

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

Consolidated Financial Statements for 2018
and Consolidated Directors' Report,
together with Auditor's Report

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

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

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

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

Key Audit Matters

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

Accounting for the business combination effected in the year

Description

As described in Note 2-f, in 2018 the Group acquired control of Solaris Bus & Coach, S.A. and subsidiaries, which engage in the urban transport business. This transaction was considered to be a business combination.

As a result, the Group performed the initial provisional accounting for the business combination, which led to the recognition of intangible assets and goodwill amounting to EUR 142 million and EUR 94 million, respectively.

In this connection, determining the fair value of the assets acquired and the liabilities assumed, and the goodwill arising on the acquisition date, requires significant judgements to be made in the estimation process corresponding to the valuations of the assets and liabilities, for which the Group was assisted by experts engaged by it for this purpose. Consequently, the analysis of this transaction was a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the obtainment and analysis of the key contractual documentation in order to analyse and conclude on Group management's determination of the fair values of the assets acquired and liabilities assumed in the business combination and of the purchase price allocation relating to the business.

We paid special attention to the measurement of the intangible assets (brands and relationships with customers) including the methodologies and assumptions used by the Group and, in particular, those relating to the determination of the discount rates, royalty rates and the allocation of useful lives on the basis of which the assets will be systematically amortised.

We assessed the competence, capability and objectivity of the experts engaged by the Group to determine the fair value of, inter alia, the intangible assets acquired. Also, we obtained an understanding of the work performed by these experts and of the adequacy of that work for use as audit evidence.

We involved our internal valuation experts in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted.

Lastly, we also assessed the adequacy of the disclosures provided in the consolidated financial statements (see Note 2-f).

Recognition of revenue and margins by reference to stage of completion

Description

The Group engages mainly in the manufacture of rolling stock material and, in relation to long-term construction contracts, as indicated in Notes 3-f and 12 to the accompanying consolidated financial statements, it generally recognises the revenue and profit or loss on each contract by reference to the estimated stage of completion thereof, obtained on the basis of the hours incurred in the contract as a percentage of the total budgeted hours. The revenue recognised in 2018 on train contracts by reference to the stage of completion amounted to EUR 1,315 million.

Determination of the stage of completion involves a high degree of complexity and estimation by management in relation to, inter

Procedures applied in the audit

Our audit procedures included a combination of tests on the relevant controls and substantive analytical tests and tests of details. These included, inter alia, tests to verify that the aforementioned controls operate effectively, including the information system controls, for which we involved our internal technology and systems experts.

Also, we performed a detailed and case-by-case analysis of the main projects, based on qualitative and quantitative factors, in order to evaluate the reasonableness of the assumptions and hypotheses used by the Group, for which purpose we held meetings with Group personnel. In addition, we reviewed the consistency of the estimates made by the Group in 2017 with the

alia, the estimation of the total costs to be incurred in each contract, the percentage of the total budgeted hours allocated to each contract or the estimation of the margin taking into consideration the expected revenue and the expected contract costs. Also, the stage of completion calculated by the Group on the basis of the hours incurred as a percentage of the total hours of the projects entails a significant risk as it is subject not only to the estimates of the total hours envisaged for each of the projects but also to the correct charging of hours by the staff engaged on each of the projects over the year.

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

actual data for 2018 and conducted other substantive procedures such as: detailed perusal of the most significant contracts and analysis thereof with management in order to obtain an appropriate understanding of the terms and conditions agreed upon; analysis of whether the revenue is properly recognised, taking into account the contractual terms and obligations vis-à-vis the customers; tests of details on a selective basis aimed at assessing the reasonableness of the estimates made by management, and the review of the most sensitive assumptions; and the performance of combined manual and technology and systems expert-assisted tests in order to obtain and verify the entries recorded in the revenue accounts.

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

Contingent liabilities arising from commercial agreements

Description

It is standard practice in the industries in which the Group operates for long-term construction contracts to provide for obligations that require the recognition of liabilities in the event of any delays in the delivery of units pursuant to the production schedule or other breaches of contractual commitments.

