering, S.L.U. | - | - | 8,054 | - | - |
| Centro de Ensayos y Análisis Cetest, S.L. | - | 330 | 4,453 | - | 4 |
| Lander Simulation and Training Solutions, S.A. | - | - | 840 | - | 2 |
| Geminys, S.L. | - | - | 1,393 | 900 | 2 |
| CAF Signalling, S.L.U. | 66 | 1 | 4,240 | - | - |
| **Services** | | | | | |
| Actren, S.A. | - | 20,789 | 2,246 | 1,904 | - |
| Sermanfer, S.A. | - | - | 4,956 | 800 | - |
| Inversiones en Concesiones Ferroviarias, S.A. | 17,106 | - | - | - | - |
| Ennera Energy and Mobility, S.L. | 2 | - | (38) | - | - |
| Rail Line Components, S.L. | - | 72 | 2,795 | - | - |
| Plan Metro, S.A. | - | 11,594 | - | - | - |
| Ctrens Companhia de Manutençao, S.A. | - | 56 | - | 200 | - |
| **Construction** | | | | | |
| Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V. | - | - | - | - | 89 |
| **Total** | **20,087** | **116,881** | **116,401** | **11,892** | **370** |

(*) These transactions are carried out on an arm's length basis.

As a result of these transactions, of those performed in previous years, the stage of completion of the projects contracted, the loans granted, the taxation under the consolidated tax regime (see Note 16) and the advances granted, the Company's balances with Group companies, associates and related parties at 31 December 2017 and 2016, were as follows:

**2017**

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-current loans (Note 9) | Current investments in Group companies and associates (Note 16) | Trade receivables from Group companies and associates (Note 12) | Stage of completion net billings (*) (Note 12) | Advances to suppliers (Note 11) | Payable to suppliers - Group companies and associates | Current payables to Group companies and associates (Note 16) |
| **Industrial** | | | | | | | |
| CAF USA, Inc. | - | 20,741 | 2,264 | 39 | - | 9,825 | 1,555 |
| CAF México, S.A. de C.V. | - | 9,819 | 19,222 | 41,814 | - | 9,505 | 472 |
| CAF Brasil Ind. C., S.A. | - | - | 559 | (955) | - | - | - |
| CAF Argentina, S.A. | - | - | 662 | - | - | 55 | - |
| CAF Rail UK, Ltda. | - | 1,574 | 2,005 | - | - | 1,124 | - |
| CAF Italia, S.R.L. | - | 708 | 40 | - | - | 1,055 | 178 |
| CAF Chile, S.A. | - | - | 696 | - | - | - | - |
| CAF Turquía, L.S. | - | 730 | 383 | - | - | 482 | - |
| CAF Argelia, E.U.R.L. | - | - | 926 | - | - | 1,551 | - |
| Trenes CAF Venezuela, C.A. | - | - | - | - | - | 7 | - |
| CAF India, Private Limited | - | - | - | - | - | 94 | - |
| Trenes de Navarra, S.A. | - | 2,653 | - | - | - | 645 | - |
| Construcciones Ferroviarias de Madrid, S.L. | - | - | - | - | - | 1,342 | 17 |
| Construcciones Ferroviarias-CAF Santana, S.A. | - | - | 2 | 30,092 | - | 735 | 50 |
| Tradinsa Industrial, S.A. | - | 3,639 | 4 | - | 270 | 1,654 | - |
| CAF Rail Australia Pty. Ltd | - | 465 | - | - | - | 295 | 7 |
| CAF New Zealand, Ltd. | - | 9 | 3,201 | - | - | 7 | 558 |
| CAF Arabia, Co. | - | 12,799 | 859 | - | - | 1,572 | - |
| CAF Sisteme Feroviare, S.R.L. | - | 41 | - | - | - | 82 | - |
| CAF Deutschland, GmbH | - | 225 | - | - | - | 270 | - |
| CAF Colombia, S.A.S. | - | - | 54 | - | - | 5 | - |
| CAF Taiwan, Ltd | - | 12,783 | 2,340 | 2,479 | - | 5 | - |
| CAF France, S.A.S. | - | 4,781 | 2,392 | 3,405 | - | 5,392 | - |
| CAF Hungary, K.F.T. | - | 555 | 36 | - | - | 496 | - |
| CAF Netherlands, B.V. | - | - | - | - | | 398 | - |
| **Technology** | | | | | | | |
| CAF I+D, S.L. | - | 442 | 294 | - | - | 1,205 | 1,156 |
| CAF Power & Automation, S.L.U. | - | 882 | 32 | - | 10,905 | 12,574 | - |
| Nuevas Estrategias de Mantenimiento, S.L. | - | 99 | - | - | - | 121 | - |
| CAF Turnkey & Engineering, S.L.U. | - | 467 | 1 | - | 8 | 2,108 | - |
| Centro de Ensayos y Análisis Cetest, S.L. | - | 1,523 | 118 | - | (8) | 1,890 | 90 |
| Lander Simulation and Training Solutions, S.A. | - | 220 | 1 | - | 395 | 266 | - |
| Geminys, S.L. | - | 421 | - | - | - | 1,837 | - |
| CAF Signalling, S.L.U. | - | 5,440 | 107 | - | 2,363 | 6,240 | 76 |
| BWB Holdings, Ltd. | - | 4,846 | - | - | - | - | - |
| Vectia Mobility, S.L. | - | 3,349 | - | - | - | - | - |
| **Services** | | | | | | | |
| Actren, S.A. | - | - | 2,754 | 1,194 | - | 1,409 | - |
| Sermanfer, S.A. | - | - | - | - | - | 446 | 74 |
| CAF Investment Projects, S.A.U. | 331,627 | 6,908 | - | - | - | - | 10,645 |
| Ennera Energy and Mobility, S.L. | - | 247 | 2 | - | - | - | 448 |
| Rail Line Components, S.L. | - | 532 | 6 | - | - | 1,946 | - |
| Plan Metro, S.A. | - | - | 1,273 | 166 | - | - | - |
| Ctrens Companhia de Manutençao, S.A. | - | 151 | 4 | - | - | - | - |
| Provetren, S.A. de C.V. | - | - | - | - | - | - | - |
| CAF Group UK, Ltd. | - | 23 | - | - | - | - | - |
| Urbanización Parque Romareda, S.A. | - | - | - | - | - | - | 180 |
| **Construction** | | | | | - | | |
| Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V. | - | - | 847 | - | - | 22 | 2,542 |
| **Total** | **331,627** | **97,072** | **41,084** | **78,234** | **13,933** | **66,660** | **18,048** |

(*) The stage of completion net billings at 31 December 2017 included EUR 115,887 thousand in deferred billings (asset) (see Note 12) and EUR 37,653 thousand in prebillings (liability).

