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

Consolidated Financial Statements
for 2016 and Consolidated Directors' Report,
together with Auditor's Report

Translation of a report originally issued in Spanish based onour work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. ("the Parent") and Subsidiaries ("the Group", see Note 2-f), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the situation of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries.

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

Javier Giral Gracia
27 February 2017

2016

DIRECTORS' REPORT

OF THE

CONSOLIDATED GROUP

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

EARNINGS

The aggregates in 2016 were as follows:

- Profit from continuing operations amounted to EUR 37,280 thousand after tax and EUR 59,329 thousand before tax (2015: EUR 42,614 thousand and EUR 60,409 thousand, respectively) representing a fall of 13% and 2%, respectively.

- The depreciation and amortisation charge and impairment losses relating to non-current assets amounted to EUR 23,430 thousand which, added to the profit for the year before tax from continuing operations, generated a cash flow of EUR 82,759 thousand, representing a decrease of approximately 17% on 2015 (EUR 99,641 thousand).

- EBITDA[1] from continuing operations totalled EUR 135,270 thousand, down approximately 19% on 2015 (EUR 166,015 thousand).

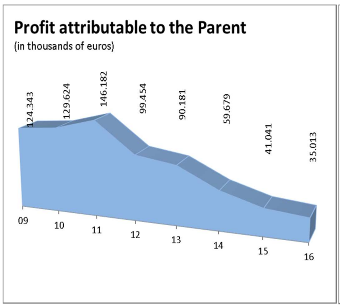
- Revenue amounted to EUR 1,318,200 thousand in 2016, up 3% on 2015 (EUR 1,283,591 thousand).

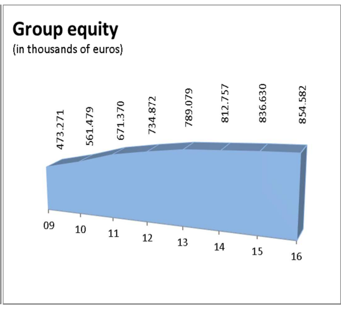
- The backlog[2] amounted to EUR 6,227,931 thousand at 2016 year-end, up 28% on 2015 (EUR 4,869,061 thousand). This backlog continues to guarantee the continuation of the Group's normal business activities.

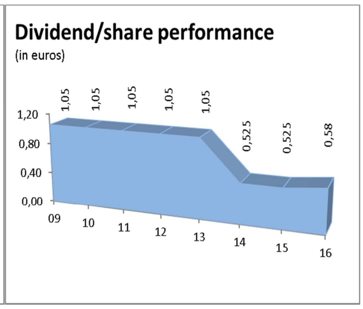
- The proposal for the distribution of earnings is to use EUR 19,883 thousand to pay dividends, giving rise to gross earnings of EUR 0.58 per share.

- If the proposed distribution of profit is approved, the Group’s equity would total EUR 763,794 thousand.

- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2016.







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[1] The CAF Group's EBITDA is calculated by deducting from “Profit from Operations” in the consolidated statement of profit or loss the amounts recognised under “Depreciation and Amortisation Charge” and “Impairment and Gains or Losses on Disposals of Non-Current Assets”.

[2] Backlog represents the volume of firm backlog that will be recognised in the future under “Revenue” in the consolidated statement of profit or loss. Backlog is considered firm only where obligations between the CAF Group and the customer arise. In the case of sales of trains and services, obligations are deemed to arise when the parties sign the agreement.

COMMERCIAL ACTIVITY

For the first time in the Parent's history, backlog at 2016 year-end exceeded EUR 6,000 million (EUR 6,228 million) , which represents an increase of 18 percentage points compared to 2014 year-end (EUR 5,251 million, which, at the time, represented a record high until the end of 2016).

Although commercial activity in 2016 was dominated by contracts from the export market, there are a couple of events which warrant our attention at the beginning of this report, namely the obtainment of the Railway Company License and the Entity in Charge of Maintenance Certificate. These two certificates make CAF one of the few companies, if not the only one, ready to manufacture, supply, operate and maintain its own passenger and freight trains.

Important transactions were concluded in the UK, making it the leading market in terms of annual contracting. In terms of volume, the most important agreement was entered into with the operator Arriva UK and the leasing company Eversholt Rail Group to manufacture 281 cars. The order is made up of 43 electric multiple units and 55 diesel multiple units (all of which are based on the Civity platform) and technical support and logistics services. These trains will travel at speeds of up to 160 km/h in the north of England. Of similar importance was the agreement formalised with the operator First Group and the leasing companies Eversholt Rail Group and Beacon Rail for the supply and maintenance of 66 passenger cars and twelve five-car electrical multiple units based on the Civity platform intended for the TransPennine franchise, designed to reach commercial speeds of 200 km/h. Lastly, but by no means less important, mention must be made of the arrangement with West Midlands Transport Authority to enhance 21 Urbos trams on the Midland Metro light rail line in Birmingham to operate "catenary free" in four emblematic areas of the city, thereby becoming the first tram to operate "catenary free" in the UK. The combined amount of these transactions exceeds EUR 1,000 million.

To continue with the English-language theme, we move to the American continent, where, specifically, CAF was selected to manufacture 26 five-module trams for the Purple Line Project located in Maryland, USA; the contract value exceeds USD 200 million and forms part of a private public partnership project to design, build, finance, operate and maintain the Purple Line. Additionally, CAF has a significant ownership interest in the company that will manage and operate the tram system for 30 years.

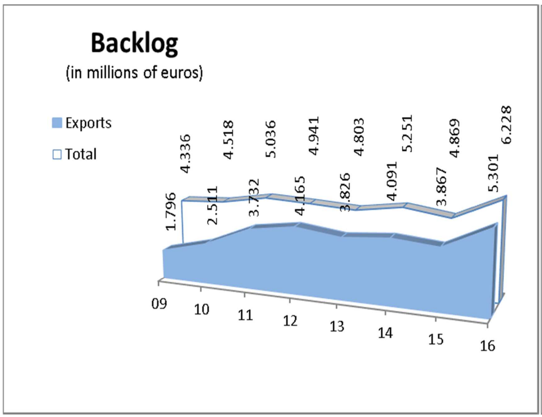
In Australia, the Canberra Metro Consortium, of which CAF is a member, contracted the supply and maintenance over a 20-year period of 14 five-module trams as part of a light rail line construction project for the Australian capital. The trams may be enhanced to operate "catenary free", as planned in a future extension of this new tram line. Staying in Australia, Transport for New South Wales reached an agreement for CAF to supply six trams for the new line to be built in Newcastle The volume of these agreements exceeds EUR 100 million.

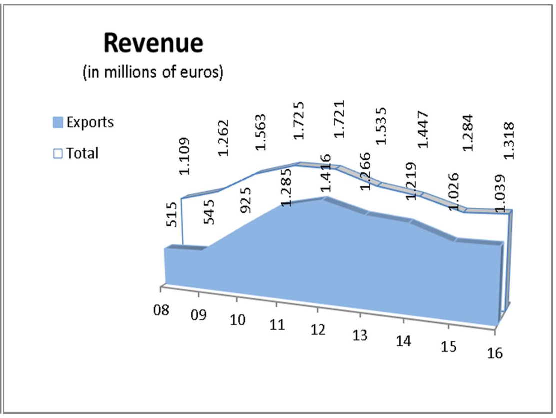
Abandoning the English language and returning to the American continent, mention must be made of the arrangement with the Quito Metropolitan District municipality for 18 six-car trainsets to operate on Quito Metro Line One in the capital of Ecuador. To the north, across the Colombian border, our attention turns to the operation of the Medellín city metro. The trust placed in our company was consolidated with the extension of the initial order of 20 units to include two additional trains. There is a similar scenario further north, in Mexico, where the Public Transport System, a related body of the Federal District Government, arranged the supply of ten new trains for Mexico City Metro Line One. Sticking with the American continent, on the cusp of the new year an extension to the initial contract to supply trains and signalling for lines 3 and 6 of the Santiago de Chile metro was formalised for four additional units. These agreements exceed EUR 300 million.

Returning to Europe, in Brussels, Belgian capital and headquarters of the European Union, mention must be made of the conclusion of a framework agreement by Brussels Intercommunal Transport Company (MIVB/STIB), to supply 43 metro units with the option to increase this number in the future. The trains are designed to operate using a CBTC system. Further north, in Amsterdam, the Dutch capital, the purchase of 63 trams was formalised. The number of trams can be increased in the future.

All these arrangements, together with those contributed by the wheel sets (MiiRA) and maintenance activities increase the total of annual contracts above EUR 2,600 million.

Lastly, CAF was named "Manufacturer of the Year" at the Global Light Rail Awards held in London in October 2016. At the award ceremony, tram operators from cities such as Zaragoza, Edinburgh or Birmingham, which have chosen CAF trams to operate their urban mobility network, also won awards in various categories.





INDUSTRIAL ACTIVITY

The Group's industrial activity comprised more than 20 projects in 2016. The manufacturing cycle of certain projects has been completed, such as the addendum for eight trains to the agreement with the Bucharest metro, with the delivery of the last four trains; the project for the Saudi Railway Company (SAR) in which the last eight push-pull cars were completed; the order for trams for the City of Cincinnati, completed with the delivery of the last three trams; as well as the three trams for Cagliari (Sardinia) and the final two trams of the agreement for four trams entered into with Kansas City. The last two trams of the 20 procured by the city of Tallinn, and the last 14 trams of the agreement for 47 trams entered into with the city of Budapest were also completed.

In 2016 certain projects initiated in prior years continued to be manufactured, of note being the nine units relating to the order for 35 trains arranged by the operator CPTM in the Brazilian city of Sao Paulo; 19 units for the Santiago de Chile metro; 19 electric traction units for Euskotren and 11 metro units relating to the contract for 20 for Helsinki.

Other more recent projects include the agreement for 16 trams for Saint Etienne, the first five of which have already been manufactured; six trains completed of the 22 arranged with Medellín metro; 13 units of the order for 21 units for the Istanbul metro; and the first unit of the agreement for 30 trains entered into with the Mexican city of Toluca. These are certain of the projects for which deliveries commenced in 2016.

Also, other projects are in the initial phases of manufacturing, such as the project for 24 light trains for the city of Boston; the eight high-speed trains for the Norwegian operator Flytoget; the agreement for 27 trams for the city of Utrecht; the project for 21 trams for Luxembourg; or the agreement entered into with the Dutch operator NS for the delivery of 118 trains of different compositions and push-pull cars for the Caledonian sleeper franchise that will operate between London and Scotland.

The most important products manufactured in 2016 were as follows:

	No. of vehicles
Long-distance Amtrak passenger cars	1
Saudi Railway Company (SAR) push-pull units	8
Commuter trains for Euskotren	57
Commuter trains for CPTM	72
Commuter trains for Toluca	5
Sao Paulo metro	6
Chile metro	95
Bucharest metro	24
Istanbul metro	78
Helsinki metro	44
Medellín metro	18
Trams for Budapest (5 modules)	50
Trams for Budapest (9 modules)	36
Trams for Saint Etienne	25
Trams for Cincinnati	9
Trams for Tallinn	6
Trams for Cagliari	15
Trams for Kansas	6
Trams for Utrecht	5
TOTAL	**560**

BOGIES

With welded chassis 849

WHEEL SETS AND COMPONENTS UNITS (MiiRA)

Assembled axles (power car + push-pull car).. 4,466
Loose axle bodies.. 8,788
Monoblock wheels 49,558
Elastic wheels..633
Couplers...763
Gear units 2,132
Bandages 1,071

HUMAN RESOURCES

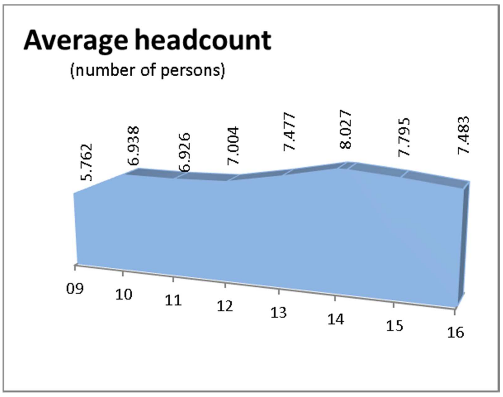
The CAF Group's workforce remained stable at global level in 2016, with 7,587 employees at the end of the reporting period, down 0.08% on 2015.

CAF Group	31/12/16	31/12/15	Change
Further education college graduates	2,232	2,125	5.04%
Middle management and clerical staff	1,104	1,240	-10.97%
Production and services	4,251	4,216	0.83%
Total	**7,587**	**7,581**	**0.08%**

The average headcount of the CAF Group in 2016 was 7,483 employees. Compared to the data for 2015, the average headcount fell by 4%.

Throughout 2016 efforts were made to adapt CAF's workforce to the business requirements, which materialised in the implementation of different employment-relationship, people-management and occupational-risk-prevention initiatives carried out at national and international levels.

For more information on Human Resources matters, see Chapter 4 "The excellence of our team" in the "*2016 Corporate Responsibility Report*", which is available on CAF's website.



ENVIRONMENTAL ACTIVITY

CAF assumes as its organisation's objectives combating climate change and being environmentally friendly mainly through two channels:

- Offering more efficient and environmentally friendly transport. 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 pollution in 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 emissions into the atmosphere, waste generation and energy consumption, among others.

In 2016 different initiatives were carried out in these two areas.

For more information on Environmental matters, see Chapter 5 "Contributing to the care of the environment" in the "*2016 Corporate Responsibility Report*", which is available on CAF's website.

INVESTMENTS

Capital expenditure by CAF in 2016 amounted to EUR 16,756 thousand. The investments included most notably:

A new automatic axis machining and verification line implemented at the Wheel Sets Business Unit (MiiRA). This investment, which commenced in 2015, is intended to improve productivity and reduce costs through the installation of a production line designed to automate the refining, burnishing and rectifying processes and ultrasonic and magnetic particle testing, given the vital importance of these processes, and represents a first step towards full automation of the business.

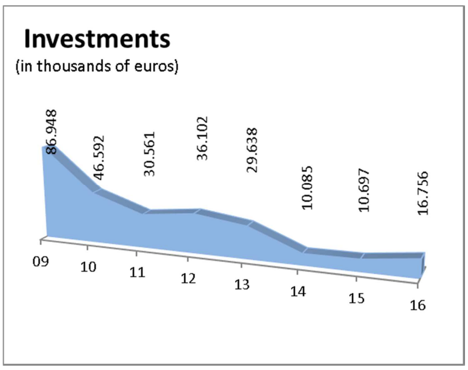
Also, as part of the plans to streamline various spaces, the new MiiRA offices were completed, catering for its space and operational needs, in order to support its strategy and future growth.

At the Vehicle Business Unit, a series of measures were commenced as part of the current project to improve productivity and efficiency, such as renewing machinery, worthy of note among which was the acquisition of new milling machines for part machining and gantry welding systems, and the modernisation of vehicle refinishing facilities and the trial industrial building.

Also, in the Quality and Certification Area, a new test track was revamped in order to support the trials required to ensure compliance with rolling stock vehicle dynamics requirements.

As for other more general investments, mention must be made of the mandatory review and enhancement of areas related to safety and risk prevention, and the upgrade of computer media and resources, which will increase capacity in processes in order to meet growth needs and the new technical challenges arising from the recent influx of projects through the year.

Lastly, investments abroad included notably those at the Huehuetoca factory in Mexico, geared towards upgrading the facilities and equipping them with the technical resources required to deal with the projects the Parent will develop there in the coming months, and those at the Parent's maintenance centres in various countries, among which the investments made in Chile can be highlighted.



TECHNOLOGICAL DEVELOPMENT

As regards CAF and CAF R&D, in 2016 the CAF Group's new Technology Plan for 2017-2018 was completed which, aligned with the Strategic Plan, will set in motion a total of 65 new projects for CAF and its subsidiaries, and continue another 68.

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 2016-2018 Technology Plan implemented in 2016 fostered a total of 99 projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2016-2018 Technology Plan encompassed the following fields:

- Specific rolling stock products, including high-speed products.
- Digital Train, which comprises projects related to the collection and processing of data obtained in service to be used in production and maintenance enhancements.
- Energy management and ecodesign, comprising projects relating to the reduction and optimisation of energy consumption in trains and in the system as a whole, energy capture and storage in various media, etc.
- Signalling (on-board and fixed).
- Specific products and developments using basic rail technologies, traction, wheel sets and axes, gear units, couplers, control and communications, maintenance, etc.

All of the above were combined with the execution of projects aimed at assimilating new technologies through the development of products based thereupon. Noteworthy projects included:

- Projects for the development of various types of vehicle.
- VEGA security electronics development projects for various applications, including the development of the collection control system for the Luxembourg tram.
- Projects for the development of expertise in driving resistance, Electromagnetic Compatibility (EMC), railway dynamics, noise and vibrations, energy management, and energy accumulation systems, with the support of regional and autonomous community governments.
- Final track trials of OARIS high-speed train prototypes.
- On-board and fixed signalling projects, and ATO under ERTMS.
- Projects related to predictive and condition-based maintenance on the basis of in-service data collection and processing.

The CAF Group also participated in joint projects at state level and also with various international authorities and companies as part of domestic programmes and the European Union's Horizon 2020 programme. Noteworthy projects included:

- European projects:

    - REFRESCO for the development of car body structure solutions in composite material
    - NGTC for the study of an interface between ERTMS and the satellite positioning module

- STARS to determine through experiments the suitability of the GNSS-Global Navigation Satellite System.
- 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. CAF is one of the eight constituent entities of the Shift^{2}Rail JU (Joint Undertaking), which carries out railway R&D activities as part of the Horizon 2020 programme. The technology development work on this project, which commenced in 2016, will continue until 2024.

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

- First-time integration of a real STM with an on-board ETCS/ERTMS: the functional portfolio of the on-board equipment is completed by integrating STMs, thereby granting access to markets with legacy signalling systems implemented via STM (the Netherlands, Germany, Sweden, etc.).
- A simulator, unveiled at Innotrans 2016, featuring the integration of an On-board ATO and Trackside ATO.
- Integration of the ERTMS on-board and ERTMS Trackside Level 1 laboratories, ensuring full interoperability of our ERTMS/ETCS solutions in the laboratory.
- The Rapid Charge Accumulator (ACR) family of products is completed with the development of lithium ion battery-based modules. Specifically, the range-extender module for mixed ultracapacitor and battery applications and the full lithium module, for battery-based applications only.
- Development of an advanced breakdown diagnosis system, "sDiag". Among other functionalities, this system enables remote configuration of alarms by the maintenance user.
- Development of power converters for diesel-electric locomotives to be used by customers in South Africa and the US.

In addition to the development and advancing of CAF's vehicle platforms, the most significant engineering projects undertaken in 2016 were as follows:

- LRV for Boston Metro (USA)
- Civity train for NS (Netherlands)
- High-speed train for Flytoget (Norway)
- Push-pull cars for Caledonian (UK)
- Medellín metro (Colombia)
- Trams for Utrecht (Holland) and Luxembourg
- Electrical multiple units for Toluca (Mexico)

The following engineering projects entered into service in 2016:

- Electrical multiple units and diesel multiple units for Northern Arriva (UK)
- Electrical multiple units for TransPennine (UK)
- Push-pull cars for TransPennine (UK)
- LRVs for Maryland (US)
- Brussels metro (Belgium)
- Mexico City metro Line 1
- Algiers metro (Algeria)
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)

RISK MANAGEMENT POLICY

In 2016 the Board of Directors of CAF, S.A. reviewed its Risk Management and Control System, in the terms set out in the current General Risk Management and Control Policy, which forms part of the CAF Group's internal regulations and which is available on the website www.caf.net in the corporate policies area.

The most significant risks facing the Group can be grouped together in the following categories:

1.- Financial risks

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

The Group's Financial Department identifies, assesses and hedges financial risks by establishing policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, the use of derivative and non-derivative instruments, the investment of cash surpluses and deviations from project budgets.

a) Market risk

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

The Group's interest rate risk arises on borrowings. The Group'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. For long-term financing transactions, the Group sets an objective, to the extent permitted by the markets, of maintaining a fixed interest rate structure.

a.2) Foreign currency risk

The various CAF Group companies operate on an international stage and, therefore, are exposed to foreign currency risk in their foreign currency transactions (currently the US dollar, the Brazilian real, the pound sterling, the New Taiwan dollar, the Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Canadian dollar and the Hungarian forint, among others).

The Group companies use 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 or recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (the euro).

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

a.3) Commodity risk

For the most significant raw materials, CAF places the orders and agrees on the price when each new project commences. The risk of a rise in raw material prices having an adverse effect on the Group's contractual margins is thus hedged.

b) Credit and counterparty risk

Most of the Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Group's standard practice is to hedge against certain risks of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature. The decision on whether or not to hedge is taken on the basis of the type of customer and the country in which it operates.

c) Liquidity and financing risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover the Group's financial obligations fully and effectively.

The CAF Group 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 coincide 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.

The average payment period to suppliers in 2016 was 76.60 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Group is to make an effort to align events giving rise to payments to those giving rise to collection in order to reduce the payment time without losing necessary liquidity.

d) Risks arising from variances with respect to project budgets

Variances from project budgets that served as the basis for drawing up the various bids are analysed and monitored through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for those items with the actual situation regarding the costs of each project. In this way, these data are monitored on an ongoing basis over the life of the projects using a complex internal process created for this purpose in which all the departments involved in the projects participate.

2.- Risks arising from environmental damage

CAF is fully committed to protecting the environment. With this objective in mind, it has implemented the principles of the EU's environmental action programme based on preventative measures and the rectification of problems at source. To this end, the Company has introduced a programme of measures in various areas of environmental concern relating to the atmosphere, spills, waste, consumption of raw materials, energy, water and noise, and has obtained certification under the ISO 14001 standard.

3.- Legal and contractual risks arising mainly from harm caused to third parties as a result of deficiencies or delays in the provision of services

Tender specifications and rolling stock vehicle manufacturing contracts include numerous requirements concerning technical aspects and quality standards (with the introduction of hi-tech products), requirements relating to compliance with delivery deadlines, certification needs, manufacturing location requirements and other operational risks which usually involve penalty levels and conditions subsequent or precedent. In this respect, discrepancies may arise with regard to such requirements between the CAF Group and its customers, which may result in claims for delays, incorrect performance of work or the performance of additional work.

