The following English translation is provided by the Company for information purposes only, based on the original and official document in Spanish available on the Company's web site (www.caf.net). In the event of any discrepancy between the English version and the Spanish original document, the latter will prevail.

GENERAL RISK CONTROL AND MANAGEMENT POLICY OF "CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (CAF)"

20 December 2016

TABLE OF CONTENTS

0. INTRODUCTION

The Board of Directors of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (hereinafter, referred to as **"CAF"** or the **"Company"**) has the competency to approve the general policies and strategies of the Company and of the Group of which it is a dominant entity (**"CAF Group"**) and, amongst others, the General Risk Control and Management Policy.

Based on the above, the Board of Directors of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. has agreed to review its risk control and management system and to approve, during its meeting of 20 December 2016, this new **General Risk Control and Management Policy of Construcciones y Auxiliar de Ferrocarriles, S.A.** (the "**Policy**"), which shall form part of the CAF Group's internal normative.

CAF Group's General Risk Control and Management Policy is aimed at achieving a prudent risk profile, diversified by geographical areas, types of products and customers, with a low tolerance level, looking for a sustainable growth over time, both in terms of revenue and profit.

The Policy is based on the following:

1. PURPOSE

The purpose of this Policy, which is to be applied in compliance with the mission, values and vision of CAF, is to configure the principles and basic guidelines for the control and management of all types of risks the Company and the Group face, identifying the main risks and organizing the appropriate information and internal control systems, as well as performing periodic monitoring of the operation of these systems.

This Policy shall be developed and complemented by the specific risk management policies established by the CAF Group.

2. SCOPE

The General Risk Control and Management Policy applies to all the companies that make up the CAF Group, over which the parent company ("CAF") has effective control. For those equity investments which are not part of the CAF Group, the Company shall aim for the principles, guidelines and risk limits to be consistent with those established through this General Risk Control and Management Policy.

CAF Group's General Risk Control and Management Policy is based on a range of strategic and operative actions designed 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, being the Company responsible for defining the basic guidelines, in order to standardise the operating criteria in each of the divisions to guarantee an appropriate level of internal control.

In order to provide a homogeneous and comprehensive risk management, the CAF Group assumes a centralised risk control and assessment model, under the following basic assumptions:

- Definition of the maximum acceptable risk limits in each business/project in accordance with the expected profitability and characteristics of the same and which are implanted right from the moment the offer is submitted.

- Establishment of the procedures for the identification, analysis, measurement, control, authorisation and notification of the different risks on each business/project.

- Coordination and communication so that the procedures of the various businesses/projects are consistent with this Group's General Risk Control and Management Policy.

The General Risk Control and Management Policy affects all areas of the Organisation. This Policy shall cover all types of risks which may threaten the fulfilment of the Group's objectives. Through this policy, the Organisation is committed to developing all its capacities so that all types of risks are appropriately identified, measured, managed, prioritised and controlled.

3. BASIC PRINCIPLES

The CAF Group is subject to various risks inherent in the different activities and markets in which it operates, which can undermine, and even impede, the achievement of its goals and the successful execution of its strategies.

Aware of the importance of this issue, the Company's Board of Directors undertakes to implement all its capabilities so that the relevant corporate risks of all the Group's activities and businesses are properly identified, evaluated, analysed and monitored, and to stablish through the General Risk Control and Management Policy, the mechanisms and basic principles for an appropriate management with a risk level which allows to:

- Achieve the strategic goals set out by the CAF Group with controlled volatility;

- Provide shareholders with the highest level of assurance;

- Protect results and reputation of the CAF Group;

- Defend the interests of shareholders, customers, other groups involved in the operation operative of the Company and of the company in general; and

- Guarantee sustained corporate stability and financial strength.

In order to develop the abovementioned commitment, the Board of Directors has the collaboration of the Audit Committee, which supervises and informs on the appropriateness of the assessment and internal control system for the relevant risks affecting the Group.