**2016**

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-current loans (Note 9) | Current investments in Group companies and associates (Note 16) | Trade receivables from Group companies and associates (Note 12) | Stage of completion net billings (*) (Note 12) | Advances to suppliers (Note 11) | Payable to suppliers - Group companies and associates | Current payables to Group companies and associates (Note 16) |
| **Industrial** | | | | | | | |
| CAF USA, Inc. | - | 37,585 | 14,078 | 7,460 | - | 656 | - |
| CAF México, S.A. de C.V. | - | - | 5,702 | (27,276) | - | 1,625 | 258 |
| CAF Brasil Ind. C., S.A. | - | - | 860 | (9,396) | - | 12 | - |
| CAF Argentina, S.A. | - | - | 1,238 | - | - | 47 | - |
| CAF Rail UK, Ltda. | - | - | 779 | - | - | 1,349 | 1,845 |
| CAF Italia, S.R.L. | - | 1,513 | 774 | 126 | - | 2,194 | 306 |
| CAF Chile, S.A. | - | - | 1,019 | - | - | - | - |
| CAF Turquía, L.S. | - | 1,542 | 357 | 1 | - | 802 | - |
| CAF Argelia, E.U.R.L. | - | - | 834 | - | - | 1,497 | - |
| Trenes CAF Venezuela, C.A. | - | - | - | - | - | 5 | - |
| CAF India, Private Limited | - | - | - | - | - | 259 | - |
| Trenes de Navarra, S.A. | - | 910 | - | - | - | 129 | - |
| Construcciones Ferroviarias de Madrid, S.L. | - | - | 1 | - | - | 757 | - |
| Construcciones Ferroviarias-CAF Santana, S.A. | - | - | - | 30,783 | - | 378 | 3 |
| Tradinsa Industrial, S.A. | - | 3,297 | 70 | - | 81 | 1,227 | - |
| CAF Rail Australia Pty. Ltd | - | 354 | - | - | - | 159 | 7 |
| CAF New Zealand, Ltd. | - | 9 | 3,715 | - | - | 486 | 901 |
| CAF Arabia, Co. | - | 10,722 | 958 | - | - | 4,090 | - |
| CAF Sisteme Feroviare, S.R.L. | - | 71 | - | - | - | 89 | - |
| CAF Deutschland, GmbH | - | 407 | - | - | - | 259 | - |
| CAF Colombia, S.A.S. | - | - | - | - | - | 10 | - |
| CAF Taiwan, Ltd | - | 12,981 | 2,460 | 8,443 | - | 5 | - |
| CAF France, S.A.S. | - | 742 | 2,668 | 5,804 | - | 351 | - |
| CAF Hungria, K.F.T. | - | 759 | 24 | - | - | 715 | - |
| **Technology** | | | | | | | |
| CAF I+D, S.L. | - | 69 | 54 | - | - | 1,291 | 9 |
| CAF Power & Automation, S.L.U. | - | 6,416 | 13 | - | 7,676 | 15,704 | 21 |
| Nuevas Estrategias de Mantenimiento, S.L. | - | 110 | - | - | - | 395 | - |
| CAF Turnkey & Engineering, S.L.U. | - | 410 | - | - | - | 2,126 | 337 |
| Centro de Ensayos y Análisis Cetest, S.L. | - | 469 | 104 | - | - | 1,506 | 76 |
| Lander Simulation and Training Solutions, S.A. | - | - | - | - | - | 158 | 40 |
| Geminys, S.L. | - | 1,196 | - | - | - | 860 | 85 |
| CAF Signalling, S.L.U. | - | 3,377 | - | - | 3,314 | 2,657 | 202 |
| Urbanización Parque Romareda, S.A. | - | - | - | - | - | - | 180 |
| **Services** | | | | | | - | |
| Actren, S.A. | - | - | 5,285 | 4,807 | - | 3,100 | - |
| Subgrupo Sermanfer | - | - | - | - | - | 491 | 229 |
| Inversiones en Concesiones Ferroviarias, S.A. | 274,809 | 5,169 | - | - | - | - | 1,417 |
| Ennera Energy and Mobility, S.L. | - | 94 | 2 | - | - | - | 227 |
| Rail Line Components, S.L. | - | 272 | 5 | - | - | 1,244 | 30 |
| Plan Metro, S.A. | - | - | 3,745 | (321) | - | - | - |
| Ctrens Companhia de Manutençao, S.A. | - | 107 | - | - | - | - | - |
| Provetren, S.A. de C.V. | - | - | - | - | - | - | - |
| **Construction** | | | | | | | |
| Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V. | - | - | - | - | - | - | 2,787 |
| **Total** | **274,809** | **88,581** | **44,745** | **20,431** | **11,071** | **46,633** | **8,960** |

(*) The stage of completion net billings at 31 December 2016 included EUR 83,834 thousand in deferred billings (asset) (see Note 12) and EUR 63,403 thousand in prebillings (liability).

The balance of non-current loans of CAF Investment Projects, S.A.U. relates mainly to a loan with a maximum limit of EUR 500,000 thousand. At 31 December 2017, EUR 331,627 thousand of the loan principal (excluding accrued interest receivable) had been drawn down in order to finance or enhance the equity of Group companies or to acquire new companies (EUR 274,809 thousand drawn down at 31 December 2016). This loan bears interest at market rates.

The other loans granted to and received from Group companies are governed by agreements that bear interest at market rates.

At 31 December 2017, the Company had recognised EUR 4,364 thousand and EUR 11,325 thousand under "Current Investments in Group Companies and Associates" and "Current Payables to Group Companies and Associates", respectively, with various companies belonging to the tax group for the estimated income tax and for the VAT returns (EUR 3,124 thousand receivable and EUR 1,884 thousand payable at 31 December 2016).

The accounts receivable and payable (basically trade receivables and payables) do not bear interest.

***Joint Ventures***

The detail of the Company's interests in joint ventures, based on the form adopted thereby, at 31 December 2016 and 2017 is as follows:

**2017**

| Name | Ownership interest | Jointly controlled assets (Thousands of euros) | Jointly controlled liabilities (Thousands of euros) |
|---|---|---|---|
| UTE CSM | 61.79% | 5,962 | 5,956 |
| UTE Valencia | 39.35% | 3,829 | 3,823 |

**2016**

| Name | Ownership interest | Jointly controlled assets (Thousands of euros) | Jointly controlled liabilities (Thousands of euros) |
|---|---|---|---|
| UTE CSM | 61.79% | 14,793 | 14,787 |
| UTE Suncove | 50% | 592 | 547 |
| UTE Valencia | 39.35% | 5,587 | 5,581 |

## 11. Inventories and construction contracts

The detail of "Inventories" at 31 December 2017 and 2016 is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 19-b) | 12,442 | 832 |
| Advances to suppliers (Note 10) | 25,553 | 27,488 |
| **Total** | **37,995** | **28,320** |

At 31 December 2017 and 2016, the Company had firm raw material expenditure commitments amounting to approximately EUR 540,940 thousand and EUR 318,983 thousand (see Note 15).

The Company takes out insurance policies to adequately insure its inventories. At 31 December 2017 and 2016, the insurance policies taken out covered the carrying amount of the inventories at those dates.

***Construction contracts***

The detail of the cumulative amount of costs incurred and of profits recognised (less the related losses recognised) and the amount of advances received at 31 December 2017 and 2016 is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Deferred billings (asset) (Notes 3-g & 12) | 433,962 | 495,055 |
| Prebillings (liability) (Note 3-g) | (451,451) | (536,887) |
| **Net balance** | **(17,489)** | **(41,832)** |
| Costs incurred plus profits and losses recognised based on stage of completion | 1,423,404 | 1,412,852 |
| Billings made excluding advances | (989,442) | (917,797) |
| Advances received | (451,451) | (536,887) |
| **Net balance** | **(17,489)** | **(41,832)** |

## 12. Trade and other receivables

At 31 December 2017 and 2016, the detail of "Trade and Other Receivables" was as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Trade receivables for sales and services (Note 11) | 706,470 | 758,886 |
| Trade receivables from Group companies and associates (Notes 10 & 11) | 156,971 | 128,579 |
| Sundry accounts receivable (Notes 8 & 14) | 10,294 | 4,108 |
| Employee receivables | 2,604 | 5,114 |
| Tax receivables (Note 16-a) | 12,839 | 17,803 |
| **Total** | **889,178** | **914,490** |

| **Classes** / **Categories** | Thousands of euros | | | |
|---|---|---|---|---|
| | Trade receivables from Group companies and associates | | Trade receivables for sales and services | |
| | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 |
| Trade receivables - in euros | 20,593 | 70,444 | 416,509 | 481,371 |
| Trade receivables - in foreign currency | 136,378 | 58,135 | 289,961 | 277,515 |
| **Total** | **156,971** | **128,579** | **706,470** | **758,886** |

These accounts receivable include the deferred billing indicated in Note 11 amounting to EUR 433,962 thousand (2016: EUR 495,055 thousand). Deferred billings under "Trade Receivables from Group Companies and Associates" amounts to EUR 115,887 thousand (2016: EUR 83,834 thousand).