To handle the difficulties concerning the management of the CAF Group's projects, it operates a risk management system that starts when the bid is prepared and enables the Group to identify and manage the various risks it faces in the normal course of its business.

All CAF's plants use the most advanced technology available and state-of-the-art techniques in order to optimise production pursuant to the IRIS (International Rail Industry Standard) or ISO 9001 standards.

CAF also implements a stringent policy of taking out insurance to protect itself sufficiently from the economic consequences for the company of any of these risks materialising.

4.- Occupational risks or damage to plant assets

CAF has an Occupational Risk Prevention System in place audited by an independent firm. The Prevention System Manual created for that purpose defines, inter alia, the risk assessment, accident investigation, safety inspection, health monitoring and training activities. There is also an annual Prevention Plan for the appropriate planning of preventative measures each year. CAF also has an Employee Training Plan in this area.

CORPORATE SOCIAL RESPONSIBILITY

In accordance with CAF's Corporate Social Responsibility Policy, the central line of its corporate strategy is that all persons that make up the CAF Group base their action on the ethical principles of good faith and integrity, and that their 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.

CAF 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 prepared its 2016 Corporate Responsibility Report in accordance with the Core option of the *Global Reporting Initiative* (GRI) G4.

For more information see the "*2016 Corporate Responsibility Report*", which is available on CAF's website.

OUTLOOK

In the coming years, the CAF Group's activities will focus on furthering the development of prior years' lines of action and setting in motion new areas of action, such as:

- Consolidating our international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including taking advantage of joint ventures.

- Firm commitment to 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.).

- 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 Group on its own or through alliances, including capital investment depending on the circumstances.

- Continue making investments in technological development, in relation to technologies and 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.

- Further the digitization of our operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0).

- 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 Group'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 increasingly defines our competitiveness.

- Lastly, to make progress in fundamental areas of business management such as, for example, corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

EVENTS AFTER THE REPORTING PERIOD

At 31 January 2017, the Group had a firm backlog of EUR 6,176,967 thousand.

2016

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	31/12/2016
TAX ID NO. (CIF):	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	8,770,270	0	25.58%
BESTINVER GESTIÓN S.A., S.G.I.I.C.	0	1,057,590	3.09%
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0	4,818,523	14.06%
INDUMENTA PUERI, S.L.	1,612,422	108,950	5.02%

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
BESTINVER GESTIÓN S.A., S.G.I.I.C.	BESTINVER PENSIONES EGFP, S.A.	1,057,590
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	4,818,523
INDUMENTA PUERI, S.L.	WILMINGTON CAPITAL, S.L.	108,950

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	11/03/2016	Ownership interest has fallen below 3% of share capital
KUTXABANK, S.A.	20/12/2016	Ownership interest has fallen below 15% of share capital
INDUMENTA PUERI, S.L.	28/12/2016	Ownership interest has risen above 5% 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
XABIER GARAIALDE MAIZTEGI	750	0	0.00%
JUAN JOSE ARRIETA SUDUPE	1,000	0	0.00%

% of total 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 or exchange activities:

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

Type of relationship: Contractual

Brief description:

Workers' share instrument in CAF.

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 individuals or bodies corporate 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 [X]

Comments

A.8 Complete the following tables on the company's treasury stock.

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 CAF General Meeting held on 13 June 2015 resolved to authorise the derivative acquisition of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. for five years and under the following terms: a) Acquisitions may be executed by CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. directly, or indirectly through its affiliates. b) Acquisitions shall be performed through purchase or exchange transactions or any others permitted by law. c) Acquisitions shall be done, at each given time, up to the maximum amount provided by law. d) Acquisitions shall be done at market price. e) Acquisitions performed within the scope of this authorisation shall fulfil the legal requirements in force. f) This authorisation shall be valid for a five-year term. This authorisation disregards the authorisation granted by resolution of General Shareholders' Meeting held on 5 June 2010.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	51.23

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 [X]

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 [X]

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 ANNUAL GENERAL MEETING

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

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. To adopt agreements on the issue of corporate bonds, the capital increase or reduction, 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, the Shareholders' Meeting shall be required to have a quorum of at least 50% of the subscribed capital with voting rights at the first call, present either in person or by proxy. On second call, the attendance of 25% percent of that share capital shall suffice. When 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. 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 in the debates, as well as vote. Those holding less than a hundred shares may group together and give their share 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				
			% remote voting		
Date of Annual General Meeting	% attendance in person	% attendance by proxy	Electronic vote	Other	Total
13/06/2015	45.63%	24.77%	0.00%	0.00%	70.40%
11/06/2016	45.10%	27.92%	0.00%	0.00%	73.02%

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 an Annual 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 Decree-Law 1/2010, of 2 July, which approved the Consolidated Companies Law, the Consolidated Securities Market Law, 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 current bylaws, specifically subsection "Corporate Governance" contains the most important information on this matter (General Shareholders' Meeting and Board of Directors Regulations; the Company's Internal Rules of Conduct within the sphere of Stock Markets; structure of the Board of Directors and its committees; Corporate Governance Annual Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, and other Regulations and Codes).

In addition, the subsection "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 agreements reached after it was held.

In addition, in compliance with article 539.2 of the Companies Law, simultaneously with the call to each general meeting, a 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 appointment	Date of last appointment	Procedure for election
ANDRES ARIZKORRETA GARCIA		Executive	CHAIRMAN AND CEO	26/12/1991	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
JUAN JOSE ARRIETA SUDUPE		Independent	COORDINATOR DIRECTOR	07/06/2008	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
LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
XABIER GARAIALDE MAIZTEGI		Other External	DIRECTOR	18/11/2004	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
JAVIER MARTINEZ OJINAGA		Independent	DIRECTOR	13/06/2015	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	28/10/2015	COOPTION
MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR-SECRETARY OF THE BOARD	22/01/2016	22/01/2016	COOPTION
CARMEN ALLO PÉREZ		Independent	DIRECTOR	11/06/2016	11/06/2016	APPOINTED AT THE ANNUAL GENERAL MEETING

Total number of directors	9

Indicate any removals of directors during the reporting period:

Name or corporate name of director	Director's condition upon termination	Date of termination
JOSE IGNACIO BERROETA ECHEVARRIA	Independent	23/05/2016

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
ANDRES ARIZKORRETA GARCIA	Chairman and CEO
MARTA BAZTARRICA LIZARBE	Director - Secretary of the Board

Total number of executive directors	2
% of the board	22.22%

EXTERNAL PROPRIETARY DIRECTORS

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

Total number of proprietary directors	1
% of the board	11.11%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director:

JUAN JOSE ARRIETA SUDUPE

Profile:

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:

JAVIER MARTINEZ OJINAGA

Profile:

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

Name or corporate name of director:

CARMEN ALLO PÉREZ

Profile:

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.

Total number of independent directors	3
Total % of the Board	33.33%

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 corporate name of director:

LUIS MIGUEL ARCONADA ECHARRI

Company, officer or shareholder with whom relation is maintained:

LUIS MIGUEL ARCONADA ECHARRI

Reasons:

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 corporate name of director:

ALEJANDRO LEGARDA ZARAGÜETA

Company, officer or shareholder with whom relation is maintained:

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

Reasons:

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

Name or corporate name of director:

XABIER GARAIALDE MAIZTEGI

Company, officer or shareholder with whom relation is maintained:

XABIER GARAIALDE MAIZTEGI

Reasons:

The Company amended the previous classification as Independent Director of Mr. Xabier Garaialde Maiztegi as he has already been a Director for twelve years.

Total number of Other External directors	3
Total % of the Board	33.33%

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

Name or corporate name of director	Date of change	Previous status	Current status
XABIER GARAIALDE MAIZTEGI	18/11/2016	Independent	Other External

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 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013
Executive	1	0	0	0	50.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	1	0	0	0	33.33%	0.00%	0.00%	0.00%
Other External	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	2	0	0	0	22.22%	0.00%	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

The company attempts to include a number of women in the Board of Directors so as to reach a balanced number of men and women.
In turn, CAF has a Directors' Selection Policy aimed at, among others, favouring gender diversity in appointing 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 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.
According to the action plan established in the Board of Directors' annual assessment report for the fiscal year 2015, during the first Board of Directors' meeting held in fiscal year 2016, with the prior favourable report from the Nomination and Remuneration Committee, a new female director was appointed by cooption and this appointment was ratified in the General Shareholders Meeting held in 2016. In turn, a second female director was appointed as well during said Annual General Meeting.

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, in covering new vacancies, the selection processes used are not implicitly impartial and do not hinder the selection of female directors, thus including women with the expected profile among potential candidates under the same conditions. Such role appears in point 3 of the Company's Nomination and Remuneration Committee, as approved by the Board of Directors.
The Nomination and Remuneration Committee selected and issued the favourable reports for the appointment of the two female directors mentioned in section C.1.5 above during the fiscal year 2016.

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:

Description of the reasons

--

C.1.6 bis Explain the Nomination Committee's conclusions on the verification of the compliance with 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 two women 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.
Additionally, it should be noted that with the appointment of the two women Directors, the Action Plans established in the Annual Evaluation Reports from the Nomination and Remuneration Committee and from the Board of Directors prepared in 2015 have been fulfilled.
In view of the foregoing, CAF's Nomination and Remuneration Committee considers that the Directors Selection Policy approved by the Company has been satisfactorily fulfilled.

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 accepted:

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:

JOSE IGNACIO BERROETA ECHEVARRIA

Reasons for resignation:

Resignation notified in writing to the Board of Directors, for personal reasons.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

Name or corporate name of director:

ANDRES 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 positions?
ANDRES ARIZKORRETA GARCIA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
ANDRES ARIZKORRETA GARCIA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Natural person representing the Sole Director CAF, S.A.	YES
ANDRES ARIZKORRETA GARCIA	CAF DEUTSCHLAND GMBH	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF SISTEME FEROVIARE, S.R.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF NEW ZEALAND LIMITED	Director	YES
ANDRES ARIZKORRETA GARCIA	CAF CHILE, S.A.	Chairman	NO
ANDRES ARIZKORRETA GARCIA	CAF ARGELIA EURL	Sole Director	YES

Name or corporate name of director	Corporate name of the group entity	Position	Does he hold any executive positions?
ANDRES ARIZKORRETA GARCIA	CAF FRANCE SAS	Chairman	YES
ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF HUNGARY Korlátolt Felelösségu Társaság	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.U.	Joint and Several Director	YES
ANDRES ARIZKORRETA GARCIA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF TURNKEY & ENGINEERING, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF INDIA PRIVATE LTD	Managing Director	YES
ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS S.A.P.I. DE C.V.	Chairman and Non-Executive	NO
MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇAO, S.A.	Director	NO
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
ALEJANDRO LEGARDA ZARAGÜETA	VISCOFAN, S.A.	DIRECTOR
ALEJANDRO LEGARDA ZARAGÜETA	PESCANOVA, S.A.	DIRECTOR
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)	1,495
Amount of the pension rights accumulated by current directors (in thousands of euros)	90
Amount of the pension rights accumulated by former directors (in thousands of euros)	0

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

Name or corporate name	Position
EDUARDO ECHEVERRIA ARRATIBEL	CORPORATE DEVELOPMENT DIRECTOR
JUAN GASTESI IRIARTE	HUMAN RESOURCES DIRECTOR
FELIX FERNANDEZ LOPETEGUI	PROJECT MANAGEMENT DIRECTOR
EDUARDO GALVEZ LISON	CHIEF TECHNICAL OFFICER
IBON GARCIA NEILL	RAIL SERVICES DIRECTOR
IÑIGO ONA LARUMBE	CHIEF OPERATING OFFICER
AITOR GALARZA RODRIGUEZ	CHIEF FINANCIAL AND STRATEGY OFFICER
JOSU IMAZ MURGUIONDO	SUBSIDIARIES, CORPORATE DEVELOMENT AND WHEELSETS DIVISION MANAGER
JOSU VILLAR ELORZA	QUALITY AND SAFETY DIRECTOR
IRUNE LOPEZ FERNANDEZ	INTERNAL AUDITOR
JESUS ESNAOLA ALTUNA	COMMERCIAL GENERAL DIRECTOR

Total remuneration received by senior management (thousands of euros)	2,041

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:

Name or corporate name of director	Name or corporate name of significant shareholder	Position
ALEJANDRO LEGARDA ZARAGÜETA	CARTERA SOCIAL, S.A	DIRECTOR

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 [X] No [ ]

Description of changes

At its meeting held on 25 February 2016, the Company's Board of Directors unanimously adopted the agreement to amend certain articles of its Regulations in order to comply with several Corporate Governance recommendations of the Listed Companies.
The amended articles are:
Article 8 (As regards the incorporation of additional functions to the Coordinating Director).
Article 10 (As regards the possibility of creating a Supervision and Control Committee and establishing certain composition and operation rules for the same).
Article 23 (As regards setting a simultaneous membership limit of the Directors to several Listed Companies' Boards of Directors outside the CAF group).
The amended Board of Directors' Regulations were communicated as a Material Event to the National Securities Market Commission (CNMV) and has been available since then in CAF's corporate website, www.caf.net.

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

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. 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 Executive Director, 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. Additionally, in exercising its powers of proposal to the General Meeting and of cooption in case of vacancies, the Board shall ensure that in the Board structure non-executive directors represent the majority over executive directors, that among independent directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and 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. 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 Remuneration 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. 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. d) Executive Directors or senior management of a different company where a Company Executive Director or Senior Manager.

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' annual evaluation has not shown any circumstances requiring material changes in internal organisation or procedures applicable to its activities. However, it should be noted that during 2016, the Action Plans for nominating Directors have been met by selecting candidates that favour gender diversity, since two women Directors have been nominated in 2016; and that the objective of holding eight (8) Board meetings during 2016 has also been met.

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 order to evaluate the structure and competence diversity, the performance and structure of its committees, the performance of its Chairman and Managing Director, and the performance and contribution of each director, the Board of Directors based on the report issued by the Audit Committee and, especially, the reports issued by the Nomination and Remuneration Committee.
The areas subject to evaluation have been as follows:
i. The quality and efficiency of the Board of Directors' operation.
ii. The performance and structure of its committees.
iii. The structure and competence diversity of the Board of Directors.
iv. The performance of the Board of Directors' Chairman and the CEO.
v. The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.
In view of this evaluation, the Board of Directors has issued its conclusions and set several action plans to be implemented during fiscal year 2017.

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:

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	5

Committee	Number of Meetings
NOMINATION AND REMUNERATION COMMITTEE	4

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	Position
ANDRES ARIZKORRETA GARCIA	CEO
AITOR GALARZA RODRIGUEZ	Chief Financial and Strategy Officer

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 2015 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. CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for: (A) Regarding relations with Markets: (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)
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: 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 Annual Report the remuneration paid to the audit firm in each period for services other than auditing. (iii) The board shall prepare the financial statements
ensuring there will be no qualifications by the auditor. 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 gathering information on matters that may call the auditor's independence into question, for the analysis by the Committee, as well as any other matters related to the auditing process and any further notifications foreseen in the audit laws and in the audit technical standards. In any case, every year it will be required to receive from external auditors their statement of independence regarding the entity or entities related directly or indirectly thereto, as well as the information on any additional service rendered and the relevant fees paid by these entities to the external auditor or to the persons or entities related thereto, as established by legislation on auditing. Similarly, according to bylaws, 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. This report shall contain, as applicable, the assessment of the services provided, both individually and as a whole, other than those related to the statutory audit and pursuant to the independence regime or auditing regulations. 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 before 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 detailed information and a breakdown for any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. (iii) To issue, prior to the issuance of the audit report, a 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. (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.

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 ☒ No ☐

	Company	Group	Total
Amount paid for non-audit work (in thousands euros)	0	329	329
Amount paid for non-audit work as a % of the total amount billed by the audit firm	0.00%	36.11%	36.11%

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 ☒

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	15	15
Number of years audited by current firm/number of years the company has been audited (as a %)	38.46%	93.75%

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

Yes ☒ 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 ☒ 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 ☒ No ☐

Explain the rules
According to the Board's Regulations, Directors must place their position at the Board's disposal in certain cases, and particularly when they are prosecuted for an alleged criminal offense or subject to 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 Companies Law:

Yes ☐ No ☒

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 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	Position	Category
JAVIER MARTINEZ OJINAGA	CHAIRMAN	Independent
JUAN JOSE ARRIETA SUDUPE	MEMBER	Independent
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. The Audit Committee shall be adopted by majority vote of the Directors attending the meeting in person or by proxy.
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 Director 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, before 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, in accordance with the provisions of the articles 16, sections 2,3, and 5 and 17.5 of UE Regulation 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	JAVIER MARTINEZ OJINAGA
Number of years of chairman in office	1

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Category
JUAN JOSE ARRIETA SUDUPE	CHAIRMAN	Independent
LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other External
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 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.
Functions:
The Nomination and Remuneration Committee has the following main functions: 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, as applicable, the plan for the succession of the Board of Directors' chairman and the Company's Managing Director, so that such succession is performed in an orderly and planned manner. g) Propose to the Board of Directors the compensation policy based, among others, on internal equity criteria and external competitiveness, and safeguard its observance. Therefore, the Committee assumes the function and commitment to submit to the Board of Directors its compensation policy proposal, to be kept or, as applicable, amended in future fiscal years. 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) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to 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.
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.

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 2016, the Nomination and Remuneration Committee held four meetings.

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 2016		Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	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%	0	0.00%	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: On 27 July 2016, the Company modified the Regulations of the Audit Committee. The up to date version of the resolution is available in the CAF website (www.caf.net), under section Information for Shareholders and Investors.
NOMINATION AND REMUNERATION COMMITTEE: On 25 February 2015, the Board of Directors agreed to create the Nomination and Remuneration Committee and approve its Regulations, which are also available in the abovementioned section of the corporate website.

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

The Board of Directors formally reserves the right to maintain confidential any Company transaction with a significant shareholder, after first receiving a report from the Audit Committee. In addition, the Board of Directors has been attributed, and cannot delegate, the duty to approve –subject to the previous report from the Audit Committee– the transactions performed by the Company or group companies with the directors under the terms of Companies Law, or with shareholders –holding a significant equity interest– either individually or jointly, including shareholders represented at the Board of Directors of the Company or other companies forming part of the same group or with persons related thereto. This approval shall not be applied to the transactions 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 3.º they contain amounts not exceeding one percent of the Company's annual revenues.

Generic authorisation of the operations line and its implementation conditions shall suffice for transactions that form part of the Company's ongoing concern deemed regular or recurring 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.

89,633 (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 Annual Report. 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 AND MANAGEMENT SYSTEMS

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

CAF Group's Risk Management System works in a comprehensive and continuous manner, consolidating its management at a corporate level for all businesses and geographic areas in which it operates.
During 2016, CAF, S.A.'s Board of Directors have reviewed its Risk Control and Management System in the terms set forth in the current General Risk Control and Management Policy, which is part of the CAF Group's internal regulations and is available on the website www.caf.net in the area of corporate policies.
The Policy is applicable to all the companies comprising the CAF Group, over which the Parent Company ("CAF") has effective control. 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 object of the General Risk Control and Management Policy and the specific Policies that develop it are applied in accordance with CAF's mission, vision and values, setting the basic principles and guidelines to control and manage all kinds of risks faced by the Company and the Group, identifying the main risks and organizing the appropriate internal control and information systems, and also carrying out the periodic monitoring of these systems' operation.
In practice, the Policy 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.
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 in each business/project according to its characteristics and expected profitability which are implemented from the very moment of submitting the tender.
• Establishing procedures for identification, analysis, measurement, control, authorization and information of the different risks for each business/project.
• Coordination and communication so that the procedures of the different businesses/projects are consistent with this Group's General Risk Control and Management Policy.
The Risk Control and Management System is suitable for the different business stages and the company's main departments participate in it. This model, which encompasses the most relevant activities carried out by the Group throughout the project life cycle, is subject to a continuous improvement process that allows it to be progressively strengthened.
More specifically, fiscal risk management is centralized in the tax area of CAF, S.A., where the main corporate tax risks of all businesses and geographies 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 System implemented to operate properly.

E.2. Identify the bodies responsible for preparing and implementing the risk management system, including the fiscal system.

As established in article 5 of the Company's Board of Directors' Regulations, on the general supervision role, the determination of the risk control and management policy, including tax risks, as well as the supervision over information and internal control internal systems, are one of the exclusive matters subject to the consideration of the full Board.
In this regard, the Board of Directors is responsible for the 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 Risk Management System implemented in the Group, and the body that will verify that the risks relevant to the Group are consistent and within the defined risk tolerance level.
The Board of Directors is responsible for promoting an internal risk culture that engages the entire organization.
For their part, it is the Audit Committee's responsibility to independently monitor or evaluate the effectiveness of the Risk Management System implemented and the procedures designed for its monitoring. This will be supported by the Internal Risk Management Unit 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 Risk Control and Management Policy and knowing the main elements of its evolution and control.
During 2016, the Internal Risk Management Unit was created; and, under the Audit Committee's direct supervision, the following functions are expressly attributed to it:
a) Ensure the good performance of risk management and control systems 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 risk management and control systems mitigate risks properly as part of the policy defined by the Board of Directors.
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.