4. FULFILMENT OF INTERNATIONAL STANDARDS

The risk management model adopted by CAF is in line with the international standards ISO 31000 and COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission - Enterprise Risk Management) in terms of the use of an effective method for the integrated risk analysis and control, as well as the Three Line Defence Model, which relates to the assignment of responsibilities in relation to risk control and management.

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

1.- The First Line of Defence falls on the operational units of the business and is responsible for CAF's everyday risk management, identifying, measuring, monitoring, mitigating and reporting each exposure, taking account of the established policies, procedures and controls. They are also responsible for the effective maintenance of the internal control and for implementing the actions required to solve control deficiencies.

2.- The Second Line of Defence complements the activities of the first line and is formed by the Risk Management Corporate Function. It performs the monitoring and reporting, and is also responsible for the risk levels assumed by CAF for the different projects, independently controlling the business lines.

3.- The Third Line of Defence consists of an effective and independent Internal Audit Function, which reports to CAF's Audit Committee based on its global reviews of the risk framework, internal control and the Internal Control System for Financial Information of the CAF Group. Additionally, this provides an independent review of the first two Lines of Defence.

Furthermore, the Company's risk management model follows the META methodology, identifying four possible strategies for risk management: Mitigate, Eliminate, Transfer or Assume. In this respect, any action aimed at controlling and managing the risks shall take the following basic principles into account:

a) Integrate the risk culture in the Organisation's management.

b) Maintain a tight segregation of functions between the areas that assume the risk and the areas responsible for its analysis, control and supervision, providing a suitable level of independence.

c) Ensure the use of suitable instruments to mitigate the impact of the risks in accordance to the applicable regulations.

d) Report, transparently, the risks of the Group and its operating units, as well as the functioning of the control systems, to regulators and the main external agents.

e) Guarantee adequate compliance to the rules of corporate governance established by the Group with the updating and continuous improvement of these rules.

f) Act at all times according to the law and the values and standards of conduct reflected in the Code of Conduct and the principles and good practices reflected in the corporate policies under the principle of "zero tolerance" towards the commission of illicit acts and fraud situations.

To this end, all CAF Group personnel shall take into account that the information provided on risk management and control shall meet the following requirements:

- Be complete, ensuring that all relevant information is conveyed for proper risk management and control.
- Be correct and accurate, ensuring that the conveyed information does not contain errors.
- Be a value creator, promoting the development of a risk control and management culture.
- Be conveyed equally and symmetrically, i.e. that all of its recipients receive the same information over the same time period.
- Be conveyed on time, i.e. as soon as it is known and is relevant for proper risk management and control.

With regard to internal control, the standard observed by the Company is COSO II, whose main objectives are the following:

- Operating objectives: referring to the effectiveness and efficiency of the operations in the Group, including its financial and operational performance objectives and the protection of its assets with regard to possible losses.

- Information objectives: referring to financial and non-financial information, internal and external, and that may include aspects of reliability, opportunity, transparency and other concepts set by regulators, recognised bodies or the Group's own policies.

- Compliance objectives: referring to compliance with the laws and regulations to which the Group is subjected.

The CAF Group maintains a direct relationship amongst the three objectives indicated above and the five components of internal control: control environment, risk assessment, control activities, information and communication, and supervision activities.

CAF's internal control model is, as commented above, eminently centralised, which means that all the businesses and subsidiaries are ultimately monitored by the Company's Board of Directors.

5. RISK CONTROL AND MANAGEMENT SYSTEM

The CAF Group's Risk Control System is an interlaced system of standards, processes, controls and information systems, in which the overall risk is defined as the result of consolidating all the risks the Company is exposed to, taking account of the risk mitigation effects. This system allows the consolidation of the risks the business areas and units of the Group are exposed to and their assessment, as well as for the preparation of the relevant management control information in order to make decisions relating to risks, expected profitability and cash consumption.

The Risk Control and Management System implemented by the CAF Group includes the following actions:

1.) The identification of the various types of risks the Group is exposed to.
2.) The determination of the risk level the Group considers as acceptable.

3.) The measures planned to manage the impact of the identified risks.
4.) The information and internal control systems to be used to control and manage the above risks.