As described in Notes 12 and 20 to the accompanying consolidated financial statements, the provisions recognised to cater for these obligations included EUR 117 million recorded as a reduction of "Trade Receivables for Sales and Services" and EUR 58 million recognised under "Short-Term Provisions" at 31 December 2018.

The assessment performed by management to determine, if appropriate, the recognition of those obligations is complex and involves the use of a significant level of judgement based on assumptions with respect to possible events occurring during the product construction

Procedures applied in the audit

Our audit procedures included, among others, the analysis of the estimates made by management in relation to the provisions recognised and, for a sample of contracts obtained on a selective basis, we assessed the reasonableness of the estimates made by management by comparing those estimates with the terms and conditions included in the aforementioned contracts and with the obligations arising therefrom, the circumstances prevailing in those contracts and historical experience. We also carried out substantive tests relating to the obtainment of confirmations from third parties, correspondence between the Group and its customers and, where appropriate, the opinion of its legal advisers.

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

Contingent liabilities arising from commercial agreements

Description

process, including the identification of causes not attributable to the Group.

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

Procedures applied in the audit

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2018, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

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

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

Based on the work performed, as described above, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2019.

Engagement Period

The Annual General Meeting held on 2 June 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017.

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

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



Pablo Mugica
Registered in ROAC under no. 18694

27 February 2019

Appendix to our auditor's report

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

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

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

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

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

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

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

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

**2018 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.

CAF GROUP BUSINESS MODEL AND OUTLOOK

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

A leader in the railway industry, it offers its customers one of the widest and most flexible product ranges in the market (both in terms of complete integrated transport systems and parts thereof), i.e. rolling stock, components, infrastructure, workshops, signalling and services (maintenance, refurbishment and financial). Within the rolling stock segment, which represents its most traditional business, CAF offers a wide range of products that includes, among others, high-speed and very high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs and locomotives.

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

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

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

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including, where applicable, taking advantage of joint ventures or alliances.
- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, financing, operation of railway systems, leasing, maintenance and/or refurbishing of trains, trams and locomotives, as a continuation of our most recent successes in Liege (Belgium), Parramatta and New South Wales (Sydney, Australia). Also, the various value propositions to customers that might be derived from the marketing of digital services (fleet management, predictive maintenance, etc. through the Group's LeadMind solution, which has already been installed in various projects in the handover phase).
- Continue making investments in technological development, in relation to technologies and high value-added products in all our lines of business (rolling stock, signalling, energy, data management, inspections, buses, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.
- Achieve further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Solaris, BWB, etc. This strategy aims to increase and diversify the integrated transport offering beyond the railway, thereby responding to new, sustainable social mobility needs. To do so, the technological commitment has been and is a fundamental part of the Group's strategy to gain a competitive advantage.
- Also, to make further progress in the process to integrate operations with Orbital Sistemas Aerospaciales, S.L. (Noain, Navarre), a leader in the development of critical systems in the aeronautical, space and railway industries, of which the CAF Group purchased a 30% ownership interest in 2018, which can be increased based on the performance of certain business parameters. As a result of this ownership interest, the

CAF Group expects to contribute to strengthening Orbital's current activities and to benefit from a state-of-the-art development base in critical systems with high security standards (hardware, software and integration, and validation services) in order to develop its own solutions in the railway industry.