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

The main risks faced by CAF Group in conducting its business are described in the directors' report for the year.
In accordance with the definitions established in the General Risk Control and Management Policy, risks are classified into two categories:
A) Corporate Risks. - Those affecting the Group as a whole and the listed Company in particular.
B) Business Risks. - Those that specifically affect each of the businesses/projects and that vary according to their singularity.
A) Corporate Risks include:
· Regulatory Risks (including legal and tax risks): arising from the reliability of the published Financial Information, Group's litigations, Securities Market regulations, data protection law, criminal liability of legal entities, possible changes in national and international tax regulations and civil liability, among others.
· Strategic risks: risks that may arise as a result of opting for a specific competitive and technological strategy, which could directly or indirectly influence, in a significant way, the Group's long-term objectives.
· Financial risks: including contingent liabilities and other off-balance-sheet risks. In general, the following risk subcategories are included:
o 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.
- Foreign 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.
- Commodity risk: risk derived from changes in prices and market variables in relation to raw materials needed in the business supply chain.
o Credit and counterparty 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.
o 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.
· Reputational Risks: risk arising from the perception, valuation or opinion about the Company by the main publics with which it is related, in such a way that they are severely impaired by actions carried out by the Company itself, for facts that are wrongly or unfairly imputed, or events of a similar nature that affect the sector as a whole and are projected in a more pronounced or harmful manner on the company due to its status as a leader in certain business segments.
· Operational risks: the risk related to human errors in the development of tasks associated with key business processes.
· Environmental risks: the Group is subject to environmental regulations and is exposed to environmental risks inherent to its business, which includes the risk of managing waste, discharges and emissions from plants.
· Cybersecurity Risks: is the cyber risk arising from the continuous threat on an industrial scale to digital assets, operations and corporate information by third parties, with a possible impact on the physical and logical security and integrity of information. It includes money fraud, information theft, service unavailability, infrastructures sabotage and reputation loss.

B) Business Risks in turn are grouped in:
· Operating risks: these include, among others, the risks related to project supply and execution, planning and control of the different project milestones from the beginning to the end, relationship with the clients –and, if applicable, with the other companies in the consortium–, product quality, homologation process, the client`s material reception process, environmental risks in the development of works, purchasing process, and subcontracting process.
· Non-Operational Risks: these include, among others, risks related to prevention, safety and health at work, Human Resources and training to be able to approach the contracted project, and compliance with applicable local tax laws and regulations.

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 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 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 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 Unit 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 by combining impact and probability, whose scales are updated periodically according to the evolution of the projects' key figures. The corresponding Action Plans are designed based on these risks.
Regarding Financial 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.
The CAF Group's General Risk Control and Management Policy is aimed at achieving a prudent risk profile, diversified by geographic areas, product types and customers, with a low tolerance level, and seeking a sustainable growth over time, both in terms of income and results.

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

During 2016 no material or extraordinary risks materialized, beyond those included in the Directors Report and in the Notes to the Financial Statements. Although none has had a significant impact on the organization, results or equity, it is worth mentioning the materialization of a contingency linked to a contract and indicated in the Notes whose impact on results has been minimal since it was previously provisioned practically in its entirety.
The main risks that may affect the achievement of business goals are managed actively by the organisation, pursuing the mitigation of adverse risks for the Group. On an overall basis, the group's business and geographical diversification prevents the risks to which the Company is exposed from having a material impact on its equity.
The exchange rate risk to which the Company is exposed due to its international operation is managed in accordance with the Company's guidelines, which basically provide for the establishment of financial or natural hedges, constant monitoring of fluctuations in exchange rates and other measures to mitigate such risk. However, during this year, the appreciation of the Brazilian real has had a positive impact on the Company's equity.
Finally, it should be noted that although contracting in the United Kingdom during 2016 is not subject to exchange rate risk, mechanisms have been put in place to anticipate and adequately manage other potential consequences of Brexit, both in contracts in the portfolio 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 Risk Management System is based on preparing 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 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 the 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 internal control over financial reporting (ICFR) risk control and management system 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 CAF S.A.'s professionals 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 a policy and procedure system to prevent the commission of material crimes as much as possible. This Crime Prevention Handbook has been updated and revised by the Board of Directors on 27 July 2016. In 2016, a training plan has been initiated for this Crime Prevention Handbook aimed at raising awareness, dissemination and application by CAF personnel.

• 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 2016, the main reference indicators of this activity have been as follows:
· Number of participants in the training actions on this matter: 79
· Number of training hours received: 413 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.

- Governance body in charge of supervising 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

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

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 Executive 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 Information and Communication 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
  o Procedures to backup and recover critical data and to protect personal equipment units and servers
  o Physical and environmental security of data processing centres
  o 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.

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 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.

CAF's Audit Committee oversees the financial information. The Audit Committee should ensure the Financial Information Internal Control System works effectively, obtaining sufficient evidence as to its adequate design and working order, which requires evaluations of the identification process of risks that can affect the fair presentation of the financial information, verifications that there are controls in place to mitigate them and making sure they work properly.
The role of CAF's Audit Committee of supervising the Financial Information Internal Control System has been delegated to the Internal Audit Department. In addition, as part of the external audit, meetings are held with the external auditors so that they may present the conclusions of their audit work performed (which include, where appropriate, material aspects detected in the internal control area).
The Audit Committee ensures the staff involved in the Financial Information Internal Control System evaluation tasks:
- Show integrity and is independent in the performance of their work, so that their conclusions are objective and impartial.
- Are competent and have the necessary technical ability to perform their work diligently.
Annually, the Internal Audit Manager submits the annual audit work plan for approval by the Audit Committee, which includes the tasks to be performed for ICFR supervision. 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 2016 reporting period the Annual Work Plan submitted and subsequently implemented by the Internal Audit Department covers the following matters:
· Identification of the main risks on financial information.
· 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.
· Audit of financial reporting processes and of the main subsidiaries, as per a three-year turnover plan.
· Follow-up on the status of the action plans proposed to tackle identified shortfalls and improvement recommendations.
· Submittal to the Audit Committee of the results of the work performed.

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 2016, five 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 2016 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. During 2016, 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 2016, the new accounting standards and Law 22/2015 on Audit.

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 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) The changes occurred from the last general annual 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 [ ] Partly complies [X] Explain [ ]

During the Company's Annual General Meeting, the Board of Directors' Chair verbally reports the shareholders on the most relevant aspects of corporate governance and the changes since the previous Annual General Meeting, although there is not a point-by-point realization of the specific Corporate Governance recommendations unfulfilled. In any case, the Company intends to include this detailed information during the next Annual General Meeting.

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 [ ] Partly complies [X] Explain [ ]

In 2014, CAF's Board of Directors raised to the Annual General Meeting a proposal for the delegation of powers to issue securities convertible into shares of the Company, or other Group companies, with the right to exclude the preferential subscription right

for the maximum legal amount, and for a five-year term. The proposal was approved.
The Board of Directors issued this proposal within the limits and conditions established in applicable regulations. At the time the proposal was brought to the General Meeting, there were no specific prospects for the Board of Directors to exercise such authorisation. In fact, to date, the Board of Directors has not adopted any agreement to execute such power.
The Board of Directors intends to propose to the next Annual General Meeting a delegation of powers to issue securities convertible into shares of the Company, or other Group companies, replacing the previous agreement, setting the exclusion limit of the preferential subscription right at 20% of the capital at the time the delegation occurs.

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 dissemination 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.

d)Report on corporate social responsibility policy.

Complies ☐ Partly complies ☒ Explain ☐

Some of the reports listed have not been published prior to the 2016 Annual General Meeting. However, the Company intends to publish on its website all the listed reports prepared before the 2017 Annual General Meeting.

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

Complies ☐ Explain ☒

The Company provides detailed information on the development of the General Annual Meeting under "Shareholders and investors" of the corporate website (www.caf.net). To date, Annual General Meetings have not been broadcast live through its website for technical reasons. However, the Company intends to establish the technical means to comply with this recommendation at the next Annual General Meeting.

8. The Audit Committee ensures that the board of Directors presents the annual accounts 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 ☒ Partly complies ☐ Explain ☐

9. The Company must publish in their websites, on a permanent basis, the requirements and procedures to prove the ownership of shares, the right to 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 ☒ 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) Spread those supplementary items and new agreement proposals immediately.

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) Submit those items or alternative proposals to voting and apply the same voting rules as those proposed by the Board of Directors, including, in particular, the presumptions or deductions on the sense of voting.

d) After the general shareholders' meeting, notify the particulars of voting with respect to those supplementary items or proposed alternatives.

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 appointment or re-election proposals are based on a previous analysis of the Board of Directors' needs; and

c) Favours the 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 ☒ 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 companies with high capitalisation where there are few shareholdings deemed material from the legal point of view.

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 capitalisation 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) Other Board of Directors to which they belonged, regardless of whether listed companies were involved, as well as the other compensated activities, 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. Particularly, it shall be understood that there is just cause, whenever the director occupied new positions or assumed new obligations preventing him/her from performing the functions applicable to directors, failed to comply with the duties inherent to his/her position or proceeded in a way that caused him/her to be no longer independent, as established by applicable legislation.

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 8 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. Notwithstanding the knowledge required from directors in exercising their functions, the companies must also provide the directors with programs to improve their knowledge whenever circumstances required so.

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 Bylaws 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 structure and competence diversity of the Board of Directors.

d) The performance of the Company's Board of Directors' Chairman and Managing Director.

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

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 information and internal control 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 information and internal control 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 of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic information on its activities; and check that senior management is considering its recommendations and conclusions.

   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) Ensuring that the external auditor's compensation does not compromise his/her 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) Ensuring that the external auditor holds an annual meeting with the Board of Directors in full to advise them on the work done and the variations in the company's risk and accounting situation.

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) 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 information and internal 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 good performance of risk management and control systems 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.

c) Ensure that risk management and control systems mitigate risks properly as part of the policy defined by the Board of Directors.

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 capitalisation companies should have two separate committees, an 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) 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.

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 the compliance with the Company's internal codes of conduct and corporate governance rules.

b) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluating the adequacy of the Company's corporate governance system in order to ensure compliance with the goal of promoting social interest and, as applicable, the legitimate interests of the other groups of interest.

d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value.

e) Following-up the corporate social responsibility strategy and practice and evaluating the level of compliance.

f) Supervising and evaluating the processes to create relationships with the different groups of interest.

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

h) Coordinating the non-financial reporting process and the report on diversity, pursuant to applicable regulations and reference international standards.

Complies [ ] Partly complies [X] Explain [ ]

Committee regulations do not establish some of the functions previously mentioned. However, the Company intends to allocate such functions during this fiscal year.

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 goals of the corporate social responsibility policy and the development of support instruments.

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

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

d) The methods or systems for the follow-up of results from the application of the specific practices mentioned in the previous item, related 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 preventing the manipulation of information and protecting 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' compensation must be sufficient to attract and retain the directors with the intended profile and to compensate for the dedication, qualification and responsibility required by the position, but not so high as to compromise the independent 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 related to return criteria that can be determined or measured and that consider the risk assumed to earn income.

b) Promote the Company's sustainability and include non-financial criteria that are proper for the long-term creation of value, such as the compliance with the Company's rules and internal procedures and its risk management and control policies.

c) Be configured by balancing the compliance with short-, medium- and long-term goals, allowing to compensate for the continuous performance over a sufficient period of time that shows contribution to the sustainable creation of value, so that the measurement elements of such return do not refer only to specific, occasional or extraordinary events.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

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 you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by the company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

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.1. Regarding the information contained in Section A.1, it is noteworthy that on 11 June 2016 a share split agreement or "Split" was approved by the Annual General Meeting. On 27 July 2016, the Board of Directors executed the aforementioned agreement under the delegation conferred by the Annual General Meeting. This operation took effect on 30 November 2016 by reducing the shares' nominal value from €3.01 to €0.301 each, without changing the share capital.
At 31 December 2016 and currently, after the Split operation described, the Company's share capital is composed of 34,280,750 shares with a nominal value of €0.301 euros each, represented by means of book entries, fully subscribed and paid, all listed on the Stock Exchange.

A.2. Because the system only supports two decimal places, we have not been able to enter the exact percentage over the total voting rights of BBK Fundación Bancaria which is 14.056%.

A.3. As the system only allows for 2 decimal points, we have not been able to enter the correct percentages of the total voting rights, which are as follows: 72,564,821M JUAN JOSE ARRIETA SUPUDE 0.003% y 15,116,224A XABIER GARAIALDE MAIZTEGI 0.002%. TOTAL 0.005%.

C.1.19. 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 employees of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the 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. 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 five years. Directors may be re-elected once or several times for equal periods. Directors' appointments shall be effective upon acceptance thereof. The Board of Directors shall be renewed upon members' office expiration. 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. Report and review the criteria that must be followed with respect to the composition and remuneration of the Board of Directors and the selection of candidates. The Committee shall define the necessary Board members' functions and skills and shall evaluate the time and dedication needed for each member to perform his/her duties correctly. The Committee shall always ensure that the existing relation between the number of Proprietary, Independent and Executive Directors is the most suitable for the Company's appropriate operation and the protection of minority shareholders. The Committee shall also report on senior officers' appointments and removals planned by the Board. 2. Submit to the Board proposals for Directors' appointment through cooption or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. Any Director shall, for that purpose, 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 to 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 offence, 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 reasonably report all of the aforementioned in the Annual Corporate Governance Report. In any case, directors shall inform and, if applicable, resign in those events that may be detrimental to the Company's name and reputation.

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 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 the related party transactions. k) 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.

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. 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. The Committee shall be duly convened when half of the members attend the meeting in person or by proxy.

During 2016, the Audit Committee held five meetings.

Most important actions in the year:

In addition to the essential and continuous actions on the review of the interim financial information and the Company's Annual Report, as well as its submission to the Board of Directors, the following are the most important actions during this year: a) Monitoring the Internal Audit Plan for 2016. b) Monitoring the main risks of the financial information. c) Proposal to the Board of Directors for amending the Audit Committee's Regulations to adapt it to the Audit Law and to the Corporate Governance. d) Preparing the Report on the external auditor independence. e) Preparing the proposal for renewal of the external auditor for submission to the Annual General Meeting. f) Approving the procedure for contracting services to the auditor and approving the budget for non-audit services. g) Monitoring and supervising the work entrusted to external advisors on the Company's Risk Control and Management Model. h) Submitting to the Board of Directors a proposal to review the Company's General Risk Control and Management Policy.

NOMINATION AND REMUNERATION COMMITTEE

Most important actions in the year:

The Committee has participated in appointing Directors during 2016, exercising the functions that it has been entrusted. In particular, during this year the most relevant actions of this Committee were: a) Proposal to the Board of the Directors Remuneration Report for 2015, which was approved. b) Submitting to the Board of Directors the proposal to improve the managers' contractual conditions, and in particular remunerative conditions, with direct dependence of the Chief Executive Officer, pursuant to Article 3.7 of the Committee's Regulations. c) Preparing the Report referred to in Article 9.1 of the Board of Directors' Regulations for nominating the Board of Directors Secretary by the Board of Directors. d) Submitting the proposal for nominating an independent woman Director, as well as preparing the corresponding reports on nomination and subsequent ratification at the Board of a woman Executive Director and ratification of a Proprietary Director, all covered by persons from different professional profiles and with respect for diversity of knowledge, experiences and gender, in compliance with the Directors Selection Policy. This has also resulted in compliance with the Action Plan established in the Assessment Report prepared by the Committee on its own performance in the past year, following the Corporate Governance recommendations.

D.5. The transactions performed with other related parties amount to EUR 89,633 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 27/02/2017.

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 2016

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

Deloitte.

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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 2016

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 19 September 2016, 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 2016, 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 2016 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.

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.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the audit regulations in force in Spain, we do not express an audit opinion in the terms provided for in those regulations.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Group in relation to the ICFR system -disclosure information included in the Directors' Report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report 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.

Javier Giral Gracia
27 February 2017

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated Statements of financial position as at 31 December 2016 and 2015 (Notes 1, 2 and 3)
(Thousands of Euros)

Assets	31/12/16	31/12/15 (*)
Non-current assets:		
Intangible assets (Note 7)-		
Goodwill	15	15
Other intangible assets	40,129	34,719
	40,144	**34,734**
Property, plant and equipment, net (Notes 6 and 8)	**229,309**	**240,787**
Investments accounted for using the equity method (Note 9)	**18,572**	**14,308**
Non-current financial assets (Note 9)	**666,419**	**612,897**
Deferred tax assets (Note 18)	**159,176**	**161,108**
Total non-current assets	**1,113,620**	**1,063,834**
Current assets:		
Inventories (Note 11)	**60,287**	**86,253**
Trade and other receivables-		
Trade receivables for sales and services (Notes 10, 11 and 12)	1,306,363	1,120,483
Other receivables (Notes 9, 10 and 19)	204,033	169,306
Current tax assets (Note 19)	13,426	8,451
	1,523,822	**1,298,240**
Other current financial assets (Note 13)	**140,480**	**122,423**
Other current assets	**3,206**	**5,939**
Cash and cash equivalents	**392,022**	**297,440**
Total current assets	**2,119,817**	**1,810,295**
Total assets	**3,233,437**	**2,874,129**

Equity and Liabilities	31/12/16	31/12/15 (*)
Equity (Note 14):		
Shareholders' equity-		
Registered share capital	10,319	10,319
Share premium	11,863	11,863
Revaluation reserve	39,119	39,119
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	758,268	734,288
Profit for the year attributable to the Parent	35,013	41,041
	854,582	**836,630**
Valuation adjustments-		
Hedges	(5,908)	(5,142)
Translation differences	(76,703)	(127,748)
	(82,611)	**(132,890)**
Equity attributable to the Parent	**771,971**	**703,740**
Non-controlling interests	**11,706**	**11,187**
Total equity	**783,677**	**714,927**
Non-current liabilities:		
Long-term provisions (Note 20)	**4,646**	**4,526**
Non-current financial liabilities (Notes 15 and 16)-		
Bank borrowings	648,145	662,168
Other financial liabilities	61,428	74,924
	709,573	**737,092**
Deferred tax liabilities (Note 18)	**172,137**	**156,817**
Other non-current liabilities (Note 3-f)	**58,039**	**63,996**
Total non-current liabilities	**944,395**	**962,431**
Current liabilities:		
Short-term provisions (Note 20)	**227,937**	**228,766**
Current financial liabilities (Notes 15 and 16)-		
Bank borrowings	103,075	203,722
Other financial liabilities	139,527	53,700
	242,602	**257,422**
Trade and other payables-		
Payable to suppliers (Note 25)	376,531	352,153
Other payables (Notes 10, 11, 15, 19 and 20)	657,056	355,596
Current tax liabilities (Note 19)	969	647
	1,034,556	**708,396**
Other current liabilities	**270**	**2,187**
Total current liabilities	**1,505,365**	**1,196,771**
Total equity and liabilities	**3,233,437**	**2,874,129**

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet as at 31 December 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated Statements of Profit or Loss for the years ended 31 December 2016 and 2015 (Notes 1, 2 and 3)

(Thousands of Euros)

	(Debit) Credit	
	2016	**2015 (*)**
Continuing operations:		
Revenue (Notes 6, 9 and 10)	1,318,200	1,283,591
+/- Changes in inventories of finished goods and work in progress	(15,474)	(126,137)
In-house work on non-current assets	9,778	6,490
Procurements (Note 21)	(608,669)	(435,014)
Other operating income (Note 21)	15,792	4,245
Staff costs (Note 22)	(397,634)	(402,164)
Other operating expenses (Note 21)	(186,723)	(164,996)
Depreciation and amortisation charge (Notes 7 and 8)	(34,669)	(38,399)
Impairment and gains or losses on disposals of non-current assets (Notes 2-f, 7, 8 and 9)	11,239	(833)
Profit from operations	**111,840**	**126,783**
Finance income (Notes 9, 10 and 13)	13,643	10,476
Finance costs (Notes 9, 16 and 17)	(72,819)	(56,632)
Changes in fair value of financial instruments	870	3
Exchange differences	5,916	(19,632)
Impairment and gains or losses on disposals of financial instruments (Note 9)	(594)	(589)
Financial loss	**(52,984)**	**(66,374)**
Result of companies accounted for using the equity method (Note 9)	473	-
Profit before tax	**59,329**	**60,409**
Income tax (Note 18)	(22,049)	(17,795)
Profit for the year from continuing operations	**37,280**	**42,614**
Consolidated profit for the year	**37,280**	**42,614**
Attributable to:		
The Parent	35,013	41,041
Non-controlling interests	2,267	1,573
Earnings per share (euros) (Note 2-e)		
Basic	1.02	1.20
Diluted	1.02	1.20

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of profit or loss for 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated Statements of Comprehensive Income for 2016 and 2015 (Notes 1, 2 and 3)

(Thousands of Euros)

	2016	2015 (*)
A) Consolidated profit for the year:	**37,280**	**42,614**
B) Other comprehensive income - Items not reclassified to profit or loss:	**713**	**829**
Arising from actuarial gains and losses (Note 3-j)	990	1,151
Tax effect (Note 18)	(277)	(322)
C) Items that may be reclassified subsequently to profit or loss:	**50,292**	**(56,348)**
Cash flow hedges:	**(301)**	**684**
Revaluation gains/losses (Note 17)	(33)	283
Amounts transferred to profit or loss	(268)	401
Translation differences:	**53,971**	**(61,752)**
Revaluation gains/losses (Note 14)	53,971	(61,752)
Amounts transferred to profit or loss	-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:	**(516)**	**615**
Revaluation gains/losses-		
Cash flow hedges (Notes 9 and 17)	(1,206)	(92)
Translation differences	3	(6)
	(1,203)	(98)
Amounts transferred to profit or loss-		
Cash flow hedges (Note 17)	635	713
Translation differences	52	-
	687	713
Tax effect	**(2,862)**	**4,105**
Total comprehensive income (A+B+C)	**88,285**	**(12,905)**
Attributable to:		
The Parent	86,005	(14,472)
Non-controlling interests	2,280	1,567

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated Statements of Changes in Equity
for 2016 and 2015 (Notes 1, 2 and 3)
(Thousands of Euros)