At 31 December 2017, the balances billed included EUR 137,790 thousand (31 December 2016: EUR 137,790 thousand) in relation to the agreement with Metro de Caracas, the balance of which is past due and relates to work performed and billed to the customer and the collection of which is considered to be covered by the insurance policy in force and through offset against liabilities to the customer, basically the provision described in Note 17.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, has 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 2017, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these financial statements all the objective conditions necessary for filing a claim under the aforementioned insurance policy had been met, but no claims had been made at that date. 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 Company's accounting policy was to recognise only 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 customer.

At 31 December 2017 and 2016, the Company had balances billed to Metro de Caracas amounting to EUR 36,767 thousand (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty as to their collectability.

At 31 December 2017, 74.82% of the billed receivables related to the top five customers (31 December 2016: 73%). "Trade Receivables for Sale and Services" includes retentions at 31 December 2017 amounting to EUR 524 thousand (31 December 2016: EUR 585 thousand).

The amount of the net past-due balances receivable from third parties at 31 December 2017 and 2016, additional to the past-due balances receivable from Metro de Caracas and taking into account the amounts received at the date of authorisation for issue of these financial statements, is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Past due > 90 days | 39,174 | 17,036 |
| Past due > 180 days | 89,271 | 91,128 |
| **Total** | **128,445** | **108,164** |

82% of this balance is concentrated in two countries and six agreements in relation to which the Company is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

On the basis of a case-by-case analysis of past-due balances, the Company considered that at 31 December 2017 there were balances that posed a collection risk totalling EUR 1,437 thousand (31 December 2016: EUR 1,581 thousand). These amounts had been provisioned and are presented as a reduction of the balance of "Trade Receivables for Sale and Services" in the accompanying balance sheet subsequent to the recognition of a reversal of EUR 102 thousand under "Other Operating Expenses" in the accompanying statement of profit or loss (2016: a reversal of EUR 463 thousand, see Note 19-e).

## 13. Equity and shareholders' equity

### *a) Share capital*

At both 31 December 2017 and 2016, 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 2017 and 2016 were as follows:

| | %- 2017 | %- 2016 |
|---|---|---|
| Cartera Social, S.A. (Note 8) (i) | 25.46% | 25.58 % |
| Kutxabank, S.A. (ii) | 14.06% | 14.06 % |
| Indumenta Pueri S.L. (iii) | 5.02% | 5.02 % |
| Bestinver Gestión S.A. S.G.I.I.C. | - | 3.09 % |
| Templeton Investment Counsel, LLC. (iv) | 3.01% | - |
| EDM Gestión, S.A. S.G.I.I.C. (v) | 3.02% | - |

*i. The shareholders of this company are employees of the Parent (see Note 8).*
*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. Indumenta Pueri, S.L. is the indirect holder. The direct holder is Global Portfolio Investments, S.L., a company controlled by Indumenta Pueri, S.L.*
*iv. 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.*
*v. EDM Gestión, S.A. S.G.I.I.C is the indirect holder. It controls the voting rights of EDM Inversión FI and others.*

On 8 June 2013, at the Annual General Meeting, the Board of Directors was 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 financial statements, no capital increase had been performed since that resolution.

The Annual General Meeting held on 10 June 2017 resolved to empower the Company'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 Company 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 Company's Annual General Meeting held on 7 June 2014. At the date of preparation of these financial statements no convertible securities had been issued since that resolution.

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 financial statements, no treasury shares had been acquired since that resolution.

### *b) Share premium*

The share premium account balance has no specific restrictions on its use.

### *c) Revaluation reserve*

The amount of these revaluations (see Notes 3-b and 7) at 31 December 2017 and 2016 is allocated to the following accounts:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Revaluation reserve Guipúzcoa Decree 1/2013 (*) | 25,170 | 25,170 |
| Revaluation reserve Guipúzcoa Regulation 11/1996 | 8,701 | 8,701 |
| **Total** | **33,871** | **33,871** |

*(*) Net of the 5% tax paid in July 2013.*

*Revaluation reserve Guipúzcoa Decree 1/2013*

The Company availed itself of the provisions of Guipúzcoa Decree 1/2013, of 5 February, on asset revaluation, and recognised a reserve amounting to EUR 25,170 thousand corresponding to the revalued amount of the assets (see Note 7), net of the related tax effect of 5% (see Note 16-e). The balance of the revaluation reserve under Guipúzcoa Decree 1/2013, of 5 February, is restricted until it is verified and accepted by the tax authorities, which should be performed within the three-year period following presentation of the tax return.

Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset losses, increase capital, or, after ten years have elapsed from the date of the balance sheet in which the revaluations were recognised, be allocated to unrestricted reserves. However, it may only be distributed when the revalued assets have been fully depreciated, transferred or derecognised.

*Revaluation reserve Guipúzcoa Regulation 11/1996*

This balance can be used to offset accounting losses and to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance were used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

### *d) Productive investment reserve*

At 31 December 2017 and 2016, this reserve amounted to EUR 10,000 thousand and corresponded to the amount appropriated to it in the distribution of profit for the year ended 31 December 2013 pursuant to Article 39 of Guipúzcoa Regulation 7/96, of 4 July. Pursuant to the aforementioned regulation, the amount appropriated to this reserve must be invested in a period of two years from the end of the year the profit for which was appropriated to the reserve, and must be maintained over at least the following five years, or for its useful life if this were less, unless accounting losses are incurred (see Note 7). At 31 December 2017 and 2016, the Company had met the investment requirements established in the regulation (Note 16).

### *e) 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 2017 and 2016, the balance of this reserve had reached the legally required minimum.

### *f) Restricted reserves*

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. Consequently, at the end of 2017 EUR 18,010 thousand (end of 2016: EUR 12,514 thousand) of the balance of "Other Reserves" were restricted (Note 6).

### *g) Dividends*

The Annual General Meeting held on 10 June 2017 resolved to pay dividends amounting to EUR 19,883 thousand, of which EUR 1,546 thousand related to profit for 2016, and EUR 18,337 thousand were distributed with a charge to voluntary reserves.

On 11 June 2016, the Annual General Meeting resolved to distribute dividends amounting to EUR 17,997 thousand out of 2015 profit.

### *h) Grants*

The information on the grants received by the Company, which form part of equity, and on the amounts taken to income in this connection is as follows:

| | Thousands of euros (*) |
|---|---|
| **Balance at 31/12/15** | **494** |
| Amount taken to profit or loss | (254) |
| **Balance at 31/12/16** | **240** |
| Amount taken to profit or loss | (166) |
| **Balance at 31/12/17** | **74** |

(*) These amounts are net of the related tax effect (see Note 16-c).

At the end of 2017 and 2016 the Company had fulfilled all the conditions attaching to the grants detailed above and, therefore, it does not expect differences to arise in possible future reviews.

In 2017 and 2016 the Company did not receive any grants for investments in non-current assets.

In 2017 the Company transferred EUR 230 thousand to profit or loss in relation to grants received in prior years with a credit to "Allocation to Profit or Loss of Grants Related to Non-Financial Non-Current Assets and Other Grants" in the statement of profit or loss (2016: EUR 354 thousand).

## 14. Non-current and current liabilities

The detail of "Non-Current Payables" at the end of 2017 and 2016 is as follows (in thousands of euros):

| Classes / Categories | Non-current financial instruments | | | | | |
|---|---|---|---|---|---|---|
| | Non-current bank borrowings | | Other non-current financial liabilities | | Total | |
| | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 |
| Accounts payable | 356,779 | 306,378 | 37,600 | 30,929 | 394,379 | 337,307 |
| Financial derivatives (Note 15) | - | - | 16,666 | 10,356 | 16,666 | 10,356 |
| **Total** | **356,779** | **306,378** | **54,266** | **41,285** | **411,045** | **347,663** |

The detail of "Current Payables" at the end of 2017 and 2016 is as follows (in thousands of euros):

| Classes / Categories | Current financial instruments | | | | | |
|---|---|---|---|---|---|---|
| | Current bank borrowings | | Other current financial liabilities (Note 7) | | Total | |
| | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 |
| Accounts payable | 10,298 | 15,784 | 25,670 | 16,559 | 35,968 | 32,343 |
| Financial derivatives (Note 15) | - | - | 45,552 | 63,663 | 45,552 | 63,663 |
| **Total** | **10,298** | **15,784** | **71,222** | **80,222** | **81,520** | **96,006** |

### Bank borrowings

In 2017 the Company arranged three new loans with banks for a total of EUR 65 million. These loans had been drawn down in full at 31 December 2017. Also, in 2017 the Company renegotiated certain loans for a total of EUR 75 million with a principal increase of EUR 5 million, an extension of the maturity date and a reduction in their cost.