1.) Identification of the types of risks.

The CAF Group identifies and assesses the risks, classified into two categories:

A) Corporate Risks.- Those which affect the Group as a whole and specifically the listed Company.

B) Business Risks.- Those which specifically affect each of the businesses/projects and vary according to the specificity of each one.

A) Corporate Risks consist of:

- Regulatory Risks (including legal and tax risks): resulting from the reliability of the published Financial Information, Group lawsuits, the regulatory standards of the Securities Market, the data protection law, criminal liability of legal entities, possible modifications to taxation standards (national and international), and Civil Liability, amongst others.

- Strategic Risks: these are risks that may arise as a result of opting for a specific technological and competitive strategy, which may either directly or indirectly significantly affect achieving the long-term objectives of the Group.

- Financial Risks: including contingent liabilities and other off-balance sheet risks. As a general rule, the following risk subcategories are considered:

  - Market risk, considering the following types:

    - Interest rate risk: risk of variations in the interest rates that may cause changes both in the results and the value of assets and liabilities of the Group.
    - Exchange rate risk: risk of variations in exchange rates that affect in future operations and the evaluation of the assets and liabilities in foreign currencies.
    - Commodities risk: risk of variations in market variables and prices relating to the raw materials required in the business supply chain.

  - Counterparty and Credit Risk: risks of insolvency, proceedings for insolvency or bankruptcy of possible non-payment of quantifiable monetary obligations by the counterparties to whom the Group has effectively granted net credit and which are pending payment or reception.

  - Liquidity and financing risk: in relation with liabilities, the risk of failing to complete transactions or meet obligations deriving from financial or operating activities due to lack of funds or access to financial markets, whether the result of a credit rating fall of the company or for other reasons. In relation with assets, the risk of being unable to find at a given time a buyer for assets at their market price or the

absence of a market price.

- Reputational Risks: risks relating to the perception, assessment or opinion about the Company by the main public with whom it is related, which are significantly tarnished by actions performed by the Company itself, either as a result of incorrectly or wrongfully implemented, or as a result of events of a similar nature that affect the entire sector and which have a more severe or damaging effect on the company in terms of its leading position in specific business segments.

- Operational Risks: the risk related to human errors when performing tasks relating to the key processes of the business.

- Environmental Risks: the Group is subject to environmental regulations and exposed to the environmental risks inherent to its business, which include the risks involved in management of waste, spillage and emissions from production plants.

- Cybersecurity Risks: this is the cyber risk arising from the constant industrial scale threat on digital activity, corporate information and operations, from third parties, with the possible impact on the logical and physical security and integrity of information. This includes monetary fraud, information theft, unavailability of services, infrastructure sabotage and loss of reputation.

B) **Business Risks** are grouped as follows:

- Operational Risks: which include, among others, the risks related to the bidding and execution of projects, the planning and control of various milestones of the project from its outset until completion, relationships with customers and, when applicable, with the other companies making up the consortium; the certification process, the customer material reception process, environmental risks during work execution, the purchasing process, and the subcontracting process.

- Non-Operational Risks: which include, among others, the risks related to occupational health and safety, to Human Resources and the capabilities to address the contracted project; in compliance with applicable local taxation and laws.

2.) Risk level settlement.

The CAF Group has a risk tolerance level established at a corporate level, understood as the willingness to assume a certain risk level, to the extent that allows the creation of value and development of the business, striking the appropriate balance between growth, performance and risk.

Risks are essentially assessed qualitatively in order to establish their importance (in terms of their impact) and their likelihood of occurrence, even if, where possible, an objective indicator (quantitative) is established:

- Low and extremely low level risks may be accepted and an Action Plan to manage these may not be required.

- Medium level risks must be carefully analysed in order to determine whether or not they can be accepted and, when appropriate, an Action Plan shall be established to reduce

the risks to a low level, and, ultimately, an acceptable level.

- High and extremely high level risks shall require appropriate administration and management as well as the preparation of a formal Action Plan. Depending on the criticality, this will be monitored by the Risk Management Unit or directly by the Executive Committee and the Audit Committee.