	Equity attributable to the Parent								
	Shareholders' equity								
	Share capital	Share premium	Reserve for unrealised fair value gains and losses	Other reserves	Net profit for the year	Valuation adjustments	Translation differences	Non-controlling interests	Total equity
Balances at 31 December 2014 (*)	**10,319**	**11,863**	**39,119**	**691,777**	**59,679**	**(6,212)**	**(70,336)**	**12,704**	**748,913**
Total comprehensive income	**-**	**-**	**-**	**829**	**41,041**	**1,070**	**(57,412)**	**1,567**	**(12,905)**
Transactions with shareholders or owners	**-**	**-**	**-**	**-**	**(17,997)**	**-**	**-**	**(3,084)**	**(21,081)**
Dividends paid	-	-	-	-	(17,997)	-	-	(3,224)	(21,221)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	140	140
Other changes in equity	**-**	**-**	**-**	**41,682**	**(41,682)**	**-**	**-**	**-**	**-**
Transfers between equity items (Note 14)	-	-	-	41,682	(41,682)	-	-	-	-
Balances at 31 December 2015 (*)	**10,319**	**11,863**	**39,119**	**734,288**	**41,041**	**(5,142)**	**(127,748)**	**11,187**	**714,927**
Total comprehensive income	**-**	**-**	**-**	**713**	**35,013**	**(766)**	**51,045**	**2,280**	**88,285**
Transactions with shareholders or owners	**-**	**-**	**-**	**223**	**(17,997)**	**-**	**-**	**(1,761)**	**(19,535)**
Dividends paid	-	-	-	-	(17,997)	-	-	(1,935)	(19,932)
Other transactions with non-controlling interests (Note 2-f)	-	-	-	223	-	-	-	174	397
Other changes in equity	**-**	**-**	**-**	**23,044**	**(23,044)**	**-**	**-**	**-**	**-**
Transfers between equity items (Note 14)	-	-	-	23,044	(23,044)	-	-	-	-
Balances at 31 December 2016	**10,319**	**11,863**	**39,119**	**758,268**	**35,013**	**(5,908)**	**(76,703)**	**11,706**	**783,677**

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated Statements of Cash Flows for 2016 and 2015 (Notes 1, 2 and 3) (Thousands of Euros)

	2016	2015 (*)
Cash flows from operating activities:		
Profit before tax	59,329	60,409
Adjustments for-		
Depreciation and amortisation charge (Notes 7 and 8)	34,669	38,399
Impairment losses (Notes 8 and 9)	2,827	2,293
Changes in provisions (Notes 3 and 20)	221	(30,581)
Other income and expenses	11,559	19,881
Gains and losses on disposals of non-current assets (Notes 2-f and 8)	(13,795)	(836)
Investments accounted for using the equity method (Note 9)	(473)	-
Finance income	(13,643)	(10,476)
Finance costs	72,819	56,632
Changes in working capital-		
Trade receivables and other current assets (Notes 3-d and 12)	(144,083)	(68,735)
Inventories (Note 11)	33,917	80,418
Trade payables (Note 11)	316,941	(32,778)
Other current liabilities	(418)	1,688
Other non-current assets and liabilities	(6,206)	(1,805)
Other cash flows from operating activities-		
Income tax recovered/(paid) (Note 19)	(16,684)	(16,986)
Other amounts received/(paid) relating to operating activities	(1,562)	(2,009)
Net cash flows from operating activities (I)	**335,418**	**95,514**
Cash flows from investing activities:		
Payments due to investment-		
Group companies and associates (Notes 9 and 10)	(1,102)	(2,670)
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	(26,977)	(19,210)
Other financial assets (Notes 9 and 13)	(42,967)	(7,195)
Proceeds from investments-		
Group companies and associates (Note 2-f)	581	3,963
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	13,867	137
Other financial assets (Notes 9 and 13)	49,910	22,324
Interest received (Notes 9 and 13)	12,907	7,989
Net cash flows from investing activities (II)	**6,219**	**5,338**
Cash flows from financing activities:		
Issue of shares by non-controlling interests	2,001	140
Proceeds/(Payments) relating to financial liability instruments-		
Issue (Notes 15 and 16)	171,782	217,842
Repayment (Notes 15 and 16)	(346,284)	(139,083)
Dividends and returns on other equity instruments paid (Nota 14)	(19,933)	(21,221)
Other cash flows from financing activities-		
Interest paid (Note 16)	(58,952)	(53,894)
Net cash flows from financing activities (III)	**(251,386)**	**3,784**
Net increase in cash and cash equivalents (I+II+III)	**90,251**	**104,636**
Cash and cash equivalents at beginning of year	297,440	197,111
Effect on cash of foreign exchange rate changes	4,331	(4,307)
Cash and cash equivalents at end of year	**392,022**	**297,440**

(*) Presented for comparison purposes only (see Note 2-e).

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of cash flows for 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2016

1. Description and activities of the Parent

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") was incorporated for an indefinite period of time in San Sebastián (Guipúzcoa).

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

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

The Parent, as part of its business activities, owns majority ownership interests in other companies (see Note 2-f).

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2016 of the CAF Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the Group's accompanying consolidated financial statements are summarised in Note 3.

- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.

- So that they present fairly the CAF Group's consolidated equity and consolidated financial position at 31 December 2016 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2015 were approved by the shareholders at the Annual General Meeting of CAF on 11 June 2016. The 2016 consolidated financial statements of the Group and the 2016 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of new standards and interpretations issued

In 2016 new accounting standards came into force and were taken into account when preparing the accompanying consolidated financial statements.

Since their entry into force on 1 January 2016, the Group has applied the amendments to IAS 1, the main objective of these amendments being to improve presentation and certain disclosures, specifically, the clarification of the items in the consolidated statement of comprehensive income and, in particular, of the other comprehensive income of companies accounted for using the equity method which must be grouped on the basis of whether or not they will be reclassified subsequently to profit or loss. The Group has adapted the consolidated statement of comprehensive income to the standard (see Note 2-e).

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant new standards, amendments and interpretations that had been published by the IASB but which had not come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

Pronouncement	Effective date - IASB	Effective date - European Union
Amendments to IAS 7, Disclosure Initiative	1 January 2017	Pending
Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	Pending
IFRS 15, Revenue from Contracts with Customers	1 January 2018	1 January 2018
IFRS 9, Financial Instruments	1 January 2018	1 January 2018
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions	1 January 2018	Pending
Amendments to IFRS 4, Insurance Contracts	1 January 2018	Pending
Amendments to IAS 40, Reclassification of Investment Property	1 January 2018	Pending
IFRIC 22, Foreign Currency Transactions and Advance Consideration	1 January 2018	Pending
IFRS 16, Leases	1 January 2019	Pending
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Pending	Pending

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers is the new comprehensive standard on the recognition of revenue from contracts with customers and will supersede the following standards and interpretations currently in force: IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services for annual reporting periods beginning on or after 1 January 2018.

At the date of authorisation for issue of these consolidated financial statements the Group was analysing the impacts of adopting this standard by identifying the various types of revenue in the contracts with current customers and the determination and allocation of transaction prices, based on the five steps around which revenue recognition is structured under the new standard in order to identify possible differences with respect to the current model. At 2016 year-end it was not be possible to reasonably assess the effects of adoption.

IFRS 9, Financial Instruments

IFRS 9 will in the future supersede IAS 39 and adoption will be required for reporting periods beginning on or after 1 January 2018. There are very significant differences with respect to the current standard, the most significant of which are the new financial asset classification and measurement approach and categories; a new impairment model based on expected credit losses instead of incurred credit losses; and a new hedge accounting model which attempts to align hedge accounting more closely with risk management.

At the date these consolidated financial statements were authorised for issue the Group was analysing the impacts of adoption, mainly with regard to the expected credit loss (mainly for trade receivables) and hedge accounting models. At 2016 year-end it was not be possible to reasonably assess the effects of adoption.

IFRS 16, Leases

IFRS 16 will supersede the current IAS 17 and will be applicable for reporting periods beginning on or after 1 January 2019. The main change is the introduction of a single lessee accounting model which requires a lessee to recognise all leases (with certain limited exceptions) as if they were financed purchases, i.e. with an impact similar to the current finance leases. However, in the case of lessor accounting, a dual model will continue to be used, similar to that currently established in IAS 17.

The detail of payments in relation to outstanding operating leases are disclosed in Note 3-m to the consolidated financial statements.

c) *Functional currency*

These consolidated financial statements are presented in euros, since it is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies described in Note 2-f.

d) *Use of estimates*

In the consolidated financial statements of the CAF Group for 2016 estimates were occasionally made. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The assessment of possible impairment losses on certain assets (see Notes 7, 8, 9, 10, 11, 12 and 13);
- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 15);
- The useful life of the property plant and equipment and intangible assets (see Notes 3-a and 3-b);
- The fair value of certain financial assets (see Note 3-d);
- The calculation of provisions (see Note 20);

- The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised (see Note 18);

- Changes in estimated costs in the budgets for construction projects performed (see Note 3-f);

Although these estimates were made on the basis of the best information available at 31 December 2016 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statements of profit or loss.

There have been no changes in accounting estimates with respect to 2015 that might have had a material impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2016 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2015.

The 2015 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2016.

To assist comparability, the Group disclosed information on earnings per share and number of shares for 2015 taking into consideration the share split performed on 30 November 2016 (see Note 14). Also, the Group adapted the new presentation format for the consolidated statement of recognised income and expense, both for the figures for 2016 and 2015, which is presented for comparison purposes as set forth in Spanish National Securities Market Commission (CNMV) Circular 5/2015, of 28 October 2015 (see Note 2-b).

f) Consolidated Group and basis of consolidation

Scope of consolidation

The accompanying consolidated financial statements include the Parent and the companies over which it exercises control; control is defined as the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The accompanying consolidated financial statements for the year ended 31 December 2016 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - see Note 1) at that date and of the subsidiaries and associates listed below:

	% of control or influence	Location	Line of business	Auditor
Fully consolidated companies - Industrial Subgroup				
CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of rolling stock equipment and components	Deloitte
CAF USA, Inc.	100%	Delaware	Manufacturing	G. Thornton
CAF México, S.A. de C.V.	100%	Mexico City	Manufacturing and maintenance	Deloitte
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Manufacturing and maintenance	Deloitte
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance	G. Thornton
CAF Rail UK, Ltda.	100%	Belfast	Repairs and maintenance	Deloitte
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance	Deloitte
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance	Deloitte
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance	Deloitte
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance	CACF Audit
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance	Deloitte
CAF Rail Australia Pty. Ltd.	100%	Sydney	Manufacturing and maintenance	Pitcher Partners
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance	Deloitte
CAF France, SAS	100%	Paris	Manufacturing and maintenance	Deloitte
Trenes de Navarra, S.A.U.	100%	Navarre	Manufacturing	Deloitte
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing	Bsk
Construcciones Ferroviarias - CAF Santana, S.A.	83.73%	Jaén	Manufacturing	Bsk
Tradinsa Industrial, S.A.	100%	Lleida	Repairs and maintenance	Deloitte
CAF New Zealand Ltd	100%	Auckland	Manufacturing and maintenance	Staples Rodway
CAF Sisteme Feroviare SRL	100%	Bucharest	Manufacturing and maintenance	Deloitte
CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance	Deloitte
CAF Arabia, Co.	100%	Riyadh	Manufacturing and maintenance	Deloitte
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance	-
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance	Deloitte
CAF Hungria, K.F.T.	100%	Budapest	Manufacturing and maintenance	BDO
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D	Deloitte
CAF Power & Automation, S.L.U.	100%	Guipúzcoa	Electronic and power equipment	Deloitte
Vectia Mobility Research & Development, A.I.E.	67.48%	Guipúzcoa	R&D	Deloitte
Vectia Mobility, S.L.	79.46%	Guipúzcoa	Solutions for urban transport	Deloitte
CAF Turnkey & Engineering, S.L.U.	100%	Vizcaya	Engineering	Deloitte
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests	Bsk
Lander Simulation and Training Solutions, S.A.	57%	Guipúzcoa	Simulators	Bsk
Geminys, S.L.	100%	Guipúzcoa	Operating manuals	Bsk
CAF Signalling, S.L.U.	100%	Guipúzcoa	Signalling	Deloitte
CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi	100%	Istanbul	Signalling	Deloitte
Services Subgroup				
Actren, S.A.	51%	Madrid	Maintenance	Deloitte
Sermanfer, S.A.	100%	Madrid	Maintenance	Bsk
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services	Almaguer
Inversiones en Concesiones Ferroviarias, S.A.	100%	Guipúzcoa	Business development	Deloitte
Urbanización Parque Romareda, S.A.	100%	Zaragoza	Holding company	-
UPR Argentina, S.A.	100%	Buenos Aires	Holding company	-
Ctrens Companhia de Manutençao, S.A.	100%	Sao Paulo	Lease services	Deloitte
Provetren, S.A. de C.V.	100%	Mexico City	Lease services	Deloitte
Regiotren, S.A. de C.V.	100%	Mexico City	Lease services	-
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Ennera Energy and Mobility, S.L.	100%	Guipúzcoa	Power generation	Bsk
Ennera Kaihatsu CO, LTD	100%	Tokyo	Power generation	-
Rail Line Components, S.L.U.	100%	Guipúzcoa	Marketing	Bsk
Construction Subgroup				
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	Mexico City	Equipment	Deloitte
Companies accounted for using the equity method (Note 9)- Industrial Subgroup				
Compañía de Vagones del Sur, S.A.	29.3%	Jaén	Manufacturing	-
Ferrocarril Interurbano, S.A. de C.V.	49.63%	Mexico City	Manufacturing and equipment	Deloitte
Basa TMB, S.L.	32.61%	Vizcaya	Repairs and maintenance	-
Technology Subgroup				
Nuevas Estrategias de Mantenimiento, S.L.(*)	50%	Guipúzcoa	Technology solutions	Bsk
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automated production	-
Tumaker, S.L.	24.9%	Guipúzcoa	Printing equipment	Bsk
Services Subgroup				
Ferrocarriles Suburbanos, S.A. de C.V.	43.35%	Mexico City	Transport services	Deloitte
Plan Metro, S.A.	40%	Guipúzcoa	Lease services	-
Consorcio Traza, S.A. (**)	25%	Zaragoza	Holding company	-
Arabia One for Clean Energy Investments PSC	40%	Ma'an	Power generation	-
Purple Line Transit Operators, LLC	20%	Delaware	Operation and maintenance	-

(*) This company owns all the shares of NEM Solutions USA, Inc. with registered office in the US.
(**) This company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Changes in the scope of consolidation

In 2016 Ennera Kaihatsu Co, Ltd., NEM Solutions, USA, Ltd and Purple Line Transit Operators, LLC were incorporated and Urban Transport Solutions, B.V. and Zhejiang Sunking Trainelec Traintic Electric Co, Ltd were liquidated.

On 18 May 2016, the CAF Group sold 35% of the shares in Nuevas Estrategias de Mantenimiento, S.L. ("NEM"). As a result of this transaction control over the aforementioned company was lost, adopting a position of joint control with the new reference shareholder. The transaction amounted to approximately EUR 3,150 thousand (considering cash of EUR 2,591 thousand at the transaction date), which was paid in full. Following the loss of control, the Group recognised its remaining ownership interest measured initially at its fair value, which was estimated to be EUR 4,500 thousand, under "Investments Accounting for Using the Equity Method". The gain on the transaction, amounting to EUR 4,608 thousand, was recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying statement of profit or loss.

Also, the ownership interests in CAF Sinyalizasyon Sistemleri Ticaret, Ltd., Vectia Mobility Research & Development, A.I.E. and Vectia Mobility, S.L., over which the Group already held control, were increased by 10%, 7.48% and 19.46%, respectively, giving rise to a total net disbursement by the CAF Group of EUR 1,065 thousand.

In 2016 the corporate name of CAF Transport Engineering, S.L.U. was changed to CAF Turnkey & Engineering, S.L.U.

In 2015 Basa TMB, S.L. was incorporated and CAF Latvia, SIA, which was dormant, was liquidated.

In September 2015 a corporate reorganisation transaction was carried out within the Group involving the merger by absorption of Constructora de Sistemas Ferroviarios, S.L. into CAF Transport Engineering, S.L.U.

In December 2015 all the shares of Miralbaida Energia XV, S.L., Beasain Energia Solar, S.L. and El Yelmo Solar, S.L. (companies engaging mainly in energy generation using solar panels (see Note 8)) were sold for approximately EUR 3,708 thousand, and a gain of EUR 1,041 thousand was recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss.

In 2015 the corporate name of Urban Art Alliance for Research on Transport A.I.E. was changed to Vectia Mobility Research & Development, A.I.E.

Consolidation method

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise control; control exists when the Parent has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all balances and effects of the transactions between consolidated companies were eliminated on consolidation.

Also, "associates" are companies over which the Parent is in a position to exercise significant influence, but not control or joint control. A "joint venture" is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations, less any impairment of the individual investments (in the case of transactions with an associate, the related profits or losses are eliminated in proportion to the Group's ownership interest).

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control, which exists only when decisions on significant activities require the unanimous consent of the parties sharing control. When a Group company carries on its activities under the framework of a joint operation, the Group as a joint operator will recognise the following in relation to its ownership interest in the joint operation:

- its assets and liabilities, including its share of any assets and liabilities held or incurred jointly;

- its share of the revenue and expenses arising from the joint operation.

Translation of foreign currency financial statements

The financial statements in foreign currencies were translated to euros using the "year-end exchange rate" method, which consists of translating all the assets, rights and obligations to euros at the closing exchange rates and the statement of profit or loss items at the average exchange rates for the year.

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the asset value arising from the translation of the assets, rights and obligations at the closing exchange rates from 1 January 2004 is presented in equity under "Translation Differences" in the consolidated statements of financial position, net of the portion of the difference that relates to non-controlling interests, which is recognised under "Equity - Non-Controlling Interests".

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2015.

3. Accounting principles and policies and measurement bases applied

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements as at 31 December 2016 and 2015 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 (see Note 7). 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 7).

b) *Property, plant and equipment*

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996, of 5 December, and the surplus resulting therefrom was treated as part of the cost of these assets, in accordance with IFRSs and pursuant to the alternative accounting treatment provided for by IFRS 1, whereby the fair value at the date of transition is used as the deemed cost for certain specific assets.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

In-house work performed by the consolidated companies on items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (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 general, for items of property, plant and equipment that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans borrowed specifically or generally directly attributable to the acquisition or production of the assets.

c) *Impairment of assets*

At each statements of financial position date, the CAF Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

d) *Financial instruments*

Trade and other receivables

Trade and other receivables are initially recognised at fair value in the consolidated statements of financial position and are subsequently measured at amortised cost using the effective interest method.

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectability analysis.

Also, the Group derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the risks and rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred.

At 31 December 2016, the Group derecognised receivables amounting to EUR 107,190 thousand (31 December 2015: EUR 31,364 thousand) as a result of factoring agreements.

Financial assets

In accordance with the classification criteria established by IAS 39, 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 Group 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. Changes in fair value are recognised with a charge or credit to "Valuation Adjustments" in the consolidated statements of financial position 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 consolidated 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 market value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost.

The CAF Group decides on the most appropriate classification for each asset on acquisition.

Fair value measurements of financial assets and liabilities are classified according to the following hierarchy established in IFRS 13:

- Level 1: quoted prices in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: Inputs for the asset or liability that are not based on observable market data.

The detail of the CAF Group's assets and liabilities measured at fair value according to the levels indicated above at 31 December 2016 and 2015 is as follows (in thousands of euros):

2016

	Level 1	Level 2	Total
Assets			
Derivatives (Note 17)	-	58,243	58,243
Held-for-trading financial assets (Note 13)	54,732	-	54,732
Total assets	**54,732**	**58,243**	**112,975**
Liabilities			
Derivatives (Note 17)	-	130,042	130,042
Total liabilities	**-**	**130,042**	**130,042**

2015

	Level 1	Level 2	Total
Assets			
Derivatives (Note 17)	-	54,932	54,932
Held-for-trading financial assets (Note 13)	50,814	-	50,814
Total assets	**50,814**	**54,932**	**105,746**
Liabilities			
Derivatives (Note 17)	-	58,589	58,589
Total liabilities	**-**	**58,589**	**58,589**

The fair value of the derivative financial instruments was calculated using mainly variables based on observable market data (year-end exchange rates and yield curves).

Cash and cash equivalents

"Cash and Cash Equivalents" in the accompanying consolidated statements of financial position includes cash and demand deposits.

Derivative financial instruments

The Group uses derivative financial instruments to hedge the foreign currency risk to which its project contracts and certain investments in investees are exposed, and to hedge the interest rate risk arising from loan drawdowns (see Notes 5 and 17).

The fair value of the derivative financial instruments was calculated including the credit risk, the entity's own credit risk for liability derivative financial instruments, and the counterparty's credit risk for asset derivative financial instruments.

The Group reviews the conditions for a financial derivative to qualify for hedge accounting to ensure that such conditions are met, i.e.: (1) it hedges one of the following three types of risk: fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation; (2) it effectively eliminates any risk inherent to the hedged item or position throughout the projected term of the hedge; and (3) there is sufficient documentation to evidence that the financial derivative was arranged specifically to hedge certain balances or transactions and how it was intended to achieve and measure the effectiveness of the hedge, provided that this was consistent with the Group's risk management policy.

The CAF Group has defined financial risk management objectives and policies which set forth, in writing, the Group's policy in respect of the arrangement of derivatives and hedging strategy.

These financial instruments are initially recognised at acquisition cost. The changes in the fair value of the derivative financial instruments that were designated and effective as hedges are subsequently recognised as follows:

- In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under "Financial Loss" in the accompanying consolidated statement of profit or loss. The Group recognises as fair value hedges the hedges arranged for construction work when the necessary conditions are met for hedges of this nature (existence of a firm commitment).

- In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instrument are recognised temporarily in equity under "Valuation Adjustments - Hedges". This method is used by the Group to hedge projects in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction, and for interest rate hedges. To the extent that a highly probable transaction gives rise to a firm commitment, the amounts previously recognised in equity are reclassified to profit or loss.

- In hedges of net investments in foreign operations, the gains or losses attributable to the portion of the hedging instrument qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences". This type of hedging was used for the equity of CAF USA, Inc. and Provetren, S.A. de C.V.

e) Inventory measurement bases

Raw materials and other supplies and goods held for resale are measured at the lower of average acquisition cost or net realisable value.

Work in progress and finished and semi-finished goods are presented net of costs already settled as described in Note 3-f and are measured as follows:

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

- Processing costs: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ significantly from actual hourly rates.

- Borrowing costs: calculated on the basis of the financing requirements directly allocable to each project contract.