In addition, in 2017 the Company repaid EUR 12 million on maturity and a loan for EUR 14 million early.

At 31 December 2017, total bank borrowings included EUR 263 million tied to a fixed interest rate (EUR 13.3 million through an interest rate swap, see Note 15).

In 2016 the Company arranged three new loans for a total of EUR 64,487 thousand (one of which amounts to USD 10,000 thousand) which have been paid in full, and drew down EUR 35,000 thousand against loans arranged in 2015. Also, nine loans totalling EUR 152,608 thousand were paid-off early and EUR 6,658 thousand were repaid on schedule. These loans were arranged on an arm's length basis. Of the amount drawn down, EUR 259,987 thousand are tied to a fixed interest rate (EUR 20,000 thousand through an interest-rate swap, see Note 15).

In relation to transactions performed prior to 31 December 2017, the Company had arranged loans and credit facilities with various banks up to a limit of approximately EUR 515,775 thousand (31 December 2016: EUR 511,595 thousand for loans, credit facilities and factoring arrangements), against which EUR 366,000 thousand had been drawn down at that date (31 December 2016: EUR 321,820 thousand).

Also, on 21 December 2017 the Company 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.

Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF may issue ordinary fixed-income securities with a maturity of less than 364 days, which may be listed on the Irish Stock Exchange, or on any other stock exchange or trading system.

In 2017 the borrowing costs were incurred amounting to EUR 8,304 thousand (2016: EUR 8,610 thousand).

**Other financial liabilities - Accounts payable**

The changes in the items composing "Other Non-Current Financial Liabilities - Accounts Payable" are as follows (thousands of euros):

**2017**

| | 31/12/16 | Increase/Decrease | Transfers to short term | 31/12/17 |
|---|---|---|---|---|
| Refundable advances | 27,005 | 337 | (6,922) | 20,420 |
| Employee benefit obligations (Notes 3-l and 19-d) | 3,165 | 6,359 | (3,632) | 5,892 |
| Share purchase liabilities (Note 9) | - | 10,371 | - | 10,371 |
| Other | 759 | 158 | - | 917 |
| **Total** | **30,929** | **17,225** | **(10,554)** | **37,600** |

**2016**

| | 31/12/15 | Increase/Decrease | Transfers to short term | 31/12/16 |
|---|---|---|---|---|
| Refundable advances | 26,291 | 9,941 | (9,227) | 27,005 |
| Employee benefit obligations (Notes 3-l and 19-d) | 3,005 | 3,041 | (2,881) | 3,165 |
| Other | 700 | 59 | - | 759 |
| **Total** | **29,996** | **13,041** | **(12,108)** | **30,929** |

*Refundable advances*

Through programmes that promote research, Government has awarded certain grants to CAF for the performance of research and development projects, which are recognised on the date they are 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 a grace period of three years and are repaid in a period of over ten years.

In certain projects, the project coordinator is responsible for the performance of the project in dealings with Government, and collects all of the grants therefrom. At 31 December 2017, the Company recognised balances receivable totalling EUR 1,920 thousand under "Trade and Other Receivables - Other Receivables" (31 December 2016: EUR 2,360 thousand). Also, the Company had recognised EUR 1,282 thousand under "Trade and Other Payables - Other Payables", in relation to the amount payable to third parties arising from joint projects (31 December 2016: EUR 1,142 thousand).

*Employee benefit obligations*

The Company has recognised the future obligations to the employees who have entered into pre-retirement plans (see Note 3-l). Short-term obligations of EUR 3,113 thousand were recognised under "Other Current Liabilities" in the accompanying balance sheet as at 31 December 2017 (31 December 2016: EUR 2,529 thousand).

Also, the detail of the present value of the obligations assumed by the Company 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 2017 and 2016, is as follows (see Note 3-k):

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Present value of the obligations assumed | 45,315 | 32,424 |
| Less – Fair value of plan assets | (42,750) | (32,692) |
| **Other current (assets) liabilities** | **2,565** | **(268)** |

The present value of the obligations assumed by the Company 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 | 2017 | 2016 |
|---|---|---|
| Discount rate | 1.68% - 2.47% | 1.77% - 1.82% |
| 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.

**Maturity of non-current payables**

The detail, by maturity, of "Non-Current Payables" is as follows (in thousands of euros):

**2017**

| | 2019 | 2020 | 2021 | 2022 | 2023 and subsequent years | Total |
|---|---|---|---|---|---|---|
| Bank borrowings | 67,029 | 29,088 | 135,933 | 92,729 | 32,000 | 356,779 |
| Other financial liabilities - Accounts payable | 6,317 | 14,864 | 4,977 | 3,822 | 7,620 | 37,600 |
| Other financial liabilities - Financial derivatives | 12,752 | 3,914 | - | - | - | 16,666 |
| **Total** | **86,098** | **47,866** | **140,910** | **96,551** | **39,620** | **411,045** |

**2016**

| | 2018 | 2019 | 2020 | 2021 | 2022 and subsequent years | Total |
|---|---|---|---|---|---|---|
| Bank borrowings | 15,453 | 137,005 | 17,920 | 121,000 | 15,000 | 306,378 |
| Other financial liabilities - Accounts payable | 7,812 | 3,026 | 4,056 | 3,728 | 12,307 | 30,929 |
| Other financial liabilities - Financial derivatives | 6,563 | 3,280 | 513 | - | - | 10,356 |
| **Total** | **29,828** | **143,311** | **22,489** | **124,728** | **27,307** | **347,663** |

## 15. Derivative financial instruments

CAF 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 and interest rates. CAF 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, the Company has arranged interest rate hedging derivatives to hedge a portion of borrowings.

The breakdown of the net balances of derivatives, basically fair value and cash flow hedges, recognised in the balance sheets as at 31 December 2017 and 2016 is as follows:

***2017***

| Currency put options at 31/12/17 | Maturity (in currency) | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 and subsequent years |
| **Fair value hedges-** | | | |
| USD currency forwards (*) | 325,999,992 | 79,313,750 | - |
| GBP currency forwards | 184,930,953 | 112,649,300 | 95,037,543 |
| BRL currency forwards | 143,348,888 | - | - |
| SEK currency forwards | 293,315,120 | 301,302,732 | 86,664,170 |
| AUD currency forwards | 65,935,494 | 13,524,295 | 517,767 |
| TWD currency forwards | 323,955,063 | - | - |
| SAR currency forwards | 287,127,754 | - | - |
| MXP currency forwards | 2,736,360,398 | - | - |
| CAD currency forwards | 1,212,495 | - | - |
| TRY currency forwards | 2,860,449 | - | - |
| JPY currency forwards | 13,642,169,888 | 3,694,606,739 | 4,081,705,774 |

(*) Including the hedge of the net investment in CAF USA, Inc.

| Currency call options at 31/12/17 | Maturity (in currency) | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 and subsequent years |
| **Fair value hedges-** | | | |
| USD currency forwards | 2,809,529 | 11,598,823 | 24,289,000 |
| MXP currency forwards | 59,767,000 | - | - |
| BRL currency forwards | 628,825 | - | - |
| GBP currency forwards | 2,675,136 | - | - |
| **Cash flow hedges-** | | | |
| MXP currency forwards | - | - | 591,486,246 |
| GBP currency forwards | - | 25,000,000 | - |
| JPY currency forwards | - | - | 4,588,021,500 |