The different types of risks that could affect the Group are considered in the aforementioned risk assessment. As a general rule, although mainly applicable to Operational Business Risks, tolerance thresholds are defined by a combination of impact and likelihood, whose scales are periodically updated according to the evolution of the main magnitudes of the projects. The designed Action Plans are worked for these risks.

In relation to Financial Risks, a tolerance level based on the economic impact at a corporate level is considered. In to the case of all other identified risks, mainly those relating to reputation, environment, cybersecurity, standards and regulations, a zero tolerance level is considered.

In view of the above, CAF Group's General Risk Control and Management Policy is aimed at to achieving a prudent risk profile, diversified by geographical areas, types of products and customers, with a low tolerance level, looking for a sustainable growth over time, both in terms of revenue and profit.

3.) Planned measures to manage the impact of the identified risks.

CAF's Risk Management Model is based on establishing Action Plans through appropriate remedial measures, using the META strategy.

In the case of non-manageable risks, whose risk profile is above the tolerance level, the Executive Committee and the Board of Directors shall assess the contingency plans deemed appropriate to solve the situation of the project underway or, in a previous stage, to decide whether or not to submit a bid.

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

- Mitigate: The risk is accepted but Action Plans to reduce it are implemented.

- Eliminate: The conditions are deemed inadmissible by the CAF Group, whereby the risk must be eliminated (0 Tolerance).

- Transfer: It is believed that measures exist to transfer the risk to a third party.

- Assume: It is considered that no measures exist that could help reduce the risk, whereby the risk is fully assumed.

4.) Information systems and internal control.

The risk control process is based on three actions:

Identification. The objective of the identification of risks is to maintain a prioritised and updated repository of all the risks assumed by the Group through a coordinated and efficient participation at all levels. This process is based on the following tasks:

- Continuously detect new relevant risks and opportunities.
- Periodically incorporate and update the characteristics of the risks detected.
- Obtain a preliminary quantification of the risks identified.
- Obtain a prioritisation of the risks according to their relative importance.
- Integrate the information obtained in the Group's systems, including it in the established reporting systems.

Measurement. The objective of the parameters measurement is to obtain a global quantification of the assumed risk exposure. This objective is achieved by performing the following tasks:

- Obtaining unique, consistent and reliable information on risk positions and factors.
- Modelling of risk positions and factors consistently.
- Obtaining the metrics comprising all the risks that affect the CAF Group.
- Incorporating the information compiled from the measurement process into the risk reporting outline.

Control. The objective of risk control is to guarantee the adequacy of the risks assumed by the CAF Group with the set objectives, and ultimately, by CAF's Board of Directors. This objective is achieved by the following tasks:

- Quantitative references are defined which reflect CAF's strategy and the predisposition towards the risk, with its limits.
- The established limits are monitored.
- Possible breaches of the established limits are identified and taken into consideration.
- The necessary actions, processes and flows of information are established to provide the possibility of temporarily reviewing the structure of the limits in order to take advantage of the specific opportunities that may arise in each project.

6. OTHER CORPORATE GOVERNANCE POLICIES AND REGULATIONS

CAF has the following policies and regulations approved by the Board of Directors:

- General Risk Control and Management Policy
- Corporate Social Responsibility Policy
- Policy regarding communication and contact with shareholders, institutional investors and voting advisers
- Director Selection Policy
- Internal code of conduct in the field of the Securities Market
- Code of Conduct
- Crime Prevention Manual
- Rules of the Board of Directors
- Rules of the General Shareholders Meeting
- Rules of the Audit Committee
- Rules of the Appointments and Remuneration Committee

7. DIFFUSION

CAF shall publish this General Risk Control and Management Policy on its corporate website.

8. CONTROL

The Board of Directors and the Audit Committee shall ensure proper compliance with the present policy, for which they will articulate the actions deemed appropriate.

9. ENTRY INTO FORCE

This Policy is approved by CAF's Board of Directors in its meeting held on 20 December 2016, date from which it becomes effective.

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