- Gradually digitise our operating processes (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0), as a means guaranteeing their long-term competitiveness. Examples of this evolution include technologies such as online data capture, training and execution supported by augmented reality, 3-D printing, etc.
- Systematic and recurring application of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety, environment and management across all Group business activities and areas, within a highly competitive environment. This includes:
 - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK and Europe, Inneo metros, etc.).
 - Gradual expansion of the Industrial Operations Transformation Plan.
 - Optimisation of the life cost cycle (LCC) of the product, an area that increasingly defines our competitiveness.
- Lastly, making progress in fundamental areas of business management such as, for example, corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

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

BUSINESS PERFORMANCE AND RESULTS

Main indicators (*)

Figures in millions of euros	2018	2017	Change (%)
Contracts-			
Backlog	7,716	6,265	23%
Contracts in the year	2,902	1,514	92%
Contracts to Revenue ratio	1.42	1.03	38%
Profit and Cash-Flow-			
Revenue	2,048	1,477	39%
EBITDA	201	180	12%
Profit for the year attributable to the Parent	43	42	2%
Cash-Flow	101	77	31%
Investment in current assets	40	247	-84%
Investment in P, P & E and R&D+i	94	72	31%
Capital management and liquidity-			
Net financial debt	324	219	48%
Equity attributable to the Parent	752	750	0.3%
Available liquidity	944	606	56%
Net financial debt to EBITDA ratio	1.61	1.21	32%
Proposed dividend per share	0.765	0.66	16%

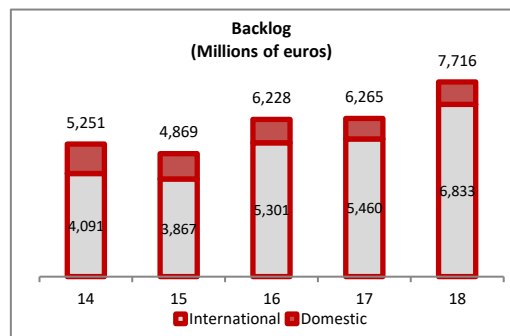
- The high level of new contracts and Solaris's inclusion in the CAF Group means that the Group's backlog is at record highs and continues to guarantee the continuation of the Group's normal business activities.
- EBITDA as a percentage of the Group's revenue stood at 9.8% in 2018, increasing by 12% in absolute terms.
- With respect to the financial position, mention should be made of the Company's improved investment in current assets, which offsets the investments in the year in property, plant and equipment and R+D+i and the obtainment of control over Solaris.
- The proposed distribution of profit consists of paying dividends of EUR 26.2 million.

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

Commercial activity

For the third year running the business year has ended with the backlog (EUR 7,716 million) at record levels, up 23% on the previous record set at the end of 2017.

“Together with Solaris, we will create a leader in urban mobility solutions beyond rolling stock, particularly in the e-mobility segment” said our chairman. This statement was backed up by the contract for 88 articulated Urbino 18 buses for the capital city of Latvia, Riga. Fully electric articulated units with similar characteristics were presented in Barcelona and have already been in circulation in the Catalan capital for the last two years.



Still in relation to the area of urban mobility, we should highlight new rolling-stock orders for existing infrastructure. Thus, Euskotren contracted the manufacture of six new seven-module trams for service on the Vitoria-Gasteiz tramway, and the Swedish city of Lund, through its transport operator Skånetrafiken, contracted seven five-module trams together with the related maintenance over ten years.

As part of its service improvement plan, Metro Barcelona contracted ten new series 5000 and series 6000 trains to run on its Lines 1, 3 and 5. Specifically, two of the series 5000 trains will run on Line 3, while the other four will run on Line 5. The four series 6000 trains will all run on Line 1.

In Italy, the city of Naples metro exercised an expansion option to acquire two new six-car trains, as part of the contract entered into in 2017 for the initial supply of ten units to run on Line 1 of the city’s metro.

Also, the Luxembourg tramway operator exercised a purchase option for twelve trams on top of the initial order for twenty-one entered into in 2015. They are all equipped with Greentech on-board stored-electricity technology.

The German city of Freiburg purchased five seven-module vehicles for its tramway service, with the option to increase to up to twelve vehicles, which will be added to the twelve already supplied and in service in that city.

The city of Amsterdam, through its public transport operator GVB Activa B.V., engaged CAF to supply 30 three-car units, with an option to increase to up to 60 units, in order to renew its old trains currently in service.