***2016***

| Currency put options at 31/12/16 (fair value hedges) | Maturity (in currency) 2017 | 2018 | 2019 and subsequent years |
|---|---|---|---|
| **Hedges-** | | | |
| USD currency forwards (*) | 432,324,757 | 79,234,468 | 55,313,750 |
| GBP currency forwards | 36,442,339 | 138,283,706 | 94,422,445 |
| BRL currency forwards | 143,348,888 | - | - |
| SEK currency forwards | 224,317,236 | 19,185,635 | - |
| AUD currency forwards | 14,789,903 | 55,404,595 | 9,806,539 |
| TWD currency forwards | 323,955,063 | - | - |
| SAR currency forwards | 490,954,194 | - | - |
| MXP currency forwards | 2,336,850,126 | - | - |
| CAD currency forwards | 880,705 | - | - |
| HUF currency forwards | 975,898,338 | - | - |

(*) Including the hedge of the net investment in CAF USA, Inc.

| Currency call options at 31/12/16 (fair value hedges) | Maturity (in currency) 2017 | 2018 | 2019 and subsequent years |
|---|---|---|---|
| **Hedges-** | | | |
| USD currency forwards | 29,587,681 | - | 34,109,000 |
| MXP currency forwards | 59,767,000 | - | - |
| BRL currency forwards | 11,654,562 | - | - |
| GBP currency forwards | 5,677,835 | - | - |

On 17 July 2014, the Company arranged an interest rate swap with the start date on 30 September 2014, an initial principal amount of EUR 20 million and expiry on 30 June 2019. At 31 December 2017, the notional amount on which the interest rate swap is based amounted to EUR 13.3 million. In this transaction, the Company pays a fixed rate and receives a floating rate tied to Euribor to hedge the interest rate risk of a loan with the same notional amount and repayment schedule (see Note 14).

The fair value of the derivative financial instruments arranged at each year-end are as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Fair value | | Cash flow | |
| | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 |
| USD currency forwards | 5,055 | (9,723) | - | - |
| GBP currency forwards | (581) | (6,014) | (38) | - |
| MXP currency forwards | (17,208) | (8,223) | (1,789) | - |
| BRL currency forwards | (6,409) | (9,115) | - | - |
| AUD currency forwards | 24 | 47 | - | - |
| SEK currency forwards | (1,066) | (439) | - | - |
| TWD currency forwards | 666 | 984 | - | - |
| SAR currency forwards | (2,733) | 2,047 | - | - |
| HUF currency forwards | - | 2 | - | - |
| JPY currency forwards | (532) | - | (288) | - |
| Currency forwards in other currencies | (132) | (131) | - | - |
| Forward rate agreements | - | - | (88) | (198) |
| **Measurement at year-end (*) (Notes 8 and 14)** | **(22,916)** | **(30,565)** | **(2,203)** | **(198)** |

(*) Before considering the related tax effect

In order to measure the financial instruments, on the one hand the Company uses the measurement of the instruments themselves, and on the other, the measurement of own and counterparty credit risk. The expense recognised under "Other Operating Expenses" in 2017 amounted to EUR 633 thousand (2016: EUR 121 thousand).

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):

| | 31/12/17 | 31/12/16 |
|---|---|---|
| Non-current assets (Note 8) | 14,402 | 9,696 |
| Current assets (Note 8) | 22,697 | 33,560 |
| Non-current liabilities (Note 14) | (16,666) | (10,356) |
| Current liabilities (Note 14) | (45,552) | (63,663) |
| **Balance sheet net total** | **(25,119)** | **(30,763)** |
| Fair value | (22,916) | (30,565) |
| Cash flow | (2,203) | (198) |
| **Total derivatives, remeasured** | **(25,119)** | **(30,763)** |

In 2017 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 1,677 thousand (2016: expense of EUR 5,952 thousand) mainly as a result of changes in the estimated amounts of the hedged items.

Also, the settlement and the change in the value of the fair value derivatives resulted in an expense of EUR 20,558 thousand in 2017 (2016: expense of EUR 8,952 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 mainly 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) or net investments in foreign operations. At 31 December 2017, the measurement of hedges of highly probable transactions, mainly in Japanese yen and Mexican pesos, amounted to EUR 2,115 thousand (31 December 2016: there were none).

## 16. Tax matters

### a) Current tax receivables and payables

The detail of the current tax receivables and payables at 31 December 2017 and 2016 is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Assets (Note 12) | | Liabilities | |
| | 31/12/17 | 31/12/16 | 31/12/17 | 31/12/16 |
| Accrued social security taxes | - | - | 5,175 | 5,450 |
| Regular taxes- | | | | |
| VAT | 12,163 | 17,060 | 1,628 | 349 |
| Other | - | - | 5 | 660 |
| Personal income tax withholdings | - | - | 5,771 | 5,130 |
| Income tax | 676 | 743 | - | - |
| **Total** | **12,839** | **17,803** | **12,579** | **11,589** |

In 2011 Construcciones y Auxiliar de Ferrocarriles, S.A., as the parent, and certain subsidiaries availed themselves of the special VAT regime for groups.

### b) Reconciliation of the accounting profit to the taxable profit

| | Thousands of euros | |
|---|---|---|
| | 2017 | 2016 |
| **Accounting profit (before tax)** | **12,547** | **2,085** |
| **Permanent differences-** | | |
| Sundry obligations to employees (Note 14) | 1,058 | 3,439 |
| Subsidiary dividends, litigation and other | (3,199) | (15,142) |
| Intellectual and industrial property | (1,204) | (1,670) |
| **Increases and decreases due to temporary differences and accelerated depreciation and amortisation-** | | |
| Accelerated depreciation and amortisation | 8,669 | 4,504 |
| Sundry obligations to employees (Note 14) | 3,373 | 1,183 |
| Provisions for reliability, guarantees and other (Note 17) | 7,389 | 11,755 |
| Impairment losses on investments, results of joint ventures and other (Note 9) | (365) | (32) |
| Depreciation due to asset revaluation - Guipúzcoa Regulation 1/2013 (Note 7) | (447) | (1,580) |
| **Taxable profit/Tax loss** | **27,821** | **4,542** |
| **Tax consolidation adjustments (impairment) and elimination of dividends of consolidated tax group** | **2,782** | **(2,263)** |
| **Adjusted taxable profit** | **30,603** | **2,279** |

Since 2007 the Company has filed consolidated tax returns under Guipúzcoa Income Tax Regulation 2/2014, of 17 January, as part of consolidated tax group no. 03/07/G, the parent of which is Construcciones y Auxiliar de Ferrocarriles, S.A. and the subsidiaries are: CAF Investment Projects, S.A.U., CAF I+D, S.L., CAF Power & Automation, S.L., Geminys, S.L., Ennera Energy and Mobility, S.L., Rail Line Components, S.L.U., CAF Turnkey & Engineering, S.L.U., Centro de Ensayos y Análisis Cetest, S.L. and CAF Signalling, S.L. The consolidated tax regime will be applied indefinitely while the requirements are fulfilled or the tax group does not expressly waive its application by means of the corresponding business taxation status notification form.

Under the legislation in force, the income tax rate applied in 2017 and 2016 was 28%. The Company's tax liability with the tax authorities should be interpreted in the context of the consolidated tax regime under which it files tax returns. In this connection, the consolidated tax group files income tax returns to the central tax authorities and to the provincial tax authorities of Guipúzcoa and Vizcaya based on the volume of transactions performed in each territory.