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. The Group only recognises profit realised at year-end.

Maintenance revenue is recognised on an accrual basis. The Group 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 "Other Non-Current Liabilities" in the accompanying consolidated statements of financial position.

For construction contracts, the Group generally recognises the income and profit or loss on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the actual hours incurred in each contract as a percentage of the estimated total hours, which is in keeping with other methods for determining the stage of completion on the basis of the costs incurred compared with the budgeted costs. Potential losses on project contracts are recognised in full when they become known or can be estimated.

The Group only recognises income arising from claims when the customer has accepted the claim and there is evidence of such acceptance by means of a contractual amendment or a similar legal document.

Once the projected profit or loss on each contract has been determined, the Group applies the following correcting coefficients to determine actual profit or loss and revenue:

- With a percentage of completion of between 0% and 10%, no profit or revenue is recognised.

- 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 consolidated statement of profit or loss and a credit to "Inventories" on the asset side of the consolidated statements of financial position (see Note 11).

Revenue from the sales of products, basically wheel sets and components, is recognised when the goods and title thereto are transferred.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment is established. In any case, interest and dividends from financial assets accrued after the date of acquisition are recognised as income in the consolidated statement of profit or loss.

g) 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 and Other Receivables - Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (deferred billings) (see Notes 11 and 12).

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

h) Current/Non-current classification

Items are classified under "Current Assets" and "Current Liabilities" (prebillings, deferred billings and short-term provisions) which may be realised within more than twelve months. 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 realised in more than twelve months exceed the current assets that would be realised in more than twelve months (see Notes 11 and 20).

i) Government grants

The Group companies recognise government grants received as follows:

- Grants related to assets are recognised at the amount granted, as a reduction of the value of the subsidised asset when they are definitively granted and are credited to profit or loss in proportion to the period depreciation on the assets for which the grants were received.

- Grants related to income are recognised in profit or loss when they are definitively granted by reducing the expenses for which the grants are intended to compensate.

j) Post-employment benefits

The consolidated companies' legal and contractual obligations to certain of their employees in relation to retirement and death are met through premiums under defined contribution and defined benefit plans to external funds deposited or in the process of being externalised at independent insurance companies. The contributions made in 2016 and 2015 for various groups of employees amounted to EUR 4,148 thousand and EUR 1,734 thousand, respectively, and were recognised under "Staff Costs" in the accompanying consolidated statements of profit or loss. In accordance with the applicable collective agreement, the Parent contributes an additional 2.3% of the annual base salary of all its employees to a pension plan (EPSV) (see Notes 22, 23 and 24).

Also, the Parent's directors, based on the conclusions of a study conducted by their legal advisers, considered in 2006 that a historical right of certain of its employees had vested. In accordance with the accrual basis of accounting, at 31 December 2016, the Group recognised an asset of EUR 268 thousand (31 December 2015: an asset of EUR 268 thousand), calculated by an independent valuer, under "Current Assets" in the consolidated statements of financial position at 31 December 2016. This amount is the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as plan assets. The future modifications to the obligations assumed will be recognised in profit or loss for the related year. In 2016 the Group received a premium reimbursement amounting to EUR 339 thousand (2015: EUR 423 thousand). In addition it recognised provisions amounting to EUR 651 thousand (2015: EUR 672 thousand) with a charge to "Staff Costs" in the accompanying consolidated statements of profit or loss (see Notes 15, 18 and 22). Also, actuarial gains for 2016 amounting to EUR 990 thousand were recognised with a credit to equity (2015: EUR 1,151 thousand).

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.

Lastly, certain subsidiaries have other obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2016 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 2,788 thousand and EUR 2,391 thousand, respectively (31 December 2015: EUR 2,089 thousand and EUR 1,999 thousand, respectively) (see Note 20).

k) Early retirements and termination benefits

At 31 December 2016, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated statements of financial position included EUR 3,165 thousand and EUR 2,529 thousand, respectively (31 December 2015: EUR 3,005 thousand and EUR 2,298 thousand), relating to the present value estimated by the Parent's directors of the future payments to be made to employees who in December 2016 were included in the early retirement plan approved in 2013, or with whom hand-over contracts had been entered into. The net provision for 2016 was recognised with a charge of EUR 3,042 thousand (2015: EUR 11 thousand) to "Staff Costs" in the consolidated statement of profit or loss (see Note 22).

l) Income tax

The expense for income tax and other similar taxes applicable to the foreign consolidated entities are recognised in the consolidated statement of profit or loss, except when it results from a transaction the result of which is recognised directly in equity, in which case the related tax is also recognised in equity.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets are recognised for tax loss and tax credit carryforwards and temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax assets can be utilised, which at the consolidated CAF Group are deemed to be those that will be earned in the period covered by its backlog.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

m) Leases

The CAF Group 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.

In finance leases in which the Group 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 consolidated profit or loss as earned using the effective interest method (see Note 9-e).

At 31 December 2016, the Group had various outstanding operating leases for which it had recognised EUR 8,027 thousand in 2016 (2015: EUR 7,901 thousand) with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Group 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 2016 amounted to EUR 17,170 thousand over the next few years, of which EUR 5,897 thousand are due in 2017 (31 December 2015: EUR 17,759 thousand and EUR 5,749 thousand of which were to be paid in 2016).

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

n) Administrative concessions

Concessions represent arrangements between a public sector grantor and CAF Group companies to provide public services such as preventative, corrective and inspection services for various railway lines through the operation of infrastructure. Revenue from providing the service may be received directly from the users or, sometimes, through the concession grantor itself, which regulates the prices for providing the service.

The concession right generally means that the concession operator has an exclusive right to provide the service under the concession for a given period of time, after which the infrastructure assigned to the concession and required to provide the service is returned to the concession grantor, generally for no consideration. The concession arrangement must provide for the management or operation of the infrastructure. Another common feature is the existence of obligations to acquire or construct all the items required to provide the concession service over the concession term.

These concession arrangements are accounted for in accordance with IFRIC 12, Service Concession Arrangements. In general, a distinction must be drawn between two clearly different phases: the first in which the operator provides construction or upgrade services which are recognised as intangible or financial assets by reference to the stage of completion pursuant to IAS 11, Construction Contracts, and a second phase in which the operator provides a series of maintenance or operation services for the aforementioned infrastructure, which are recognised in accordance with IAS 18, Revenue.

An intangible asset is recognised when the demand risk is borne by the operator and a financial asset is recognised when the demand risk is borne by the grantor, since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. Finance income arising from measurement of the financial asset of concessions at amortised cost is recognised under "Revenue" in the consolidated statement of profit or loss. Since they meet the required conditions, the concessions recognised by the Group (see Note 9) are classified as financial assets.

4. Distribution of the profit of the Parent

The proposed distribution of the profit for 2016 that the Parent's directors will submit for approval by the shareholders at the Annual General Meeting is as follows:

Distribution	Thousands of euros
Distributable profit	
Profit for the year	1,546
Voluntary reserves	18,337
	19,883
Distribution	
Dividends	19,883
	19,883

5. Financial and other risk management policy

The CAF Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk, interest rate risk and commodity risk), credit risk, liquidity risk, risk of variances in relation to projects, and legal and contractual risks.

The financial risk management policy adopted by the CAF Group focuses on managing the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group’s financial performance.

The Group's Financial Department identifies, assesses and hedges financial risks by establishing policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, any use of derivative instruments and the investment of cash surpluses.

a) Market risk

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

The Group's interest rate risk arises on borrowings. The Group'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. For long-term financing transactions, the Group sets an objective, to the extent permitted by the markets, of maintaining a fixed interest rate structure.

In this regard, a significant portion of the financial debt at 31 December 2016 related, on the one hand, to the concessions obtained in Brazil and Mexico (see Notes 9 and 16), and, on the other, to the Parent's debt for the financing of its activity and that of the other Group companies.

The debt relating to the train lease company in Brazil is a structured project finance loan without recourse to the other Group companies which is tied to the TJLP (a long-term reference rate published by the Central Bank of Brazil). For the debt relating to the train lease company in Mexico, the Group entered into an interest rate swap in order to convert the loan's floating interest rate into a fixed rate, for 80% of the amount drawn down on the loan, affecting in turn 80% of its term.

With regard to the Parent's debt at 31 December 2016, EUR 62 million were drawn down at market interest rates (31 December 2015: EUR 138 million) and EUR 260 million at fixed interest rates (31 December 2015: EUR 244 million), of which EUR 20 million at fixed rates as a result of interest rate derivatives (see Notes 16 and 17). The borrowings of the subsidiaries Inversiones en Concesiones Ferroviarias and CAF Brasil are tied to the market interest rates of their respective countries.

Taking into consideration the balance at 31 December 2016 and 2015, if the average of the market-tied interest rates of third-party borrowings had been 100 basis points higher or lower, with all other variables remaining constant, and considering the hedging policies described above, the finance costs arising from the financial debt would have risen by approximately EUR 3,695 thousand and EUR 4,418 thousand, respectively.

a.2) Foreign currency risk

The various CAF Group companies operate on an international stage and, therefore, are exposed to foreign currency risk in their foreign currency transactions (currently the US dollar, the Brazilian real, the pound sterling, the New Taiwan dollar, the Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Canadian dollar and the Hungarian forint, among others).

The Group companies use 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 Group (the euro).

The Group's standard practice is to hedge, provided that the cost is reasonable, the market risk associated with contracts denominated in currencies other than its functional currency, which is the euro. The hedges are intended to avoid the impact of currency fluctuations on the various agreements entered into, so that the Group's results present fairly its industrial and services activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2016 of a 10% depreciation of the Brazilian real against the euro at 31 December 2016 would be a loss of EUR 3,485 thousand (31 December 2015: EUR 4,841 thousand). The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2016 and 2015, the Group was exposed to the foreign currency risk on the net investment in those subsidiaries whose functional currency is not the euro, except in the case of the US dollar, the exposure to which is hedged.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2016 and 2015 is as follows:

Currency	Equivalent value in thousands of euros					
	31/12/16			31/12/15		
	Assets	Liabilities	Net exposure	Assets	Liabilities	Net exposure
Chilean peso	18,368	16,837	1,531	14,607	14,024	583
Mexican peso	92,402	78,569	13,833	33,973	20,347	13,626
Argentine peso	3,108	1,818	1,290	3,580	2,180	1,400
Brazilian real	761,873	487,287	274,586	578,238	352,299	225,939
US dollar (Note 3-d) (*)	617,356	393,087	2,733	521,753	370,962	208
Pound sterling	8,795	7,777	1,018	10,706	9,969	737
Algerian dinar	5,344	2,948	2,396	4,698	2,355	2,343
Turkish lira	6,432	5,739	693	8,043	6,565	1,478
Venezuelan bolivar	79	70	9	72	53	19
Indian rupee	9,449	111	9,338	9,483	126	9,357
Australian dollar	760	538	222	1,278	1,024	254
Colombian peso	1,587	1,100	487	1,047	623	424
Saudi riyal	16,151	15,784	367	13,705	12,943	762
New Zealand dollar	5,088	4,338	750	3,339	2,906	433
Romanian leu	245	132	113	231	148	83
New Taiwan dollar	29,991	25,146	4,845	24,147	23,175	972
Hungarian forint	1,163	1,007	156	551	397	154
Total	**1,578,191**	**1,042,288**	**314,367**	**1,229,451**	**820,096**	**258,772**

(*) At 31 December 2016, there were hedges of net investments in foreign operations (see Note 17) amounting to EUR 221,536 thousand, applying the year-end exchange rate (31 December 2015: EUR 150,583 thousand).

In the event of a 10% appreciation or depreciation of all the foreign currencies, the pre-tax impact on the Group's equity would amount to EUR 31,437 thousand at 31 December 2016 (31 December 2015: EUR 25,877 thousand).

The detail of the main foreign currency balances of subsidiaries is as follows:

Nature of the balances	Equivalent value in thousands of euros			
	31/12/16		31/12/15	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	210	-	85	-
Property, plant and equipment	59,910	-	56,372	-
Non-current financial assets and deferred tax assets	668,997	-	607,524	-
Inventories	166,451	-	66,542	-
Trade and other receivables	546,974	-	435,107	-
Other current financial assets	49,781	-	23,900	-
Cash and cash equivalents	85,868	-	39,921	-
Non-current liabilities	-	493,577	-	465,204
Current liabilities	-	548,711	-	354,892
Total	**1,578,191**	**1,042,288**	**1,229,451**	**820,096**

a.3) Commodity risk

For the most significant commodities, the Group's orders are placed and prices closed when each new project commences. The risk of a rise in commodity prices having an adverse effect on the contractual margins is thus hedged.

b) Credit and counterparty risk

Most of the Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Group’s standard practice is to hedge against certain risks of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature. The decision on whether or not to hedge is taken on the basis of the type of customer and the country in which it operates.

At 31 December 2016 and 2015, the Group had insured a portion of its accounts receivable from customers in certain countries abroad 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 Group's financial obligations fully and effectively (see Notes 13 and 16).

The CAF Group 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 coincide in the same timeframe, which results in financial resources being consumed.

- Implementing and maintaining an active working capital management policy through ongoing monitoring of compliance with billing milestones for each project commissioned.

- Maintaining a strong short-term liquidity position.

- Maintaining surplus undrawn credit balances.

d) Risks arising from variances with respect to project budgets

Variances from project budgets that served as the basis for drawing up the various bids are analysed and monitored through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for that item with the actual situation regarding the costs of each project. In this way, these data are monitored on an ongoing basis over the life of the projects using a complex internal process created for this purpose in which all the departments involved in the projects participate.

e) Legal and contractual risks arising primarily from harm caused to third parties as a result of deficiencies or delays in the provision of services

Tender specifications and rolling stock vehicle manufacturing contracts include numerous requirements concerning technical aspects and quality levels (with the introduction of hi-tech products), requirements relating to compliance with delivery deadlines, certification needs, manufacturing location requirements and other operational risks which usually involve penalty levels and conditions subsequent or precedent. In this respect, discrepancies may arise with regard to such requirements between the CAF Group and its customers, which may result in claims for delays, incorrect performance of work or the performance of additional work.

To handle the difficulties concerning the management of the CAF Group's projects, it operates a risk management system that starts when the bid is prepared and enables the Group to identify and manage the various risks it faces in the normal course of its business.

All CAF's plants use the most advanced technology available and state-of-the-art techniques in order to optimise production pursuant to IRIS (International Rail Industry Standard) and ISO 9001.

CAF also implements a stringent policy of taking out insurance to protect itself sufficiently from the economic consequences for the Group of any of these risks materialising.

6. Segment reporting

a) Basis of segmentation

Segment reporting on the CAF Group in the accompanying consolidated financial statements is structured as follows:

- By business unit, distinguishing between the “Rolling Stock” and the “Wheel Sets and Components” operating activities.

- Information based on the Group's geographical location is also included.

b) Basis and methodology for segment reporting

Segment revenue and expenses relate to those directly attributable to the segment and, accordingly, do not include interest, dividends or gains or losses arising from the disposal of investments or on debt redemption or repayment transactions. Segment assets and liabilities are those directly related to the segment's operating activities or to the ownership interests in companies engaged in that activity.

In accordance with the basis for primary segment reporting set forth in IFRSs (IFRS 8, Operating Segments), the CAF Group considered the two business units operated by it as its primary segments, since it considers that its organisational and management structure and its system of internal reporting to its managing and executive bodies are such that the risks and returns are affected predominantly by the fact that its operations are performed in one or the other business area, taken to be all of the related products and services. Accordingly, the segmentation is made up of the CAF Group's identifiable components that are subject to risks and returns that are different from those of components operating in other economic environments.

Therefore, based on historical experience, the Group defined the following segments, which it considers fulfil the internal consistency requirements with regard to the similarity of their economic conditions, policies or the risks arising from the applicable regulations, exchange rates or proximity of activities and are differentiated with respect to the other segments for the same reasons:

- Rolling stock

- Wheel sets and components

Segment information about the businesses is as follows:

	2016 (Thousands of euros)				
Segmentation by business unit	Rolling stock	Wheel sets and components	General	Inter-segment	Total
REVENUE:					
External sales	1,249,872	68,328	-	-	1,318,200
Inter-segment sales	-	29,827	-	(29,827)	-
Total sales	**1,249,872**	**98,155**	**-**	**(29,827)**	**1,318,200**
PROFIT OR LOSS:					
Profit (Loss) from operations	108,665	(4,719)	7,894	-	111,840
Financial loss (*)	(26,530)	(26)	(26,428)	-	(52,984)
Share of net results of associates	473	-	-	-	473
Profit (Loss) before tax	**82,608**	**(4,745)**	**(18,534)**	**-**	**59,329**
Income tax (*)	-	-	(22,049)	-	(22,049)
Profit (Loss) for the year from continuing operations	**82,608**	**(4,745)**	**(40,583)**	**-**	**37,280**
Profit attributable to non-controlling interests	(2,267)	-	-	-	(2,267)
Profit (Loss) attributable to the Parent	**80,341**	**(4,745)**	**(40,583)**	**-**	**35,013**
Depreciation and amortisation charge (Notes 7 and 8)	26,803	7,660	206	-	34,669
ASSETS	**2,333,064**	**74,826**	**825,547**	**-**	**3,233,437**
LIABILITIES	**1,620,121**	**28,432**	**801,207**	**-**	**2,449,760**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	25,782	6,282	-	-	32,064
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment-Income (Expense) (Notes 2-f, 7, 8, 9 and 11)	4,628	(4,584)	8,876	-	8,920

Segmentation by business unit	2015 (Thousands of euros)				
	Rolling stock	Wheel sets and components	General	Inter-segment	Total
REVENUE:					
External sales	1,205,111	78,480	-	-	1,283,591
Inter-segment sales	-	33,402	-	(33,402)	-
Total sales	**1,205,111**	**111,882**	**-**	**(33,402)**	**1,283,591**
PROFIT OR LOSS:					
Profit from operations	121,020	4,365	1,398	-	126,783
Financial profit (loss) (*)	(25,930)	124	(40,568)	-	(66,374)
Share of net results of associates	-	-	-	-	-
Profit (Loss) before tax	**95,090**	**4,489**	**(39,170)**	**-**	**60,409**
Income tax (*)	-	-	(17,795)	-	(17,795)
Net profit (loss) for the year from continuing operations	**95,090**	**4,489**	**(56,965)**	**-**	**42,614**
Profit attributable to non-controlling interests	(1,573)	-	-	-	(1,573)
Profit (Loss) attributable to the Parent	**93,517**	**4,489**	**(56,965)**	**-**	**41,041**
Depreciation and amortisation charge (Notes 7 and 8)	29,418	8,775	206	-	38,399
ASSETS	**2,082,545**	**82,401**	**712,075**	**(2,892)**	**2,874,129**
LIABILITIES	**1,303,150**	**20,477**	**835,801**	**(226)**	**2,159,202**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	12,856	7,568	-	-	20,424
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment-Income (Expense) (Notes 2-f, 7, 8 and 9)	(612)	**-**	(221)	**-**	(833)

(*) The borrowing costs relating to specific-purpose borrowings and asset impairment are included in the segment involved. The remaining financial profit or loss and the income tax expense are included in the "General" column since they relate to various legal entities and there is no reasonable basis for allocating them to the segments.

Assets and liabilities for general use and the results generated by them, of which the cash and other current financial asset items are noteworthy, were not allocated to the other segments. Similarly, the reconciling items arising from the comparison of the result of integrating the financial statements of the various business segments (prepared using management criteria) with the CAF Group's consolidated financial statements were not allocated.

The breakdown of sales, by product group and type of service provided, is as follows (in thousands of euros):

	2016	**2015**
High-speed	35,681	-
Regional and commuter	390,323	372,304
Metros	259,777	195,085
Tram and light rail vehicles	111,046	202,565
Bogies, refitting and other	32,220	53,299
Trains	**829,047**	**823,253**
Services	**349,521**	**326,782**
Wheel sets and components	**68,328**	**78,480**
Other	**71,304**	**55,076**
Total	**1,318,200**	**1,283,591**

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2016 and 2015, including the most significant countries (those accounting for more than 5% of total sales in 2016), is as follows (in thousands of euros):

	2016	2015
Spain	**279,372**	**257,213**
The Netherlands	89,010	6,176
United Kingdom	77,590	32,362
Other	144,440	328,825
European Union	**311,040**	**367,363**
Chile	84,881	61,952
Mexico	132,594	62,121
Turkey	93,204	29,785
Other	102,170	137,921
OECD	**412,849**	**291,779**
Brazil	217,930	234,382
Other	97,009	132,854
Rest of the world	**314,939**	**367,236**
TOTAL	**1,318,200**	**1,283,591**

In 2016 one customer represented 14% of the Group's revenue. In 2015 one customer represented 17% of the Group's revenue.

b) The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2016 and 2015 is as follows (in thousands of euros):

Geographical area	2016	2015
Spain	167,577	182,335
Rest of the world	61,732	58,452
Total	**229,309**	**240,787**

7. Other intangible assets

The changes in the years ended 31 December 2016 and 2015 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

	Thousands of euros			
	Development expenditure	Computer software and other	Goodwill	Total
Cost at 31/12/14	**104,199**	**17,379**	**15**	**121,593**
Cost-				
Additions or charge for the year	7,910	1,817	-	9,727
Transfers to inventories	(2,514)	-	-	(2,514)
Disposals or reductions	(2,617)	(104)	-	(2,721)
Translation differences	1	(111)	-	(110)
Cost at 31/12/15	**106,979**	**18,981**	**15**	**125,975**
Additions or charge for the year	12,758	2,550	-	15,308
Transfers to inventories	(1,305)	-	-	(1,305)
Disposals or reductions	-	(33)	-	(33)
Translation differences	2	77	-	79
Cost at 31/12/16	**118,434**	**21,575**	**15**	**140,024**
Accumulated amortisation-				
Accumulated amortisation at 31/12/14	**(53,297)**	(13,987)	**-**	**(67,284)**
Additions or charge for the year	(9,016)	(1,106)	-	(10,122)
Disposals or reductions	2,617	104	-	2,721
Translation differences	(1)	66	-	65
Accumulated amortisation at 31/12/15	**(59,697)**	**(14,923)**	**-**	**(74,620)**
Additions or charge for the year	(7,504)	(1,242)	-	(8,746)
Disposals or reductions	127	26	-	153
Translation differences	(2)	(44)	-	(46)
Accumulated amortisation at 31/12/16	**(67,076)**	**(16,183)**	**-**	**(83,259)**
Impairment-				
Impairment at 31/12/15	**(16,621)**	**-**	**-**	**(16,621)**
Impairment at 31/12/16	**(16,621)**	**-**	**-**	**(16,621)**
Net balance at 31/12/15	**30,661**	**4,058**	**15**	**34,734**
Net balance at 31/12/16	**34,737**	**5,392**	**15**	**40,144**

Research and development expenditure incurred in 2016 amounted to EUR 21,715 thousand (EUR 8,957 thousand were recognised in the consolidated statement of profit or loss and EUR 12,758 thousand were capitalised). Research and development expenditure incurred in 2015 amounted to EUR 18,823 thousand (EUR 10,913 thousand were recognised in the consolidated statement of profit or loss and EUR 7,910 thousand were capitalised). These amounts do not include basic engineering costs associated with contracts.