In Norway CAF was engaged by Sporveien -urban transport operator- to supply its capital Oslo with 87 new trams, which may be increased by an additional 60 units. As a result, visitors to the Norwegian capital will be able to experience the versatility of CAF’s products, ranging from the Oaris high-speed link to the Gardermoen airport operated by Flytoget, to the Urbos, which will enable smooth transit along the city’s streets.

Leaving urban traffic and continental Europe to one side, we should mention that in order to operate the Wales and Borders franchise in the UK in conjunction with the company KeolisAmey, the contract for the manufacture of 180 cars that will make up 77 diesel units for services in the franchise was concluded. The contract includes the integrated maintenance of the units for at least 15 years, the period for which KeolisAmey was awarded the operation of the franchise.

Staying in the UK, in order to operate the Northern franchise, Arriva UK and the finance company Eversholt Rail Group increased their initial order to 290 cars to form 43 electric and 58 diesel units.

Both agreements will increase the workload of our new factory in Newport (Wales), which started up in the second half of the year.

In neighbouring Northern Ireland, Translink renewed the confidence placed in our company by arranging the supply of 21 new cars, thereby extending the agreement entered into in 2009.

In December The Netherlands operator NS arranged the supply of 302 additional cars to make up 50 three-car units and 38 four-car units. The additional supply arranged relates in full to electric Civity units.

At practically the same time the agreement for the Parramatta Light Rail (Sydney, Australia) was arranged for the supply, operation and maintenance of the first phase of the Parramatta Light Rail project awarded to the Great River City Light Rail consortium, formed by CAF Rail Australia and Transdev Australasia. CAF will supply 13 seven-module URBOS vehicles, as well as the line's systems and their integration, which includes the traction system, substations, the signalling system and the control and communication centre for the project.

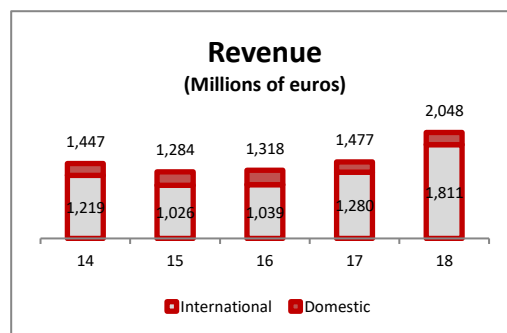
Last, but by no means least, mention should be made of the sound performance of, and contracts contributed by, the Wheel Sets (MiiRA) and Maintenance business and the Group's other subsidiaries, which increased the total annual contracts to EUR 2,902 million. Of note is the sound functioning of the refurbishing business, which this year entered into agreements with Renfe for the inclusion of access ramps in the metro fleet; in Italy fire detectors and extinguishers will be designed and installed in 670 cars and on the Medellín metro this business will refurbish 126 cars comprising 42 metro units for that Colombian city's metro.

2019 is a year full of great possibilities in the markets where our company already has a significant market share, such as the Spanish market, where various tenders have been announced by public entities reporting to the Spanish Ministry of Public Works, and the UK market with the tender for the high-speed trains for High Speed Two (HS2), the public enterprise developing the UK's high-speed railway which recently invited CAF to tender.

Industrial activity - Railway segment

CAF's various factories manufactured 750 cars in 2018.

In 2018 substantially all the product range was represented in the manufacturing mix, which ranged from two high-speed units for the Norwegian customer Flytoget to the versatile LRVs (Light Rail Vehicles) for the city of Boston, three of which were manufactured in 2018.



Various projects initiated in prior years continued to form part of the industrial activity in 2018. These projects include the 13 restaurant cars for the US operator Amtrak, 45 cars of various types for Caledonian (Scotland), the last train for the Sao Paulo metro, thus bringing to an end manufacture of the order of 26 trains, ten trains for the operator CPTM (also in Sao Paulo), the last of the trains fulfilling the contract for 41 units with the Chilean metro, and the last of the 16 trams ordered by Saint Etienne.