***c) Tax recognised in equity***

The detail of the tax recognised directly in equity is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| **Arising in the year-** | | |
| Actuarial gains and losses (Note 3-k) | 754 | (277) |
| Grants (Note 13-h) | 64 | 99 |
| Hedges (Note 15) | 561 | (16) |
| **Arising in prior years-** | | |
| Grants (Note 13-h) | (93) | (193) |
| Hedges (Note 15) | 55 | 71 |
| **Total tax recognised directly in equity** | **1,341** | **(316)** |

***d) Reconciliation of the accounting profit to the income tax expense***

The reconciliation of the accounting profit to the income tax expense is as follows:

| | Thousands of euros | |
|---|---|---|
| | 2017 | 2016 |
| **Accounting profit before tax** | **12,547** | **2,085** |
| **Tax charge at 28%** | **3,513** | **584** |
| Impact of permanent differences and tax consolidation adjustments | (158) | (4,378) |
| Differences - previous year's tax return | (292) | 42 |
| Other (taxes paid abroad) | 564 | 769 |
| Recognition of tax assets and deferred tax assets (Note 3-m) | (1,413) | 3,522 |
| **Total income tax expense recognised in profit or loss** | **2,214** | **539** |
| **Current tax expense** | **8,844** | **1,432** |
| **Deferred tax benefit** | **(6,630)** | **(893)** |

The differences between the estimated income tax for 2016 and the tax return ultimately filed gave rise to EUR 292 thousand being credited to "Income Tax" in the accompanying statement of profit or loss.

In 2017 the Company expects to report tax credits amounting to EUR 9,661 thousand (2016: EUR 5,737 thousand), which relate mainly to international double taxation tax credits, tax credits for R&D+i, tax credits for investments in new non-current assets and others.

***e) Deferred tax assets (temporary differences and tax assets)***

The detail of "Deferred Tax Assets" at the end of 2017 and 2016 is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/17 | 31/12/16 |
| Temporary differences (deferred tax assets) | 24,227 | 20,620 |
| Tax credit carryforwards and other (Note 3-m) | 17,365 | 15,431 |
| Tax losses (Note 3-m) | 30,199 | 30,199 |
| **Total deferred tax assets** | **71,791** | **66,250** |

In 2017 the Company earned taxable profit of EUR 30,603 thousand, which was offset by tax losses incurred by other Group companies. The corresponding account payable was recognised in this connection (see Note 10).

The Company has tax credit carryforwards earned between 2009 and 2017 amounting to EUR 72,583 thousand, of which EUR 17,365 have been recognised in the accompanying balance sheet as at 31 December 2017 (31 December 2016: EUR 61,483 thousand earned between 2009 and 2016, of which EUR 15,431 thousand had been recognised). The amounts not deducted due to insufficient tax charge can be used, observing the same limit, in the tax returns for the tax periods concluding in the immediately subsequent 15 years. In view of the uncertainty inherent to the recoverability of deferred tax assets, the Company's recognition policy is based on an assessment of future taxable profit on the basis of its backlog.

In 2013 the Company availed itself of the tax incentive provided for in Article 39 of Guipúzcoa Income Tax Regulation 7/1996. At 31 December 2016, the Company had fulfilled all the investment commitments related to this incentive (see Note 13).

In 2016 the Company 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 detail and changes in the Company's (recognised and unrecognised) temporary differences giving rise to deferred tax assets is as follows:

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31/12/15 | Additions | Disposals | 31/12/16 | Additions | Disposals | 31/12/17 |
| Tax assets recognised | 19,693 | 862 | (5,124) | 15,431 | 2,182 | (248) | 17,365 |
| Tax effect of tax losses | 29,790 | 409 | - | 30,199 | - | - | 30,199 |
| **Recognised temporary differences-** | | | | | | | |
| Contractual and reliability liability | 76 | 227 | - | 303 | 14 | (1) | 316 |
| Provision for construction work not deductible in the year | 9,587 | 831 | - | 10,418 | 1,829 | - | 12,247 |
| Impairment losses on investments | 222 | 6 | (28) | 200 | 269 | (195) | 274 |
| Hand-over contracts | 1,483 | 852 | (742) | 1,593 | 1,862 | (935) | 2,520 |
| Warranties and maintenance | 267 | 2,233 | - | 2,500 | 226 | - | 2,726 |
| Asset revaluation | 910 | 33 | (441) | 502 | - | (130) | 372 |
| Hedges | - | - | - | - | 647 | (31) | 616 |
| Other | 4,768 | 646 | (310) | 5,104 | 1,154 | (1,102) | 5,156 |
| | **66,796** | **6,099** | **(6,645)** | **66,250** | **8,183** | **(2,642)** | **71,791** |
| **Unrecognised temporary differences-** | | | | | | | |
| Provisions for post-employment obligations | 6,168 | 1,027 | (610) | 6,585 | 1,953 | (552) | 7,986 |
| Impairment losses on equity investments | 2,636 | 70 | (1,256) | 1,450 | 3 | - | 1,453 |
| Other | 137 | 157 | (257) | 37 | - | (37) | - |
| | **8,941** | **1,254** | **(2,123)** | **8,072** | **1,956** | **(589)** | **9,439** |

The amount of the recognised tax credits and tax loss carryforwards and their last year for deduction by the Company is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31/12/17 | | 31/12/16 | |
| | Amount | Last year for deduction | Amount | Last year for deduction |
| **Tax credits recognised-** | | | | |
| Earned in 2009 | 1,699 | 2024 | 1,699 | 2024 |
| Earned in 2010 | 2,110 | 2025 | 2,590 | 2025 |
| Earned in 2012 (no limit) | 2,562 | 2027 | 2,562 | 2027 |
| Earned in 2013 (no limit) | 5,464 | 2028 | 5,464 | 2028 |
| Earned in 2014 (no limit) | 3,112 | 2029 | 1,194 | 2029 |
| Earned in 2014 (International double taxation tax credit) | 720 | 2029 | 720 | 2029 |
| Earned in 2015 (International double taxation tax credit) | 341 | 2030 | 341 | 2030 |
| Earned in 2016 (International double taxation tax credit) | 800 | 2031 | 861 | 2031 |
| Earned in 2017 (International double taxation tax credit) | 557 | 2032 | - | - |
| **Tax loss carryforwards-** | | | | |
| Earned in 2014 | 24,330 | 2029 | 24,330 | 2029 |
| Earned in 2015 | 5,869 | 2030 | 5,869 | 2030 |
| | **47,564** | | **45,630** | |

***f) Deferred tax liabilities***

The detail of and changes in the deferred tax liabilities of the Company are as follows:

**2017**

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31/12/16 | Additions | Disposals | 31/12/17 |
| Grants (Note 13-h) | 93 | - | (64) | 29 |
| Unrestricted and accelerated depreciation and amortisation | 2,422 | - | (2,422) | - |
| Goodwill | 20 | 2 | - | 22 |
| Hedges | (55) | 55 | - | - |
| Other | 255 | | (98) | 157 |
| **Total** | **2,735** | **57** | **(2,584)** | **208** |

**2016**

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31/12/15 | Additions | Disposals | 31/12/16 |
| Grants (Note 13-h) | 192 | - | (99) | 93 |
| Unrestricted and accelerated depreciation and amortisation | 3,683 | - | (1,261) | 2,422 |
| Goodwill | 18 | 2 | - | 20 |
| Hedges | (71) | 16 | - | (55) |
| Other | 163 | 94 | (2) | 255 |
| **Total** | **3,985** | **112** | **(1,362)** | **2,735** |

***g) Years open for review and tax audits***

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 the date of preparation of the financial statements for 2017 the Company had all years since 2013 open for review for income tax and all years since 2014 open for review for the other taxes applicable to it. The Company's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Company of the commencement of its general audit of various local taxes (tax on business activity and tax on erection and installation projects and construction work) for the years 2009-2013. In May 2015, as a result of the tax assessments received, a payment of EUR 266 thousand was made, EUR 235 of which against a provision recognised in 2014, and another of EUR 223 thousand was made, of which EUR 192 thousand were capitalised to property, plant and equipment. The Parent filed pleadings against these tax assessments in 2015. In relation to the tax on business activity, on 15 January 2018 the Company was served notice of the decisions of the Municipal Council of Beasain, which dismissed the administrative appeals lodged. An appeal for judicial review was filed in relation to the tax on erection and installation projects and construction work, with no further developments taking place. In 2017 the stay of the appeal for judicial review filed by the Parent was lifted, with no other changes taking place.