The additions to "Development Expenditure" in 2016 and 2015 correspond to the costs incurred in new product projects and other projects, including most notably the high-speed train, development of safety critical platforms, railway signalling and co-partnered development of an electric bus.

As discussed in Note 3-a, in 2016 the Group transferred approximately EUR 1,305 thousand of capitalised development expenditure for projects to various contracts it had won that incorporated the technology developed (2015: EUR 2,514 thousand).

8. Property, plant and equipment

The changes in the years ended 31 December 2016 and 2015 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Thousands of euros					
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Cost at 31/12/14	**265,824**	**284,030**	**21,607**	**38,353**	**166**	**609,980**
Cost-						
Additions	1,154	4,603	734	3,906	300	10,697
Transfers	(230)	105	(93)	(76)	(168)	(462)
Disposals or reductions	(830)	(10,803)	(581)	(47)	-	(12,261)
Translation differences	(5,004)	(3,473)	(262)	(65)	10	(8,794)
Cost at 31/12/15	**260,914**	**274,462**	**21,405**	**42,071**	**308**	**599,160**
Additions	4,115	8,046	1,024	624	2,947	16,756
Transfers	(136)	322	59	3	(509)	(261)
Disposals or reductions	(8,673)	(1,931)	(148)	(651)	-	(11,403)
Translation differences	4,654	4,141	108	68	14	8,985
Cost at 31/12/16	**260,874**	**285,040**	**22,448**	**42,115**	**2,760**	**613,237**
Accumulated amortisation at 31/12/14	**(90,152)**	**(206,776)**	**(13,757)**	**(20,453)**	**-**	**(331,138)**
Accumulated depreciation-						
Additions or charge for the year	(6,259)	(18,262)	(1,394)	(2,362)	-	(28,277)
Transfers	197	15	84	103	-	399
Disposals or reductions	644	4,733	404	46	-	5,827
Translation differences	1,183	1,936	115	66	-	3,300
Accumulated amortisation at 31/12/15	**(94,387)**	**(218,354)**	**(14,548)**	**(22,600)**	**-**	**(349,889)**
Additions or charge for the year	(6,625)	(15,265)	(1,270)	(2,763)	-	(25,923)
Transfers	-	(321)	-	-	-	(321)
Disposals or reductions	4,383	1,936	32	383	-	6,734
Translation differences	(1,170)	(2,485)	(65)	(66)	-	(3,786)
Accumulated amortisation at 31/12/16	**(97,799)**	**(234,489)**	**(15,851)**	**(25,046)**	**-**	**(373,185)**
Impairment at 31/12/14	**(5,661)**	**(1,329)**	**-**	**(13)**	**-**	**(7,003)**
Recognised in 2015	(803)	(558)	(131)	-	-	(1,492)
Translation differences	11	-	-	-	-	11
Impairment at 31/12/15	**(6,453)**	**(1,887)**	**(131)**	**(13)**	**-**	**(8,484)**
Recognised in 2016	-	(2,265)	-	-	-	(2,265)
Disposals or reductions	-	12	-	-	-	12
Translation differences	(6)	-	-	-	-	(6)
Impairment at 31/12/16	**(6,459)**	**(4,140)**	**(131)**	**(13)**	**-**	**(10,743)**
Net balance at 31/12/15	**160,074**	**54,221**	**6,726**	**19,458**	**308**	**240,787**
Net balance at 31/12/16	**156,616**	**46,411**	**6,466**	**17,056**	**2,760**	**229,309**

In 2016 the Group invested in its plants in order to improve their production capacity. These investments were focused basically on the automation of the wheel machining line, the new offices of the wheel set division and the expansion of technical office facilities.

In prior years the Group transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled (see Note 20). Following an impairment test performed on the locomotives, the Parent's directors considered that they were not impaired. At 31 December 2016, the carrying amount of the aforementioned locomotives was EUR 9,155 thousand (31 December 2015: EUR 9,727 thousand).

At 31 December 2016 and 2015, the Group had firm capital expenditure commitments amounting to approximately EUR 8,189 thousand and EUR 6,023 thousand, respectively, mainly in Spain.

At 31 December 2016, the Group had payables to property, plant and equipment suppliers amounting to EUR 6,671 thousand (31 December 2015: EUR 1,338 thousand) under "Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated statements of financial position.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2016 and 2015, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2016 and 2015, the gross cost of fully depreciated assets in use amounted to approximately EUR 240,857 thousand and EUR 215,823 thousand, respectively.

The gains recognised on property, plant and equipment disposals in 2016 amounted to approximately EUR 9,186 thousand and were recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss (2015: loss of EUR 56 thousand). In 2016 the Company sold items of property, plant and equipment amounting to EUR 13,867 thousand.

As a result of the discontinuation of steel mill activities at the Beasain plant an analysis was conducted on various assets (see Note 11) (supported by studies performed by independent valuers) in 2016, and a net impairment loss of EUR 2,265 thousand was recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the consolidated statement of profit or loss (2015: EUR 1,492 thousand).

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2016, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,690 thousand (31 December 2015: EUR 2,130 thousand). EUR 611 thousand were allocated to profit or loss in this connection in 2016 (2015: EUR 915 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated statement of profit or loss.

The directors consider that there were no indications of impairment of the Group's assets at 31 December 2016 other than those described in this Note.

9. Investments accounted for using the equity method and non-current financial assets

The changes in the years ended 31 December 2016 and 2015 in "Investments Accounted for Using the Equity Method" and "Non-Current Financial Assets" were as follows:

	Thousands of euros							
	Investments in associates (Note 9-a)	Equity instruments (Note 9-b)		Other financial assets (Note 9-c)	Derivative financial instruments (Note 17)	Loans and receivables (Note 9-e)		Total
	Cost	Cost	Allowance	Cost	Market value	Cost	Allowance	
Balance at 31/12/14	**12,257**	**11,104**	**(1,405)**	**17,664**	**17,593**	**640,959**	**(16,366)**	**681,806**
Translation differences	88	-	-	(4,189)	(17)	(65,605)	4,175	(65,548)
Additions or charge for the year	778	380	(419)	1,722	5,078	106,824	(213)	114,150
Disposals or reductions	(78)	-	-	(888)	(721)	(948)	-	(2,635)
Transfers (Note 3-n)	642	-	-	(675)	135	(101,291)	-	(101,189)
Hedges (Note 17)	621	-	-	-	-	-	-	621
Balance at 31/12/15	**14,308**	**11,484**	**(1,824)**	**13,634**	**22,068**	**579,939**	**(12,404)**	**627,205**
Translation differences	(7)	-	-	3,342	(62)	78,858	(3,222)	78,909
Additions or charge for the year	5,010	38	(249)	546	2,751	113,927	(291)	121,732
Disposals or reductions	(168)	(12)	-	(155)	(11,896)	(2,048)	-	(14,279)
Transfers (Note 3-n)	-	-	-	(170)	-	(127,835)	-	(128,005)
Hedges (Note 17)	(571)	-	-	-	-	-	-	(571)
Balance at 31/12/16	**18,572**	**11,510**	**(2,073)**	**17,197**	**12,861**	**642,841**	**(15,917)**	**684,991**

A detail of the Group’s non-current financial assets at 31 December 2016 and 31 December 2015, by nature and category, for valuation purposes, is as follows:

	Thousands of euros				
	31/12/16				
Financial assets: Nature/Category	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	Total
Equity instruments	9,437	-	-	-	9,437
Hedging derivatives (Note 17)	-	-	-	12,861	12,861
Other financial assets	-	626,924	17,197	-	644,121
Long-term/non-current	**9,437**	**626,924**	**17,197**	**12,861**	**666,419**

	Thousands of euros				
	31/12/15				
Financial assets: Nature/Category	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	Total
Equity instruments	9,660	-	-	-	9,660
Hedging derivatives (Note 17)	-	-	-	22,068	22,068
Other financial assets	-	567,535	13,634	-	581,169
Long-term/non-current	**9,660**	**567,535**	**13,634**	**22,068**	**612,897**

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

2016

	2018	2019	2020	2021 and subsequent years	Total
Loans and receivables	123,630	139,878	142,689	220,727	626,924
Held-to-maturity investments	987	99	23	16,088	17,197
Hedging derivatives	8,583	3,158	996	124	12,861
Total	**133,200**	**143,135**	**143,708**	**236,939**	**656,982**

2015

	2017	2018	2019	2020 and subsequent years	Total
Loans and receivables	118,996	107,711	98,370	242,458	567,535
Held-to-maturity investments	675	15	118	12,826	13,634
Hedging derivatives	19,545	1,479	461	583	22,068
Total	**139,216**	**109,205**	**98,949**	**255,867**	**603,237**

a) Investments in associates

Relevant information on the investments in significant associates accounted for using the equity method is as follows (in thousands of euros):

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Disposals	Profit (Loss) of the Parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L.	965	4,799	384	1,124	4,256	-	4,765	678	-
Plan Metro, S.A. (3)	399,409	11,154	407,123	29,902	(26,461)	-	53,407	(3,892)	-
Consorcio Traza, S.A. (2)	239,982	54,888	226,699	14,497	50,678	2,995	25,121	968	(2,286)
Ferrocarriles Suburbanos, S.A. de C.V.	240,614	53,065	243,893	48,163	1,623	-	39,930	(14,527)	(1,517)
Arabia One for Clean Energy Invest. PSC	17,973	2,113	17,703	490	1,893	-	1,404	159	64

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L.	4,256	50	2,128	4,681	181
Plan Metro, S.A. (3)	(26,461)	40	(10,584)	-	-
Consorcio Traza, S.A. (2)	50,678	25	12,670	12,670	242
Ferrocarriles Suburbanos, S.A. de C.V.	1,623	43.35	704	-	-
Arabia One for Clean Energy Investments PSC	1,893	40	757	757	64
Other investments (4)	-	-	464	464	(14)
			6,139	**18,572**	**473**

(1) After adjustments and unification for consolidation purposes (in thousands of euros).
(2) Consorcio Traza, S.A. holds an 80% ownership interest in the public-private entity Los Tranvías de Zaragoza, S.A.
(3) This company's shares are pledged to certain banks.
(4) Dormant companies or companies with no significant activity: Asyris Vision Technologies, S.A., Ltd. Basa TMB, S.L., Compañía de Vagones del Sur, S.L., Ferrocarril Interurbano, S.A. de C.V. and Tumaker, S.L.

In consolidating the ownership interests, the Group took the necessary fair value adjustments into account and eliminated the sales margins on rolling stock material in proportion to its ownership interest. Since the CAF Group has not incurred any legal or explicit obligations or made payments on behalf of the associates it is not necessary to consolidate the additional losses incurred by these associates valued at zero. At 31 December 2016, the fair value adjustments and sales margins reduced the ownership interests by EUR 39,045 thousand, and no losses exceeding the cost of the ownership interest, amounting to EUR 51,477 thousand, were recognised

b) Non-current investment securities

Name	% of ownership	Cost of the investment (thousands of euros)	
		2016	2015
Alquiler de Trenes, AIE	5%	1,202	1,202
Ferromovil 3000, S.L.	10%	3,181	3,181
Alquiler de Metros, AIE	5%	66	66
Plan Azul 07, S.L.	5.2%	1,381	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	1,908	1,908
Iniciativa FIK, A.I.E.	14.18%	1,052	1,263
FIK Advanlife, S.L.	5.91%	1	1
Albali Señalización, S.A.	3%	398	398
Other		248	260
Total		**9,437**	**9,660**

The Group 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. The ownership interest has been written down by EUR 2,073 thousand (31 December 2015: EUR 1,824 thousand) and impairment of EUR 249 thousand was recognised in 2016 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying consolidated statement of profit or loss.

The other investments were measured at acquisition cost, as their fair value could not be determined reliably, although there is no indication of impairment on these ownership interests (see Note 3-d).

c) Other financial assets

At 31 December 2016, the Group had mainly recognised an amount of EUR 15,652 thousand under "Non-Current Financial Assets - Other Financial Assets" in relation to guarantees connected with the increase in the financial debt of the subsidiary Ctrens Companhia Manutençao (see Note 16). This guarantee, which bears interest at market rates and relates to six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

d) Derivative financial instruments

"Derivative Financial Instruments" includes the fair value of the foreign currency hedges expiring at long term (see Note 17).

e) Loans and receivables

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

	31/12/16	31/12/15
Loans to employees	4,687	5,126
Share ownership scheme obligations	56	230
Non-current tax receivables (Note 19)	58,754	46,660
Provisions for tax payables (Note 19)	(15,917)	(12,404)
Non-current trade receivables	554,924	505,132
Loans to associates (Note 10)	24,336	22,329
Loans to third parties	84	462
Total	**626,924**	**567,535**

Loans to employees

In accordance with the agreements entered into with employees, the Parent grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Group does not discount these amounts since it considers that this effect is 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.A.'s shares and eight employees of the Parent act as trustees thereat. Since that date, Cartera Social, S.A. has sold the rights on the shares it owns in CAF, S.A. to the Parent.

Non-Current Financial Assets – Loans and Receivables" and "Other Current Financial Assets" in the accompanying consolidated statements of financial position include the investment in the aforementioned rights which belong to the share ownership scheme acquired from Cartera Social, S.A. The sole purpose of acquiring these rights was to resell them after several years to the Parent's employees. At 31 December 2016, almost all the rights had been transferred to the employees.

With regard to this obligation, Cartera Social, S.A. is the sole owner of the shares of CAF, S.A. and, consequently, is entitled to exercise all the related dividend and voting rights corresponding to it as shareholder of the Parent. Accordingly, CAF, S.A. does not have any rights, obligations or risks with respect to the economic profit or loss that might arise at Cartera Social, S.A. The Parent is only obliged to sell at a fixed price and the employees are obliged to acquire the aforementioned rights in 84 similar monthly instalments from the date on which each phase of the scheme is implemented. The aforementioned shares are owned by Cartera Social, S.A. until the employee exercises his/her right, which cannot occur prior to termination of the employment relationship of each employee with CAF, S.A. During this period, Cartera Social, S.A. finances ownership of these shares essentially with the amount paid by CAF, S.A. to purchase the aforementioned rights.

At 31 December 2016, Cartera Social, S.A. owned 8,770,270 CAF, S.A. shares, equal to 25.58% of its share capital (31 December 2015: 26.04%) (see Note 14).

Non-current tax receivables

At 31 December 2016, the Group recognised EUR 58,754 thousand under "Non-Current Financial Assets – Loans and Receivables" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2015: EUR 46,660 thousand). This amount increased by EUR 12,004 thousand in 2016 as a result of translation differences. The above amounts may be recovered by offsetting them against the output VAT charged to customers or selling them to third parties once they have been claimed from the tax authorities. The Group is currently taking the steps required to claim them and expects to recover them mainly through sale to third parties. At 31 December 2016, the Group had recognised impairment losses of EUR 15,917 thousand (31 December 2015: EUR 12,404 thousand) to adjust the face value of these receivables to their recoverable amount, with EUR 291 thousand being charged in 2016 (2015: EUR 213 thousand) to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was an increase in the impairment losses of EUR 3,222 thousand in 2016.

Non-current trade receivables

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 6,015 thousand at long term (2015: EUR 7,018 thousand) and EUR 1,173 thousand at short term (2015: EUR 1,106 thousand) relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months. In 2016 EUR 1,500 thousand (2015: EUR 1,501 thousand) were received and EUR 564 thousand (2015: EUR 632 thousand) was credited to "Finance Income" in the accompanying consolidated statement of profit or loss, based on the interest rate implicit in the transaction.

On 19 March 2010, the Group company Ctrens-Companhía de Manutençao, S.A. and Companhia Paulista de Trens Metropolitanos (CPTM) entered into a 20-year concession arrangement for the manufacture of 36 trains and the provision of lease, preventative and corrective maintenance and general overhaul services and services to modernise the trains on Diamante line 8 in Sao Paulo (Brazil).

The main features of this arrangement, in addition to those indicated above, are as follows:

- The payments are guaranteed by CPTM through monthly bank deposits of BRL 11.6 million made to a bank account (in 2009 real terms, amounting to BRL 17.6 million at 31 December 2016 following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Security Agent and can be used to pay the concession operator in the event of default by CPTM on its payment obligations.

- The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.

- The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (see Note 25-a). At 31 December 2016, this guarantee amounted to BRL 36,144 thousand (EUR 10,536 thousand).

- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to CPTM at the end of the concession term for no consideration.

On 31 May 2010, the Group company Provetren, S.A. de C.V. and Sistema de Transporte Colectivo (STC) entered into a 15-year concession arrangement for the construction of 30 trains and the provision of lease and integral and general overhaul services for Line 12 of the Mexico City metro.

The main features of this arrangement, in addition to those indicated above, are as follows:

– The consideration payable by STC is secondarily guaranteed by a system of trusts with funds from the "Remanentes de las Participaciones Federales" (Federal Participation Surpluses) (Federal District Government payment risk). In 2016 this guarantee comfortably fulfilled STC's payment obligations in the year.

- The concession operator must secure the correct performance of its obligations to STC with a bank guarantee of 10% of the payments expected to be received by it in the current year (see Note 25-a).

- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to STC at the end of the concession term for no consideration.

These concessions are accounted for in accordance with IFRIC 12, Service Concession Arrangements, since the related requirements are met, and, pursuant to IFRIC 12, the various services provided (construction, operation/maintenance and financing) were separated.

Consequently, at 31 December 2016 the Group recognised balances of EUR 548,909 thousand under "Non-Current Financial Assets - Loans and Receivables" (31 December 2015: EUR 498,114 thousand) and EUR 137,601 thousand under "Current Assets - Other Receivables" (31 December 2015: EUR 112,306 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2016 or 2015.

The lease and maintenance services started to be provided basically in the first half of 2011 in the case of the Line 8 (Brazil) concession and in the second half of 2012 in the case of the Line 12 (Mexico) concession.

In the case of both contracts the future cash flows from the lease payments are determined and guaranteed in full from the date the contracts are signed. The only potentially variable amount in the payments relates solely to any possible penalties relating to the technical performance of the rolling stock material made available to the customers. This matter was taken into consideration when determining the cash flows to be received. There is no demand risk for the CAF Group in these contracts, since the financial flows to be received are unrelated to passenger numbers.

10. Balances and transactions with related parties

The detail of the transactions performed with associates that were not eliminated on consolidation (see Note 2-f) is as follows:

Company	Thousands of euros					
	2016			2015		
	Services provided or sales recognised	Services received or purchases recognised	Finance income	Services provided or sales recognised	Services received or purchases recognised	Finance income
Nuevas Estrategias de Mantenimiento, S.L.	17	2,034	-	-	-	-
Plan Metro, S.A.	11,594	-	1,860	11,425	-	1,326
Ferrocarriles Suburbanos, S.A. de C.V.	13,607	63	-	12,593	36	-
Zheijiang Sunking Trainelec Traintic, JV	-	-	-	57	-	-
Arabia One for Clean Energy Investments PSC	-	-	88	-	-	57
Ferrocarril Interurbano, S.A. de C.V.	60,361	-	-	147	-	-
Tumaker, S.L.	-	3	6	-	-	3
Total	**85,579**	**2,100**	**1,954**	**24,222**	**36**	**1,386**

The margins earned on transactions performed with associates were duly eliminated on consolidation in proportion to the percentage of ownership therein (see Note 9-a).

As a result of the transactions performed in 2016, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2016 and 2015 were as follows (see Note 2-f):

Company	Thousands of euros							
	31/12/16				31/12/15			
	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)
Nuevas Estrategias de Mantenimiento, S.L.	115	701	10	-	-	-	-	-
Plan Metro, S.A.	3,745	-	321	22,297	3,798	-	(463)	20,437
Ferrocarriles Suburbanos, S.A. de C.V.	10	24	-	-	489	74	-	-
Arabia One for Clean Energy Investments, PSC	-	-	-	1,894	14	-	-	1,747
Ferrocarril Interurbano, S.A. de C.V.	6,803	10	(18,224)	-	367	-	-	-
Tumaker, S.L.	1	-	-	145	1	-	-	145
Total	**10,674**	**735**	**(17,893)**	**24,336**	**4,669**	**74**	**(463)**	**22,329**

In 2011 the subsidiary Inversiones en Concesiones Ferroviarias, S.A. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently guaranteed. Plan Metro, S.A.'s current economic and financial model supports the recovery of the loaned amounts and the interest accrued thereon by the CAF Group. Also, the Group recognised finance income of EUR 1,860 thousand in relation to the interest accrued on the loan with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss (2015: EUR 1,326 thousand).

"Trade and Other Receivables" - Other Receivables" in the consolidated statements of financial position as at 31 December 2016 includes an account receivable from Cartera Social, S.A. amounting to EUR 115 thousand (31 December 2015: EUR 266 thousand) (see Note 14).

11. Inventories and construction contracts

The detail of "Inventories" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31/12/16	31/12/15
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 21)	23,930	58,298
Advances to suppliers	36,357	27,955
Total	**60,287**	**86,253**

At 2016 year-end the Group recognised write-downs of EUR 2,381 thousand (see Note 8).