However, the majority of the industrial activity in 2018 was concentrated in other more recent projects such as the commuter trains for The Netherlands operator Nederlandse Spoorwegen (23 three-car units and 22 four-car units), or the 11 push-pull cars and 4 EMU (Electric Multiple Unit) trains for the UK operator Transpennine Express. Also in the UK, 8 three- and four-car EMU trains were manufactured in addition to 10 DMU (Diesel Multiple Unit) two- and three-car trains, both of which are for Northern by Arriva.

In addition to the foregoing trains, in 2018 13 commuter trains for Toluca (Mexico), 10 of the 27 five-module trams for Utrecht, 13 trams to complete the agreement entered into with Canberra (Australia), 5 trams for Newcastle, half of the 12 trains for the Algiers metro, the first 3 trains for Line 1 of the Mexico City metro and the first 3 units for the Quito (Ecuador) metro were manufactured.

As certain agreements were fulfilled, the initial manufacturing phases of other agreements commenced, such as the trains for the Brussels metro, the extension of the contract for 15 trains for Auckland and the project for 63 trams for Amsterdam.

The most important products manufactured in 2018 were as follows:

No. of Vehicles

High-speed for Flytoget	8
Long-distance Amtrak cars	13
Long-distance Caledonian	45
Medium-distance TransPennine cars and driving cabs	55
Medium-distance TransPennine EMUs	20
Medium-distance Northern by Arriva EMUs (three-car units).....	6
Medium-distance Northern by Arriva EMUs (four-car units).....	24
Medium-distance Northern by Arriva DMUs (two-car units).....	4
Medium-distance Northern by Arriva DMUs (three-car units)	24
CPTM Commuter trains	80
Sao Paulo commuter trains	6
Commuter trains for Toluca	65
Commuter trains for NS (three-car units).....	69
Commuter trains for NS (four-car units)	88
Chile metro	5
Quito metro	18
Medellín metro	3
Algiers metro.....	36
Mexico City metro Line 1.....	27
LRV for Boston.....	9
Trams for Saint Etienne	5
Trams for Utrecht	50
Trams for Canberra	65

Trams for Newcastle	25
TOTAL	750

BOGIES

With mechanic-welded chassis.....	1,326
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WHEEL SETS AND COMPONENTS UNITS – (MiRA)-

Assembled axles (power car + push-pull car)	4,934
Loose axle bodies.....	8,212
Monoblock wheels	60,328
Elastic wheels.....	1,637
Couplers	816
Gear units.....	2,163
Bandages.....	576

R&D+i activity - Railway segment

As regards CAF and CAF I+D, the CAF Group's new Innovation Plan for 2019-2020 was defined in 2018, which is aligned with the Strategic Plan.

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

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

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

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

The 2018-2019 Technology Plan developed in 2018 fostered a total of 116 projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2018-2019 Technology Plan encompassed the following fields:

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

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

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

- SMART-TRAIN, which is part of CAF's strategic digitisation initiative and is aimed at developing a new generation of more competitive trains and services through the digitally secure capture, storage, processing and advanced analysis of all the train operations data.
- UNIMODEL, a joint two-year project aimed at developing a universal cost model (UCM) methodology to calculate the overall cost of running the vehicle on the tracks, reduce and improve life cycle costs (LCCs) and analyse the impact on costs of introducing innovative technologies to the rolling stock.
- STARS to determine the suitability of global satellite positioning in the rolling stock industry.

- AROSS, focused on developing prediction, monitoring and diagnosis solutions for the key components of rolling stock bogie, suspension and braking systems, which will allow for useful-life optimisation and advanced management of these components.
- SHIFT2RAIL. As a founder member of the Shift2Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is involved in various technology development projects (CONNECTA 1, PINTA 2, IMPACT 1, FINE 1, X2RAIL 1, PIVOT, FR8RAIL 1, IMPACT1, IMPACT2, CONNECTA 2, PINTA 2, X2RAIL 1, X2RAIL 2, X2RAIL 3, PLASA 2, FR8RAIL 2) which are scheduled to continue until 2024.