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 Company and of Tax Group no. 03/07/G for 2012 to 2015. The Company has furnished the information requested for these audits, but at the date of preparation of these financial statements the tax inspectors had not made any declaration in this connection. The Group's directors do not expect any liabilities to arise as a result of these audits.

## 17. Provisions and contingencies

*Long-term provisions*

The Company recognises provisions under "Long-Term Provisions" in the balance sheet 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 Company's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material. In 2017 the Company made payments amounting to EUR 795 thousand (2016: EUR 1,165 thousand) and recognised EUR 1,208 thousand (2016: EUR 1,071 thousand) mainly with a charge to "Staff Costs - Wages and Salaries" (Note 19-d).

*Short-term provisions*

The changes in "Short-Term Provisions" in the balance sheet for 2017 and 2016 were as follows:

**2017**

| | Contractual liability (Note 3-f) | Warranty and support services (Note 3-f ) | Litigation | Other (Note 3-m) | Total |
|---|---|---|---|---|---|
| | | | | | |
| **31/12/16** | **111,968** | **63,852** | **-** | **1,671** | **177,491** |
| Net charge for the year<br>Amounts used charged to profit or loss | 8,924<br>(1,638) | 28,688<br>(28,228) | -<br>- | -<br>(411) | 37,612<br>(30,277) |
| **31/12/17** | **119,254** | **64,312** | **-** | **1,260** | **184,826** |

**2016**

| | Contractual liability (Note 3-f) | Warranty and support services (Note 3-f ) | Litigation (Notes 3-f and 7) | Other (Note 3-m) | Total |
|---|---|---|---|---|---|
| | | | | | |
| **31/12/15** | **108,416** | **70,745** | **3,052** | **1,902** | **184,115** |
| Net charge for the year<br>Amounts used charged to profit or loss | 8,328<br>(4,776) | 19,664<br>(26,557) | 1,664<br>(4,716) | (44)<br>(187) | 29,612<br>(36,236) |
| **31/12/16** | **111,968** | **63,852** | **-** | **1,671** | **177,491** |

*Contractual liability and warranty and support services*

The provisions for contractual liability relate mainly to delays in deliveries, in accordance with the production and shipment schedule and the contractual obligation agreed upon, and 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 Company recognised a net provision of EUR 7,746 thousand under "Other Operating Expenses" (2016: net reversal of EUR 6,486 thousand) relating to the difference between the provisions required in this connection at 2017 year-end and the provisions recognised at 2016 year-end. The expenses incurred to meet the various obligations in 2017, which amounted to approximately EUR 28,228 thousand (2016: EUR 26,557 thousand), were recognised primarily under "Procurements" and "Staff Costs".

In 2008 the Company entered into an agreement with Metro de Caracas for the manufacture and supply of 48 trains to be manufactured in Spain. At 31 December 2017 and 2016, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2017 the Company had recognised a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2016: EUR 66,535 thousand), which is recognised under "Contractual Liability" in the table above (see Note 12). These is no litigation relating to this agreement.

## 18. Foreign currency balances and transactions

The detail of the most significant balances and transactions in foreign currency, translated to euros at the year-end exchange rates and the average exchange rates for the year, respectively, is as follows:

| | Thousands of euros | |
|---|---|---|
| | 2017 | 2016 |
| Accounts receivable (Note 12) (*) | 289,961 | 277,515 |
| Group accounts receivable (Notes 10 and 12) (*) | 136,378 | 58,135 |
| Loans granted to Group companies (**) (Note 10) | 37,296 | 38,048 |
| Loans received from Group companies (Note 10) (***) | 3,534 | 5,532 |
| Accounts payable (*) | 15,052 | 6,922 |
| Bank borrowings | - | 9,487 |
| Sales | 406,819 | 213,983 |
| Purchases and services received | 70,910 | 19,522 |

(*) Balance mainly in Brazilian reais and US dollars.
(**) Balance mainly in US dollars, pounds sterling and Mexican pesos.
(***) Balance mainly in Mexican pesos.

The detail, by class of financial instrument, of the exchange differences recognised in profit or loss, additional to those indicated in Note 15, is as follows (in thousands of euros):

| | Transactions settled in the year | |
|---|---|---|
| | 2017 | 2016 |
| Other | (3,124) | 640 |
| **Total** | **(3,124)** | **640** |

## 19. Income and expenses

### *a) Revenue*

The detail, by line of business, of the Company's revenue for 2017 and 2016 is as follows (in thousands of euros):

| Line of Business | 2017 | 2016 |
|---|---|---|
| Vehicles | 843,681 | 686,035 |
| Wheel sets, repairs and integrated maintenance | 169,237 | 171,753 |
| **Total** | **1,012,918** | **857,788** |

The detail of the Company’s sales by geographical market (EU, OECD, rest of the world) is as follows (in thousands of euros):

| | 2017 | 2016 |
|---|---|---|
| Spain | 116,252 | 183,633 |
| European Union | 473,938 | 277,104 |
| OECD | 301,888 | 267,104 |
| Rest of the world | 120,840 | 129,947 |
| **Total** | **1,012,918** | **857,788** |

### *b) Procurements*

The detail of “Cost of Goods Held for Resale Sold”, “Cost of Raw Materials and Other Consumables Used” and “Work Performed by Other Companies” in 2017 and 2016 is as follows (in thousands of euros):

| | 2017 | 2016 |
|---|---|---|
| **Cost of raw materials and other consumables used-** | | |
| Purchases from and work performed by third parties | 541,361 | 431,117 |
| Changes in inventories | (54,603) | (17,362) |
| **Total** | **486,758** | **413,755** |

### c) *Detail of purchases by origin*

The detail, by origin, of the purchases made by the Company in 2017 and 2016 is as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Spain | EU countries | Imports | Spain | EU countries | Imports |
| Purchases | 71% | 18% | 11% | 74% | 15% | 11% |

### d) *Staff costs*

The average headcount in 2017 and 2016 was as follows:

**2017**

| Professional category | Average number of employees | Men | Women |
|---|---|---|---|
| Board members | 2 | 1 | 1 |
| Senior executives | 10 | 9 | 1 |
| Employees | 1,546 | 1,173 | 373 |
| Manual workers | 2,209 | 2,151 | 58 |
| **Total (*)** | **3,767** | **3,334** | **433** |

(*) At 31 December 2017, the workforce comprised 3,578 permanent employees and 351 temporary employees.

**2016**

| Professional category | Average number of employees | Men | Women |
|---|---|---|---|
| Board members | 2 | 1 | 1 |
| Senior executives | 11 | 10 | 1 |
| Employees | 1,367 | 1,052 | 315 |
| Manual workers | 2,274 | 2,214 | 60 |
| **Total (*)** | **3,654** | **3,277** | **377** |

(*) At 31 December 2016, the workforce comprised 3,601 permanent employees and 81 temporary employees.

Since CAF does not meet the quota reserved for disabled employees, it has taken certain alternative measures established by Royal Decree 364/2005, of 8 April, which regulates alternative compliance of an exceptional nature with the quota reserved for disabled employees.

The average number of persons employed by the Company in 2017 and 2016 with a disability equal to or greater than 33%, by category, was as follows:

| Professional category | Average number of employees | | |
|---|---|---|---|
| | 2017 | Men | Women |
| Employees | 14 | 13 | 1 |
| Manual workers | 41 | 40 | 1 |
| **Total** | **55** | **53** | **2** |

| Professional category | Average number of employees | | |
|---|---|---|---|
| | 2016 | Men | Women |
| Employees | 13 | 12 | 1 |
| Manual workers | 32 | 32 | - |
| **Total** | **45** | **44** | **1** |

At 31 December 2017, the Company's Board of Directors comprised seven men and three women. At 31 December 2016, it comprised seven men and two women.