At 31 December 2016, the Group had firm raw materials purchase commitments amounting to approximately EUR 411,729 thousand (31 December 2015: EUR 330,906 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2016 and 2015, the insurance policies taken out covered the carrying amount of the inventories at those dates.

As described in Note 3-e, the Group capitalises the borrowing costs incurred in the year related to inventories that have a production cycle of more than one year. The amount capitalised in this connection prior to the allocation to income of sales in 2016 was EUR 3,362 thousand (2015: EUR 3,258 thousand).

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 2016 and 2015 is as follows:

	Thousands of euros	
	31/12/16	31/12/15
Deferred billings (asset) (Notes 3-f and 12)	841,987	725,254
Prebillings (liability) (Note 3-f)	(575,337)	(261,850)
Net balance	**266,650**	**463,404**
Costs incurred plus profits and losses recognised based on stage of completion	2,649,643	2,426,122
Billings made excluding advances	(1,807,656)	(1,700,868)
Advances received	(575,337)	(261,850)
Net balance	**266,650**	**463,404**

12. Trade and other receivables

The detail of "Trade Receivables for Sales and Services" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31/12/16	31/12/15
Trade receivables - in euros	588,393	594,301
Trade receivables - in foreign currency	720,899	528,767
Write-downs (Note 3-d)	(2,929)	(2,585)
Total	**1,306,363**	**1,120,483**

These receivables arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances, approximately 36% in 2016 (2015: 35%), was billed to customers. The remaining receivable relates to "Amounts to Be Billed for Work Performed" (see Note 11). At 31 December 2016, the balances billed included EUR 137,790 thousand (31 December 2015: 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 20.

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 2016, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filing a claim under the aforementioned insurance policy had been met, but no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

In relation to the contract with Metro de Caracas, the Group's accounting policy was to recognise only revenue the collection of which was considered probable, considering as such revenue already collected, revenue insured under credit policies and revenue that can be offset against other liabilities to the same customer.

At 31 December 2016 and 2015, the CAF Group 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 2016, 58% of the billed receivables related to the top five customers (31 December 2015: 61%). "Trade Receivables" includes retentions at 31 December 2016 amounting to EUR 3,752 thousand (31 December 2015: EUR 1,259 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2016 and 2015 in addition to the past-due balances with Metro de Caracas are as follows:

	Thousands of euros	
	31/12/16	31/12/15
Past due > 90 days	19,136	5,511
Past due > 180 days	128,118	97,572
Total	**147,254**	**103,083**

50% of this balance is concentrated in two countries and six agreements in relation to which the Group is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

On the basis of a case-by-case analysis of past-due balances, the CAF Group considered that at 31 December 2016, EUR 2,929 thousand (31 December 2015: EUR 2,585 thousand) posed a collection risk and recognised the corresponding write-downs. In 2016 the net changes in the write-downs of trade receivables consisted of an additional write-down of approximately EUR 180 thousand (2015: a reversal of approximately EUR 1,217 thousand) to "Other Operating Expenses" in the accompanying consolidated statements of profit or loss.

13. Other current financial assets

The detail of "Other Current Financial Assets" at 31 December 2016 and 2015 is as follows:

2016

	Thousands of euros				
Financial assets: Nature/Category	Loans and receivables (Note 9-e)	Held-to-maturity investments	Held-for-trading financial assets (Note 3-d)	Hedging derivatives (Note 17)	Total
Financial derivatives	-	-	-	45,382	45,382
Other financial assets	618	39,748	54,732	-	95,098
Short-term/current	**618**	**39,748**	**54,732**	**45,382**	**140,480**

2015

	Thousands of euros				
Financial assets: Nature/Category	Loans and receivables (Note 9-e)	Held-to-maturity investments	Held-for-trading financial assets (Note 3-d)	Hedging derivatives (Note 17)	Total
Financial derivatives	-	-	-	32,864	32,864
Other financial assets	2,254	36,491	50,814	-	89,559
Short-term/current	**2,254**	**36,491**	**50,814**	**32,864**	**122,423**

"Held-to-Maturity Investments" and "Held-for-Trading Financial Assets" include the cash surpluses invested 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 consolidated statement of profit or loss. In 2016 the Group recognised income in this connection amounting to EUR 3,480 thousand (2015: EUR 7,829 thousand).

14. Equity

a) Share capital of the Parent

On 27 July 2016, the directors implemented a share split agreement, by virtue of the powers conferred thereon by the shareholders at the Annual General Meeting on 11 June 2016, where the aforementioned share split was approved. The share split came into effect on 30 November 2016 through the reduction of the par value from EUR 3.01 to EUR 0.301 per share.

At 31 December 2016, following the aforementioned share split, the Parent's share capital was represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 each, traded by the book-entry system, all of which are listed on the stock exchange.

At 31 December 2015, the Parent's share capital was represented by 3,428,075 fully subscribed and paid shares of EUR 3.01 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 2016 and 2015 were as follows:

	%- 2016	%- 2015
Cartera Social, S.A. (Note 9) (*)	25.58 %	26.04 %
Kutxabank, S.A. (**)	14.06 %	19.06 %
Indumenta Pueri, S.L.	5.02 %	-
Bestinver Gestión S.A. S.G.I.I.C.	3.09 %	3.09 %
Templeton Investment Counsel, LLC.	-	3.03 %

(*) The shareholders of this company are employees of the Parent (see Note 9).
(**) Kutxabank S.A. holds the direct ownership interest, although the indirect holder is Bilbao Bizkaia Kutxa Fundación Bancaria, which controls Kutxabank S.A.

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 with a charge to monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these consolidated financial statements, no capital increase had been performed since that resolution.

The Annual General Meeting, held on 7 June 2014, resolved to empower the Company's Board of Directors, for a period of five years from that date, to issue fixed-income securities or ordinary debt instruments of a similar nature, as well as fixed-income or other securities convertible into or exchangeable for shares of the Company or other Group companies. At the date of preparation of these consolidated financial statements no ordinary, convertible or exchangeable securities had been issued.

The Annual General Meeting, held on 13 June 2015, resolved to empower the Company's Board of Directors to acquire treasury shares for a period of five years from that date. At the date of preparation of these consolidated financial statements, no treasury shares had been acquired since that resolution.

b) Share premium

The share premium account balance has no specific restrictions on its use.

c) Revaluation reserve

The amount held in this reserve in 2016 and 2015 is as follows:

	Thousands of euros	
	31/12/16	31/12/15
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
Total	**39,119**	**39,119**

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses 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) 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 2016 and 2015 the balance of this reserve had reached the legally required minimum.

e) Restricted reserves

The separate financial statements of the consolidated companies include reserves amounting to approximately EUR 84,360 thousand at 31 December 2016 (31 December 2015: approximately EUR 64,231 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Guipúzcoa Regulation 2/2014), reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (see Note 16).

In addition, until the balance of "Development Expenditure" has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2016 year-end EUR 34,880 thousand of the reserves were restricted as to their use (2015 year-end: EUR 31,118 thousand).

f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31/12/16	31/12/15
CAF México, S.A. de C.V.	(1,834)	(927)
CAF Brasil Industria e Comercio, S.A.	(17,240)	(44,276)
CAF Argentina, S.A.	(1,987)	(1,764)
CAF USA, Inc.	(46)	(209)
CAF Rail UK, Ltda.	(54)	66
CAF Chile, S.A.	101	(24)
Sefemex, S.A. de C.V.	(53)	(55)
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(1,915)	(977)
Corporación Trainemex, S.A. de C.V.	(39)	(25)
CAF Turquía, L.S.	(1,009)	(832)
CAF Argelia, E.U.R.L.	(214)	(213)
CAF India Private Limited	(3)	(67)
Ctrens Companhia de Manutençao, S.A.	(53,276)	(79,086)
Trenes CAF Venezuela, C.A.	(638)	(624)
Provetren, S.A. de C.V.	1,164	1,198
CAF Sinyalizasyon Sistemleri Ticaret Ltd Sirket	(121)	(124)
CAF Rail Australia Pty, Ltd.	9	4
CAF Colombia, S.A.S.	(120)	(159)
Sermantren, S.A. de C.V.	(10)	(5)
CAF Arabia, Co.	150	147
CAF New Zealand Ltd.	40	5
Zhejiang Sunking Trainelec Traintic Electric Co, Ltd. (Note 2-f)	-	18
CAF Taiwan Ltd.	368	133
Urban Transport Solutions, B.V. (Note 2-f)	-	28
Arabia One for Clean Energy Investments PSC	54	28
Ferrocarril Interurbano, S.A. de C.V.	(28)	(7)
CAF Sisteme Feroviare, SRL	(2)	(1)
Total	**(76,703)**	**(127,748)**

g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated statements of financial position and of the changes therein in 2016 and 2015 is as follows:

	Thousands of euros
Balance at 31 December 2014	**12,704**
Profit attributable to non-controlling interests	1,573
Translation differences	(6)
Changes in the scope of consolidation	140
Dividends	(3,224)
Balance at 31 December 2015	**11,187**
Profit attributable to non-controlling interests	2,267
Translation differences	13
Loss of control over at NEM Solutions, S.L. (Note 2-f)	(537)
Transactions with non-controlling shareholders	711
Dividends	(1,935)
Balance at 31 December 2016	**11,706**

h) Capital management

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

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2016 and 2015, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (see Notes 3-n and 9-e). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of euros	
	31/12/16	31/12/15
Net financial debt:		
Interest-bearing refundable advances (Note 15)	15,769	11,431
Bank borrowings - Non-current liabilities (Note 16)	648,145	662,168
Bank borrowings - Current liabilities (Note 16)	103,075	203,722
Financial assets - Non-current assets (Note 9-c)	(15,652)	(12,602)
Current financial assets (Note 13)	(94,480)	(88,623)
Cash and cash equivalents	(392,022)	(297,440)
	264,835	**478,656**
Equity:		
Attributable to the Parent	771,971	703,740
Non-controlling interests	11,706	11,187
	783,677	**714,927**

15. Other current and non-current financial liabilities and other obligations

The detail of the Group's financial liabilities at 31 December 2016 and 2015, by nature and category, for measurement purposes, is as follows:

Financial liabilities: Nature/Category	Thousands of euros		
	31/12/16		
	Accounts payable	Hedging derivatives	Total
Bank borrowings (Note 16)	648,145	-	648,145
Other financial liabilities (excluding hedging derivatives)	47,854	-	47,854
Hedging derivatives (Note 17)	-	13,574	13,574
Non-current liabilities/Non-current financial liabilities	**695,999**	**13,574**	**709,573**
Bank borrowings (Note 16)	103,075	-	103,075
Other financial liabilities (excluding hedging derivatives)	23,059	-	23,059
Hedging derivatives (Note 17)	-	116,468	116,468
Current liabilities/Current financial liabilities	**126,134**	**116,468**	**242,602**
Total	**822,133**	**130,042**	**952,175**

Financial liabilities: Nature/Category	Thousands of euros		
	31/12/15		
	Accounts payable	Hedging derivatives	Total
Bank borrowings (Note 16)	662,168	-	662,168
Other financial liabilities (excluding hedging derivatives)	51,833	-	51,833
Hedging derivatives (Note 17)	-	23,091	23,091
Non-current liabilities/Non-current financial liabilities	**714,001**	**23,091**	**737,092**
Bank borrowings (Note 16)	203,722	-	203,722
Other financial liabilities (excluding hedging derivatives)	18,202	-	18,202
Hedging derivatives (Note 17)	-	35,498	35,498
Current liabilities/Current financial liabilities	**221,924**	**35,498**	**257,422**
Total	**935,925**	**58,589**	**994,514**

The detail of "Other Non-Current Financial Liabilities" is as follows:

	Thousands of euros	
	31/12/16	31/12/15
Refundable advances	43,696	47,172
Employee benefit obligations (Notes 3-k and 22)	3,165	3,005
Other liabilities	993	1,656
Total	**47,854**	**51,833**

The detail, by maturity in the coming years, of other non-current financial liabilities is as follows (in thousands of euros):

	2016		2015
2018	13,028	2017	11,869
2019	7,425	2018	10,973
2020	7,141	2019	5,970
2021	6,327	2020	5,743
2022 and subsequent years	13,933	2021 and subsequent years	17,278
Total	**47,854**	**Total**	**51,833**

Refundable advances

Through research and development programmes the Group has received certain grants to conduct research and development projects. This aid is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project. These grants consist of:

- Grants to partially meet the expenses and costs of these projects.

- Refundable advances in the form of loans which are generally interest-free and which usually have an initial grace period of three years and are taken to income in a period of over ten years.

The changes in 2016 and 2015 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/14	**50,866**
Additions	4,114
Adjustments and other	1,236
Transfers to short term	(9,044)
Balance at 31/12/15	**47,172**
Additions	7,936
Adjustments and other	1,890
Transfers to short term	(13,302)
Balance at 31/12/16	**43,696**

Also, the amount recognised in the short term relating to accounts payable for refundable advances amounted to EUR 15,482 thousand at 31 December 2016 (31 December 2015: EUR 15,021 thousand).

Employee benefit obligations

The Group has recognised the future obligations to the employees who have entered into pre-retirement plans (see Note 3-k). Short-term obligations of EUR 2,529 thousand were recognised under "Other Payables" in the accompanying consolidated statements of financial position as at 31 December 2016 (31 December 2015: EUR 2,298 thousand).

Also, the detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, net of the fair value of the plan assets allocated for the coverage thereof, at the end of 2016 and 2015, is as follows (see Note 3-j):

	Thousands of euros	
	31/12/16	31/12/15
Present value of the obligations assumed	32,424	25,679
Less – Fair value of plan assets	(32,692)	(25,947)
Other current assets	**(268)**	**(268)**

The present value of the obligations assumed by the Group was determined by qualified independent actuaries using the following actuarial techniques:

- Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

- Actuarial assumptions used: unbiased and mutually compatible. In general, the most significant actuarial assumptions used in the calculations were as follows:

Actuarial assumptions	2016	2015
Discount rate	1.77% - 1.82%	2.10% - 3.05%
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.

16. Bank borrowings

The detail of "Bank Borrowings" in the accompanying consolidated statements of financial position is as follows:

	Thousands of euros			
	31/12/16		31/12/15	
	Non-Current	Current	Non-Current	Current
Loans from and credit accounts with banks	648,145	99,611	662,168	160,780
Factoring transaction payables	-	-	-	36,755
Unmatured accrued interest	-	3,464	-	6,187
Total (Note 15)	**648,145**	**103,075**	**662,168**	**203,722**

Pursuant to IAS 39, the bank borrowings are presented in the consolidated statements of financial position adjusted by the costs incurred in the arrangement of the loans.

In relation to the CPTM train lease transaction described in Note 9-e, on 10 May 2011, the subsidiary Ctrens-Companhia de Manutençao, S.A. (Ctrens) arranged with Banco Nacional de Desenvolvimiento Econômico e Social (BNDES) financing for a maximum amount of BRL 946,890 thousand. The loan bears interest at TJLP (Taxa de Juros de Longo Prazo) plus a spread. The loan principal will be repaid in 160 successive monthly instalments, the first of which will be paid in January 2013. At 31 December 2016, the outstanding balance was BRL 720,893 thousand (EUR 210,140 thousand, of which EUR 194,106 thousand mature at long term and EUR 16,034 thousand at short term). At 31 December 2015, the outstanding balance was BRL 761,463 thousand (EUR 176,583 thousand, of which EUR 164,924 thousand mature at long term and EUR 11,659 thousand at short term).

The related agreement contains certain restrictive clauses limiting the ability of Ctrens-Companhia de Manutençao, S.A., inter alia, to obtain new bank loans, provide guarantees, reimburse capital and distribute dividends, and establishing the obligation to achieve certain financial conditions from January 2013 onwards, including a debt service coverage ratio (which must be over 1.2) and minimum capital structure ratio (which must be over 0.24).

Also, on 15 June 2011 the subsidiary entered into a "fiduciary" transfer of title agreement with BNDES whereby it assigned as a guarantee such collection rights as CTRENS might have vis-à-vis CPTM, as well as the guarantees provided by CPTM for the subsidiary and any amount claimable by the subsidiary from CPTM, the Parent and CAF Brasil.

In relation to the long-term agreement to provide services for the lease of trains (PPS - Line 12) described in Note 9-e, on 7 December 2012 the subsidiary Provetren, S.A. de C.V. entered into a long-term financing agreement amounting to a maximum of USD 300 million with a syndicate of banks comprising BBVA Bancomer, S.A., Banco Nacional de México, S.A., Banco Santander (Mexico) S.A., Sumitomo Mitsui Banking Corporation and Caixabank, S.A. The aforementioned loan bears interest at a rate tied to LIBOR. In order to avoid fluctuations in the yield curve and, as is habitual in financing of this kind, Provetren entered into an interest rate hedge agreement for 80% of the financing and 80% of the term (see Note 17).

The loan principal will be repaid in 39 consecutive quarterly instalments, in line with the collection profile under the PPS, the first maturity date being October 2013. At 31 December 2016, the financial liability according to the amortised cost method amounted to USD 160,018 thousand (EUR 151,809 thousand, of which EUR 126,621 thousand mature at long term and EUR 25,188 thousand at short term). At 31 December 2015, the financial liability amounted to USD 184,258 thousand (EUR 169,241 thousand, of which EUR 146,040 thousand mature at long term and EUR 23,201 thousand at short term).

The related agreement contains certain restrictive clauses limiting the ability of Provetren, S.A., de C.V., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends if certain ratios have not been achieved, and establishing the obligation to achieve certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15).

Also, on the same date, 7 December 2012, the subsidiary, with Banco Invex acting as Trustee and BBVA Bancomer, S.A. acting as Primary Beneficiary, entered into a trust agreement, whereby it assigned as a guarantee such collection rights as Provetren might have under the PPS, any collection rights arising from the interest rate hedge agreement, any collection rights under the manufacture and maintenance agreements, any income from VAT refunds and amounts arising from insurance policies.

The shares of the subsidiaries Ctrens-Companhia de Manutençao, S.A. and Provetren, S.A. de C.V. have been pledged to BNDES and the syndicate of banks mentioned above, respectively. In neither of the long-term financing agreements described above can the lenders have recourse to any of the companies composing the CAF Group other than those of a technical nature.

In 2016 the Parent 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. At 31 December 2016, the balance drawn down, according to the amortised cost method, was EUR 306,378 thousand long term and EUR 15,074 thousand short term (31 December 2015: EUR 350,053 thousand long term and EUR 30,917 short term). Of the amount drawn down, EUR 259,987 thousand bear interest at a fixed interest rate (EUR 20,000 thousand as a result of an interest-rate swap, see Note 17).

In 2015 the Parent made drawdowns against new loans with repayment schedules of between one and six years for a total amount of EUR 102,000 thousand, and repaid loans amounting to EUR 65,401 thousand. These loans were arranged on an arm's length basis. At 31 December 2015, the balance drawn down, according to the amortised cost method, was EUR 350,053 thousand long term and EUR 30,917 thousand short term. Of the amount drawn down, EUR 243,750 thousand bore interest at a fixed interest rate (EUR 20,000 thousand as a result of an interest-rate swap, see Note 17) and EUR 137,849 thousand bore interest tied to Euribor.

The subsidiary CAF Brasil Industria e Comercio, S.A. drew down against credit facilities financing working capital an amount of BRL 148,122 thousand (EUR 43,177 thousand) maturing at short term (31 December 2015: BRL 290,067 thousand (EUR 67,267 thousand) guaranteed by the Parent (31 December 2015: BRL 270,067 thousand guaranteed).

In July 2016 the subsidiary Inversiones en Concesiones Ferroviarias, S.A. drew down EUR 20,000 thousand against a loan. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by Inversiones en Concesiones Ferroviarias, S.A. in foreign companies. At 31 December 2016, this ratio was being achieved.

At 31 December 2015, the subsidiary CAF USA, Inc. had a credit facility of USD 30,000 thousand (EUR 27,586 thousand) maturing at short term for the purpose of financing its working capital requirements. This credit facility was guaranteed by the Parent, and was paid-off early in 2016.

The remaining financial debt of EUR 1,178 thousand, of which EUR 138 thousand mature at short term (31 December 2015: EUR 1,301 thousand, of which EUR 150 thousand matured at short term) relates to loans received by various subsidiaries, which are tied to market interest rates.

In addition to the foregoing, the Group companies have undrawn credit facilities amounting to EUR 189,775 thousand (31 December 2015: 273,000 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

The envisaged repayment schedule of non-current bank borrowings is as follows (in thousands of euros):

	31/12/16		31/12/15
2018	54,012	2017	83,094
2019	180,674	2018	71,209
2020	56,673	2019	296,700
2021	166,344	2020	36,492
2022 and subsequent years	190,442	2021 and subsequent years	174,673
Total	**648,145**	**Total**	**662,168**

17. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (see Note 5-a). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

Also, certain fully consolidated companies and certain companies accounted for using the equity method have arranged interest rate hedges (see Note 5-a).

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated statements of financial position as at 31 December 2016 and 2015 is as follows:

2016

Currency put options at 31/12/16 (fair value hedges)	Maturity (in currency)		
	2017	2018	2019 and subsequent years
Hedges :			
USD currency forwards (*)	644,214,550	79,234,468	55,313,750
GBP currency forwards	36,442,339	138,283,706	94,422,445
EUR currency forwards	15,623,445	-	-
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	463,285,969	-	-
SAR currency forwards	490,954,194	-	-
MXP currency forwards	2,723,626,945	-	-
CAD currency forwards	880,705	-	-
HUF currency forwards	975,898,338	-	-

(*) Includes the hedge of a net investment in CAF USA, Inc. and in Provetren amounting to USD 233,521 thousand.