The detail of staff costs is as follows (in thousands of euros):

| | 2017 | 2016 |
|---|---|---|
| Wages and salaries (Notes 3-l, 14, 17, 20-a and 21) | 190,379 | 170,850 |
| Social security costs | 53,092 | 49,639 |
| Other expenses (Note 3-k) | 12,531 | 12,520 |
| **Total** | **256,002** | **233,009** |

An expense of EUR 6,272 thousand (2016: EUR 3,042 thousand) is included under "Staff Costs - Wages and Salaries" in the statement of profit or loss in relation to early retirement (see Note 14).

### *e) Other operating expenses*

| | Thousands of euros | |
|---|---|---|
| | 2017 | 2016 |
| Outside services | 179,511 | 139,623 |
| Taxes other than income tax | 1,081 | 1,535 |
| Change in operating provisions and allowances and other (Notes 12 and 17) | 7,819 | (6,024) |
| **Total** | **188,411** | **135,134** |

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 838 thousand in 2017 (2016: EUR 778 thousand). Of this amount, in 2017 EUR 568 thousand related to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2016: EUR 524 thousand), EUR 134 thousand of which related to the audit fees corresponding to the Parent in 2017 (2016: EUR 122 thousand). In addition, fees for other professional services amounting to EUR 275 thousand were billed in 2017 (2016: EUR 387 thousand): EUR 41 thousand for audit-related attest services including six-monthly reviews (2016: EUR 58 thousand), EUR 2 thousand for tax services (2016: EUR 47 thousand) and the remainder for other services.

### *f) Information on the environment*

In 2017 and 2016 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

At 31 December 2017 and 2016, the Company did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Company's directors do not expect any material liabilities to arise as a result of the Company's environmental activities and, accordingly, the accompanying balance sheet does not include any provisions in this connection.

The Company did not receive any environmental grants in 2017.

The final free allocation of $CO_2$ emissions for 2013-2020 was approved at the Spanish Cabinet meeting held on 15 November 2013, with the Parent allocated emission allowances of 151,537 tonnes of $CO_2$ for the aforementioned period. If the emissions exceed the volume of allowances allocated, emission allowances must be acquired in the market.

At the beginning of 2017, the discontinuation of steel mill activities at the Beasain plant was notified to the Ministry and the allocation of allowances for 2018 and subsequent years was cancelled.

In 2017 the Company emitted 1,425 tonnes of $CO_2$ (2016: 15,572 tonnes), whereas it had been allocated allowances for the emission of 18,770 tonnes (2016: 19,133 tonnes). As a result, the Company did not recognise any liability at year-end. In 2017, the Company sold emission allowances for 82,027 tonnes of $CO_2$ , in relation to surpluses arising in prior years, for EUR 397 thousand (in 2016 no emission allowances were sold).

## 20. Information on the Board of Directors

### a) Remuneration and other benefits of directors

In 2017, in addition to the remuneration that may be payable as indicated in Note 3-k, the total remuneration of the members of the Board of Directors amounted to approximately EUR 1,721 thousand (2016: EUR 1,495 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. Also, in 2017 the Company made contributions to long-term savings plans totalling EUR 140 thousand (2016: EUR 90 thousand). At 31 December 2017 and 2016, no advances, guarantees or loans had been granted to its current or former directors.

In 2017 EUR 47 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2016: EUR 33 thousand).

### b) Information regarding situations of conflict of interest involving the directors

In 2017 and 2016 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 Company.

## 21. Remuneration of senior executives

Remuneration of the Company'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-k, amounted to EUR 2,075 thousand in 2017 (2016: EUR 2,041 thousand).

In 2017 and 2016 there were no other transactions with senior executives outside the ordinary course of business.

## 22. Other disclosures

### *a) Guarantees and other contingent assets and liabilities*

At 31 December 2017, the guarantees provided to the Company by banks and insurance companies for third parties, and to other Group companies when the Company is the counter-guarantor, amounted to EUR 2,463,816 thousand (31 December 2016: EUR 2,309,104 thousand). Of this amount, EUR 16,170 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology and other government agencies (31 December 2016: EUR 20,703 thousand). The Company and its directors consider that no material liabilities will arise in this connection (see Note 14).

Also, the Company had been provided guarantees for third parties to secure the financial liabilities of its investees amounting to EUR 36,007 thousand (31 December 2016: EUR 109,804 thousand) (see Note 10).

At 31 December 2017, the Company 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 Company's directors consider that the likelihood of this situation giving rise to losses for the Company 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.

The subsidiary CAF Brasil Industria e Comercio, S.A. 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 Brazil'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 breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date 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. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could claim the potential losses from such members. At 31 December 2017, the Company had assumed the risk of a loss attributable to the CAF group under this contract since it had performed the major portion thereof, namely, the supply of the trains. At 31 December 2017, the amounts owed by the customer amounted to EUR 14.8 million and no amount had been recognised for additional claims on the original contract.

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. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these financial statements there were no economic claims filed against this subsidiary. Also, as a result of the information obtained in these proceeding, an order was issued to block a current account amounting to EUR 227 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, have initiated court proceedings. At the date of formal preparation of these financial statements, only one of the proceedings initiated as a result of CADE's investigation had commenced, whereas in the other proceedings the Group was waiting to be summoned to declare or to submit pleadings as some of the parties involved were yet to be summoned. 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.

***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.

| | **2017** | **2016** |
|---|---|---|
| | Days | Days |
| Average period of payment to suppliers | 81.30 | 74.89 |
| Ratio of transactions settled | 85.26 | 79.86 |
| Ratio of transactions not yet settled | 67.75 | 58.16 |
| | Thousands of euros | Thousands of euros |
| Total payments made | 494,796 | 398,902 |
| Total payments outstanding | 144,823 | 118,739 |

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 Company in 2016 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, is 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

## 23. Events after the reporting period

At 31 December 2017, the Group's firm backlog, net of progress billings, amounted to approximately EUR 6,264,780 thousand (31 December 2016: EUR 6,227,931 thousand) (see Note 11). At 31 January 2018, the total was EUR 6,158,860 thousand (31 January 2017: EUR 6,176,967 thousand).

## 24. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2-a). Certain accounting practices applied by the Company 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** | **ALEJANDRO LEGARDA ZARAGÜETA** |
| **CHAIRMAN** | **DIRECTOR** |
| **JOSE ANTONIO MUTILOA IZAGUIRRE** | **LUIS MIGUEL ARCONADA ECHARRI** |
| **DIRECTOR** | **DIRECTOR** |
| **CARMEN ALLO PÉREZ** | **JUAN JOSE ARRIETA SUDUPE** |
| **DIRECTOR** | **DIRECTOR** |
| **JAVIER MARTINEZ OJINAGA** | **JULIÁN GRACIA PALACÍN** |
| **DIRECTOR** | **DIRECTOR** |
| **ANE AGIRRE ROMARATE** | **MARTA BAZTARRICA LIZARBE** |
| **DIRECTOR** | **DIRECTOR-SECRETARY** |

**APPROVAL BY THE BOARD OF DIRECTORS**

ANDRÉS ARIZKORRETA GARCÍA

ALEJANDRO LEGARDA ZARAGÜETA

JOSE ANTONIO MUTILOA IZAGUIRRE

LUIS MIGUEL ARCONADA ECHARRI

JUAN JOSÉ ARRIETA SUDUPE

JAVIER MARTINEZ OJINAGA

CARMEN ALLO PÉREZ

JULIÁN GRACIA PALACÍN

ANE AGIRRE ROMARATE

MARTA BAZTARRICA LIZARBE

Certificate issued by the Secretary of the Board of Directors attesting that, following the authorisation for issue of the financial statements and directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. for the year ended 31 December 2017 by the Board of Directors at its meeting on 27 February 2018, the directors have signed this document, consisting of 140 sheets numbered sequentially from 6145 to 6284, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2018.

| | |
|---|---|
| Approved by | Signed |
| THE CHAIRMAN | THE SECRETARY OF THE BOARD |
| ANDRÉS ARIZKORRETA GARCÍA | MARTA BAZTARRICA LIZARBE |