Currency call options at 31/12/16 (fair value hedges)	Maturity (in currency)		
	2017	2018	2019 and subsequent years
Hedges :			
USD currency forwards	39,364,913	-	34,109,000
EUR currency forwards	163,634,381	49,009,054	-
BRL currency forwards	11,654,562	-	-
MXP currency forwards	59,767,000	-	-
GBP currency forwards	5,677,835	-	-

Interest rate derivatives	Loan maturity (in currency)		
	2017	2018	2019 and subsequent years
Euribor swap	-	-	EUR 20,000,000
CDI cross-currency-swap	BRL 72,000,000	-	-
LIBOR swap	USD 15,838,944	USD 18,598,760	USD 95,633,624

	Thousands of euros			
	Fair value		Cash flow	
	31/12/16	31/12/15	31/12/16	31/12/15
Hedges :				
USD currency forwards	(36,255)	(18,467)	-	-
GBP currency forwards	(6,014)	195	-	-
MXP currency forwards	(8,219)	(64)	-	-
BRL currency forwards	(9,115)	6,041	-	-
CHF currency forwards	(131)	(131)	-	-
EUR currency forwards	(9,134)	(101)	-	-
AUD currency forwards	47	-	-	-
SEK currency forwards	(439)	(365)	-	-
SAR currency forwards	2,047	7,217	-	-
TWD currency forwards	900	739	-	-
ZAR currency forwards	-	(7)	-	-
HUF currency forwards	2	191	-	-
Forward rate agreement	(54)	(100)	(5,434)	1,195
Measurement at year-end (*)	**(66,365)**	**(4,852)**	**(5,434)**	**1,195**

(*) Before considering the related tax effect

2015

Currency put options at 31/12/2015 (fair value hedges)	Maturity (in currency)		
	2016	2017	2018 and subsequent years
Hedges :			
USD currency forwards (*)	366,133,945	138,995,784	-
GBP currency forwards	28,999,253	-	68,204,871
EUR currency forwards	20,550,367	-	-
BRL currency forwards	115,113,533	-	-
SEK currency forwards	276,206,561	-	-
AUD currency forwards	500,000	-	-
TWD currency forwards	687,732,668	-	-
SAR currency forwards	520,982,164	-	-
MXP currency forwards	2,257,637,478	-	-
CAD currency forwards	3,027,862	-	-
ZAR currency forwards	18,357,300	-	-
HUF currency forwards	5,019,184,783	-	-

(*) *Includes the hedge of a net investment in CAF USA, Inc. and in Provetren amounting to USD 163,940 thousand.*

Currency call options at 31/12/15 (fair value hedges)	Maturity (in currency)		
	2016	2017	2018 and subsequent years
Hedges :			
USD currency forwards	36,048,990	17,028,630	-
EUR currency forwards	65,653,484	-	-
BRL currency forwards	44,983,891	-	-
MXP currency forwards	59,767,000	-	-
GBP currency forwards	2,500,000	-	-
SAR currency forwards	3,638,765	-	-

Interest rate derivatives	Loan maturity (in currency)		
	2016	2017	2018 and subsequent years
Euribor swap	-	-	EUR 20,000,000
CDI cross-currency-swap	BRL 114,800,000	-	
LIBOR swap	USD 20,206,653	USD 21,238,584	USD 108,832,744

At 2016 and 2015 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (see Note 9-a) had arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 5,800 thousand at 31 December 2016, net of the related tax effect (31 December 2015: EUR 5,229 thousand). This amount was recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated statements of financial position as at 31 December 2016.

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 statements of financial position (in thousands of euros):

	2016	2015
Non-current assets (Note 9)	12,861	22,068
Current assets (Note 13)	45,382	32,864
Non-current liabilities (Note 15)	(13,574)	(23,091)
Current liabilities (Note 15)	(116,468)	(35,498)
Balance sheet net total	**(71,799)**	**(3,657)**
Fair value	(66,365)	(4,852)
Cash flow	(5,434)	1,195
Total derivatives, remeasured	**(71,799)**	**(3,657)**

In 2016 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 4,988 thousand (2015: expense of EUR 192 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 18,145 thousand in 2016 (2015: expense of EUR 35,100 thousand), which is similar to the changes in value of the hedged items.

The items hedged by the Group, as indicated in Note 5-a on market risks, are currency transactions included in each of the commercial agreements. When the hedges are initially arranged these transactions comprise either firm commitments (in which case they are recognised as fair value hedges) or highly probable transactions (in which case they are recognised as cash flow hedges).

18. Current and deferred taxes

At 31 December 2016, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to their business activities.

Since 2007 the Parent has filed consolidated income tax returns in the province of Guipúzcoa with certain subsidiaries.

The reconciliation of the Group's accounting profit for the year to the income tax expense is as follows:

	Thousands of euros	
	2016	2015
Accounting profit before tax	**59,329**	**60,409**
Tax rate of the Parent	28%	28%
Income tax calculated at the tax rate of the Parent	**16,612**	**16,915**
Effect of the different tax rate of subsidiaries	1,656	1,975
Effect of exempt income and non-deductible expenses for tax purposes	(1,576)	3,471
Effect of tax credits and other tax relief recognised in the year	(148)	(4,217)
Effect of tax assets and deferred taxes not recognised in previous years	5,606	(549)
Adjustments recognised in the year relating to prior years' income tax	(99)	137
Change in tax rate	(2)	63
Total income tax expense (benefit) recognised in the consolidated statement of profit or loss	**22,049**	**17,795**
Current tax expense (benefit) (*)	**12,759**	**12,412**
Deferred tax expense (benefit)	**9,290**	**5,383**

(*) Including prior years' adjustments and income tax.

In 2013 the Parent availed itself of the tax incentive provided for in Article 39 of Guipúzcoa Income Tax Regulation 7/1996. At 31 December 2016, the Parent had fulfilled all the investment commitments related to this incentive (see Note 13).

In 2016 the Parent availed itself of the tax incentive provided for in Article 36 of Guipúzcoa Income Tax Regulation 2/2014, thereby reducing its taxable profit by EUR 6,337 thousand. The reinvestment commitment, which totals EUR 13,500 thousand, was fulfilled mainly in investments already made in 2016 by the Parent and the other companies in the consolidated tax group in property, plant and equipment and intangible assets.

The difference between the tax charge allocated and the tax payable for 2016 is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the accompanying consolidated statements of financial position.

The detail of and the changes in these balances is as follows:

	Thousands of euros				
	31/12/15	Additions	Disposals	Translation differences	31/12/16
Deferred tax assets:					
Tax credit and tax loss carryforwards (Notes 3-l)	116,659	8,262	(24,205)	2,907	103,623
Provisions temporarily not deductible	36,829	9,972	(3,371)	1,675	45,105
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,145	1,685	(1,305)	-	3,525
Elimination of profits on consolidation and other	4,475	1,719	(3)	732	6,923
	161,108	**21,638**	**(28,884)**	**5,314**	**159,176**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	118,711	6,848	(2,226)	10,131	133,464
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	(71)	16	-	-	(55)
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Exchange differences	77	44	-	6	127
Goodwill	16	3	-	-	19
Elimination of profits on consolidation and other	1,145	861	(363)	-	1,643
	156,817	**7,772**	**(2,589)**	**10,137**	**172,137**

	Thousands of Euros				
	31/12/14	Additions	Disposals	Translation differences	31/12/15
Deferred tax assets:					
Tax credits and tax effect of tax loss carryforwards (Notes 3-l)	104,911	27,672	(15,811)	(113)	116,659
Provisions temporarily not deductible	50,648	3,595	(14,576)	(2,838)	36,829
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,718	-	(573)	-	3,145
Elimination of profits on consolidation and other	4,565	679	(98)	(671)	4,475
	163,842	**31,946**	**(31,058)**	**(3,622)**	**161,108**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	112,426	6,509	(1,729)	1,505	118,711
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	(61)	(36)	26	-	(71)
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Exchange differences	-	78	-	(1)	77
Goodwill	363	3	(350)	-	16
Elimination of profits on consolidation and other	2,759	336	(1,934)	(16)	1,145
	152,426	**6,890**	**(3,987)**	**1,488**	**156,817**

In 2016 the Group expects to take tax credits amounting to EUR 10,814 thousand (2015: EUR 7,506 thousand) mainly in relation to tax credits for R&D expenditure and international double taxation tax credits. Unused tax credits after projected income tax for 2016 amounted to EUR 88,205 thousand (2015: EUR 80,226 thousand), of which EUR 25,970 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2015: EUR 31,275 thousand). The tax loss carryforwards recognised amounted to EUR 77,653 thousand at 31 December 2016 (31 December 2015: EUR 85,384 thousand). The tax loss carryforwards relate mainly to the Parent's tax group -EUR 41,745 thousand (31 December 2015: EUR 40,976 thousand)-, to the subsidiary CAF Brasil Industria e Comercio -EUR 17,610 thousand (31 December 2015: EUR 10,453 thousand)- and to Provetren, S.A. de C.V. -EUR 16,151 thousand (31 December 2015: EUR 31,299 thousand)-, which arose from the losses incurred in connection with accelerated depreciation for tax purposes of a significant portion of its assets as a result of the certificate for environmentally friendly assets obtained in prior years from the Federal Prosecutor's Office for Environmental Protection (PROFEPA). At 31 December 2016, Provetren, S.A. de C.V. also recognised deferred tax liabilities of EUR 89,352 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation.

Lastly, at 31 December 2016 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 38,595 thousand as a result of the difference between the tax base and the carrying amount of the concession's financial asset caused by differences in the timing of recognition of amortisation (31 December 2015: EUR 25,253 thousand).

In general terms, the assets or equity items subject to the aforementioned tax credits must remain in operation in the Group, and be assigned, where applicable, to their intended purpose, for a minimum period of five years, or of three years in the case of movable property, unless the useful life is less, without being transferred, leased or assigned to third parties for their use, with the exception of justified losses.

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 81,130 thousand (2015: EUR 61,761 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets, with no defined last year for deduction, amounting to EUR 11,714 thousand (2015: EUR 12,413 thousand).

The amount of the (unrecognised) tax credits, tax loss carryforwards and deferred tax assets and their schedule for use by the Group is as follows:

	Thousands of euros	
	31/12/16	31/12/15
Expiring in 2017	366	366
Expiring in 2018	855	847
Expiring in 2019	385	407
Expiring in 2020	577	577
Expiring in 2021	218	168
Expiring in 2022	-	-
Expiring in 2023	-	-
Expiring in 2024	-	-
Expiring in 2025	7,607	3,499
Expiring in 2026	8,258	8,352
Expiring in 2027 and subsequent years	54,372	37,174
Unlimited	20,206	22,784
	92,844	**74,174**

The differences between the estimated income tax for 2016 and the tax return ultimately filed gave rise to income of EUR 99 thousand (2015: an expense of EUR 137 thousand).

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2016 year-end the Group had 2012 and subsequent years open for review by the tax authorities for income tax and 2013 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and, at the foreign companies, in accordance with local legislation. The Parent’s directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Parent of the commencement of its general audit of various taxes 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. At the date of these financial statements, the Parent was awaiting a response to one of the pleadings and to the appeal for judicial review filed by the Parent which is currently suspended.

19. Receivables from and payables to public authorities

The detail of the receivables from and payables to public authorities at 31 December 2016 and 2015 is as follows:

	Thousands of euros							
	31/12/16				31/12/15			
	Assets		Liabilities		Assets		Liabilities	
	Non-Current	Current	Non-Current	Current	Non-current	Current	Non-Current	Current
Accrued social security taxes	-	6	-	9,338	-	6	-	8,134
Regular taxes-								
VAT (Note 9)	42,837	54,675	-	14,892	34,256	49,280	-	10,733
Other	-	624	-	176	-	1,605	-	176
Personal income tax withholdings	-	-	-	8,609	-	-	-	8,797
Income tax (Note 3-l)	-	13,426	-	969	-	8,451	-	647
Grants receivable	-	658	-	-	-	397	-	-
Total	**42,837**	**69,389**	**-**	**33,984**	**34,256**	**59,739**	**-**	**28,487**

In 2011 the Parent and certain subsidiaries were authorised to file consolidated VAT returns.

20. Short- and long-term provisions

The changes in "Short-Term Provisions" and "Long-Term Provisions" in 2016 and 2015 were as follows (in thousands of euros):

	Long-term provisions	Short-term provisions				
		Contractual liability	Warranty and support services	Litigation	Other provisions	Total short-term provisions
Balance at 31/12/14	**5,075**	**147,133**	**108,123**	**7,694**	**2,379**	**265,329**
Net charge for the year	1,636	(20,737)	40,961	(3,355)	(340)	16,529
Amounts used charged to profit or loss	(2,008)	(3,513)	(44,994)	(179)	(137)	(48,823)
Translation differences	(254)	(706)	(594)	-	-	(1,300)
Transfers	77	(1,081)	(1,888)	-	-	(2,969)
Balance at 31/12/15	**4,526**	**121,096**	**101,608**	**4,160**	**1,902**	**228,766**
Net charge for the year (Notes 3-j, 3-k and 18)	1,782	9,674	31,423	2,302	4,238	47,637
Amounts used charged to profit or loss	(1,562)	(6,778)	(39,792)	(4,754)	(187)	(51,511)
Translation differences	(95)	614	1,864	72	504	3,054
Transfers	(5)	(9)	-	-	-	(9)
Balance at 31/12/16	**4,646**	**124,597**	**95,103**	**1,780**	**6,457**	**227,937**

Long-term provisions

The Group recognises employment-related provisions under "Long-Term Provisions" for present obligations arising from past events that it expects to settle when they fall due through an outflow of resources. The amount is based on the best estimate made by the Parent's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material.

Contractual liability and warranty and support services

The provisions for contractual liability relate mainly to 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 consolidated companies recognised income of EUR 3,874 thousand under "Other Operating Expenses" in the accompanying consolidated statement of profit loss for 2016 (2015: income of EUR 32,294 thousand) relating to the difference between the provisions required in this connection at 2016 year-end and the provisions recognised at 2015 year-end.

The expenses incurred in 2016 and 2015 in connection with the provision of contractual warranty services (approximately EUR 39,792 thousand and EUR 44,994 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated statements of profit or loss for 2016 and 2015. The warranty period varies on the basis of the contractual arrangement, the average period ranging from one to four years.

In 2008 the Group entered into an agreement with Metro de Caracas for the manufacture and supply of 48 trains to be manufactured in Spain. At 31 December 2016 and 2015, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2016 the Group had recognised a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2015: EUR 66,535 thousand), which is recognised under contractual liability in the table above (see Note 12). This provision relates to contractual liability and, accordingly, cannot be offset against the asset (account receivable), unless an additional agreement is reached with the customer in this connection. These is no litigation relating to this agreement.

Litigation

At the end of 2015, the Parent was involved in litigation as a result of the termination of a contract with a customer and for which, in addition, EUR 9,201 thousand were recognised under "Trade and Other Payables" in the accompanying consolidated statements of financial position. In May 2016 the Supreme Court handed down a decision in favour of the termination of the contract. As a result of this ruling, an additional charge of EUR 1,664 thousand was recognised. In June 2016 a total amount of EUR 13,327 thousand was paid in this connection.

The Parent's directors consider that no liabilities will arise in addition to those already recognised at 31 December 2016.

21. Income and expenses

a) Procurements

	Thousands of euros	
	2016	2015
Materials used (*)	511,382	348,845
Work performed by other companies	97,287	86,169
Total	**608,669**	**435,014**

(*) 79% in euros, and the remainder mainly in US dollars and Brazilian reals (2015: 77% in euros).

b) Other operating expenses

	Thousands of euros	
	2016	2015
Outside services	187,046	198,257
Taxes other than income tax	3,381	2,320
Change in operating provisions and allowances and other (Notes 12 and 20)	(9,519)	(36,817)
Other current operating expenses	5,815	1,236
Total	**186,723**	**164,996**

The fees for audit services (including six-monthly reviews) relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 836 thousand in 2016 (2015: EUR 798 thousand). Of this amount, EUR 582 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2015: EUR 563 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 329 thousand were billed in 2016 (2015: EUR 178 thousand): EUR 39 thousand for audit-related attest services (2015: EUR 68 thousand), EUR 47 thousand for tax services (2015: EUR 67 thousand) and the remainder for other services.

c) Information on the environment

In 2016 and 2015 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

The Group did not receive any environmental grants in 2016.

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.

In 2016 the Group emitted 15,572 tonnes of CO2 (2015: 16,550 tonnes), whereas it had been allocated allowances for the emission of 19,133 tonnes (2015: 19,491 tonnes). As a result, the Group did not recognise any liability at year-end. In 2016 and 2015 the Group did not sell any emission allowances.

At 31 December 2016 and 2015, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated statements of financial position does not include any provisions in this connection.

In 2016 the Group incurred environmental expenses amounting to EUR 710 thousand (2015: EUR 1,154 thousand).

d) Grants related to income

Most of the grants transferred to profit or loss in 2016 and 2015 related to grants awarded under various Spanish ministerial programme calls, in respect of which all the costs to be supported were incurred.

Grants must be refunded together with the related market interest if the R&D investments envisaged under the projects are not ultimately made.

The grants related to income recognised in 2016 under "Other Operating Income" in the accompanying consolidated statement of profit or loss amounted to EUR 2,585 thousand (2015: EUR 3,859 thousand).

22. Average headcount and staff costs

The average headcount in 2016 and 2015 was as follows:

Professional category	Average number of employees	
	2016	2015
Board members	2	2
Senior executives	11	12
Employees	3,224	3,337
Manual workers	4,246	4,444
Total (*)	**7,483**	**7,795**

(*) At 31 December 2016, there were 7,587 employees (31 December 2015: 7,581 employees).

The breakdown, by gender, of the average headcount in 2016 and 2015 is as follows:

Professional category	2016		2015	
	Men	Women	Men	Women
Board members	1	1	2	-
Senior executives	10	1	10	2
Employees	2,376	848	2,479	858
Manual workers	4,096	150	4,296	148
Total	**6,483**	**1,000**	**6,787**	**1,008**

At 31 December 2016, the Parent's Board of Directors comprised seven men and two women. At 31 December 2015, all of the directors were men.

The detail of staff costs is as follows (in thousands of euros):

	2016	2015
Wages and salaries (Note 3-j)	292,784	297,294
Social security costs	86,056	87,919
Other expenses	18,794	16,951
Total	**397,634**	**402,164**

23. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 2016 and 2015, the total remuneration of the Board of Directors of the Parent Company amounted to approximately EUR 1,495 thousand and EUR 1,477 thousand in salaries, life insurance, attendance fees and fixed remuneration. Also in 2016, the Parent Company made contributions to long-term savings systems amounting to EUR 90 thousand (there were no contributions in 2015). At 31 December 2016 and 2015, neither the Parent Company nor the subsidiaries had granted any advances, guarantees or loans to their current nor former Directors.

In 2016 EUR 33 thousand were paid in connection with the third-party liability insurance premium for damage caused by acts or omissions.

b) Information regarding situations of conflict of interest involving the directors

In 2016 and 2015 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 Board of any direct or indirect conflict of interest that they might have with the Parent.

24. Remuneration of senior executives

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, additional to the remuneration that may be payable to them as described in Note 3-j, amounted to EUR 2,041 thousand in 2016 (2015: EUR 2,262 thousand).

In 2016 and 2015 there were no other transactions with senior executives outside the ordinary course of business.

25. Other disclosures

a) Guarantees and other contingent assets and liabilities

At 31 December 2016, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 2,328,875 thousand (31 December 2015: EUR 1,929,828 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 23,342 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other government agencies (31 December 2015: EUR 32,542 thousand).

In March 2014 the Brazilian Administrative Council for Economic Defence (CADE), following completion of an administrative investigation process initiated in May 2013 into several railway manufacturers, one of which is a subsidiary of the CAF Group in Brazil, initiated administrative proceedings arising from possible anti-competitive behaviour. The Parent submitted its preliminary defence 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 consolidated financial statements there were no economic claims filed against this subsidiary. Also, as a result of this proceeding, a current account with a balance of EUR 263 thousand was blocked. An appeal has been filed in this connection. At the reporting date, the actions brought by CAF Brasil against the blocked account had been upheld and the decision on a final extraordinary appeal for the account to be definitively unblocked 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 consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have 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 pleadings in the first half of 2016. The investigations relating to this proceeding are expected to continue throughout 2017.

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.

	2016	**2015**
	Days	Days
Average period of payment to suppliers	76.60	69.53
Ratio of transactions settled	81.82	73.91
Ratio of transactions not yet settled	60.27	53.12
	Thousands of euros	Thousands of euros
Total payments made	462,120	408,351
Total payments outstanding	147,542	108,988

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 statements of financial position.

The statutory maximum payment period applicable to the Parent 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, was 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

26. Events after the reporting period

At 31 December 2016, the firm backlog, net of progress billings, amounted to approximately EUR 6,227,931 thousand (31 December 2015: EUR 4,869,061 thousand) (see Note 11). At 31 January 2017, the total was EUR 6,176,967 thousand (31 January 2016: EUR 5,548,924 thousand).

27. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPROVAL BY THE BOARD OF DIRECTORS

ANDRES ARIZKORRETA GARCIA

CHAIRMAN

ALEJANDRO LEGARDA ZARAGÜETA

DIRECTOR

JOSE ANTONIO MUTILOA IZAGUIRRE

DIRECTOR

LUIS MIGUEL ARCONADA ECHARRI

DIRECTOR

CARMEN ALLO PÉREZ

DIRECTOR

JUAN JOSE ARRIETA SUDUPE

DIRECTOR

XABIER GARAIALDE MAIZTEGI

DIRECTOR

JAVIER MARTINEZ OJINAGA

DIRECTOR

MARTA BAZTARRICA LIZARBE

DIRECTOR-SECRETARY OF THE BOARD

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CARMEN ALLO PÉREZ

MARTA BAZTARRICA LIZARBE

Certificate issued by the Secretary of the Board of Directors attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (consolidated) for the year ended 31 December 2016 by the Board of Directors at its meeting on 27 February 2017, the directors have signed this document, consisting of 133 sheets numbered sequentially from 6001 to 6133, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2017.

Approved by

THE CHAIRMAN OF THE BOARD

ANDRÉS ARIZKORRETA GARCÍA

Signed by

THE SECRETARY OF THE BOARD

MARTA BAZTARRICA LIZARBE