In addition to the development, enhancement and expansion of CAF's existing vehicle platforms, the most significant engineering projects undertaken in 2018 were as follows:

- Diesel and electric multiple units for Northern by Arriva (UK)
- Electric multiple units for TransPennine Express-First Group (UK)
- LRV for Boston and Maryland Metro (US)
- Push-pull cars for Caledonian and TransPennine Express-First Group (UK)
- Units for Toluca (Mexico)
- Mexico City metro Line 1
- Trams for Canberra and Newcastle (Australia) and Amsterdam (The Netherlands)
- Locomotives for RATP (France)
- Electric multiple units for Schöenbuchbahn (Germany)
- Automated metro for STIB (Brussels)

The following projects entered into service in 2018:

- DMUs for West Midlands Trains (UK)
- Naples metro (Italy)
- LRVs for Manila (Philippines)
- Barcelona metro (Spain)
- Amsterdam metro (The Netherlands)
- Trams for Oslo (Norway) and Lund (Sweden)

Solaris

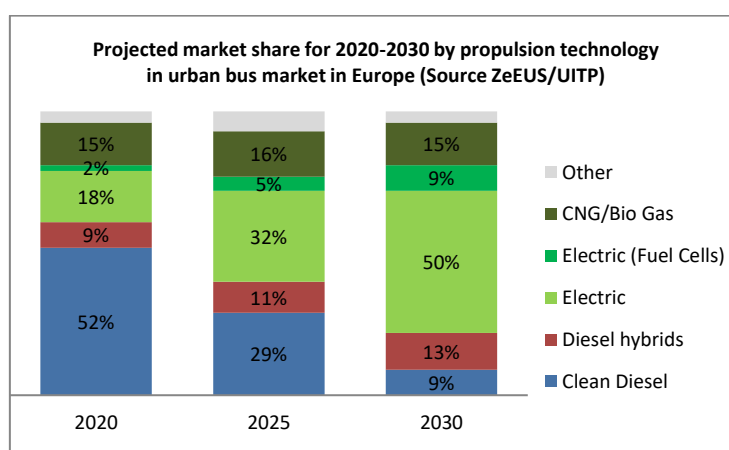
On 4 September 2018, CAF completed the acquisition of the Polish bus manufacturer Solaris. Solaris was founded in 1996 and is a global supplier of conventional and electric buses and coaches that operate in over 700 cities in 32 countries. Its consolidated revenue in 2018 amounted to approximately EUR 458 million. It has two production plants in Poland and a headcount of more than 2,300 employees. This transaction makes the CAF Group one of the leaders in the European urban segment. Also, the complementary nature of Solaris' and the CAF Group's businesses, with a large number of customers worldwide, will aid in the creation of significant synergies.

In 2018 (data for 12 months), Solaris delivered 1,226 buses and trolleybuses, of which 402 were delivered to Polish customers. Also, the company became the Polish leader in the low-floor urban bus market for the sixteenth year running, with a market share of 33%.

In terms of foreign customers, in 2018 supplied a total of 824 vehicles, the majority of which were supplied to Lithuania (162), Germany (153), the Czech Republic (141) and Italy (113). In 2018 the biggest orders the company completed involved deliveries to: Vilnius (149 Solaris Urbino 12 and Urbino 18 buses), Rome (90 Solaris InterUrbino buses), Brussels (63 hybrid Solaris Urbino 12 buses) and Düsseldorf (54 Solaris Urbino 18 buses).

It should be underlined that buses with alternative propulsion systems, in particular hybrid and electrical systems, are becoming an increasingly important part of Solaris' sales and products. In 2018 a total of 36% of all contracts concluded by the company involved the supply of low- or zero-emission vehicles. 107 electric buses were delivered to customers in Belgium, the Czech Republic, Spain, Germany, Norway, Poland, Romania, Slovakia, Sweden and Italy in 2018. Consequently, with a 17% market share¹, Solaris was one of the leading European companies in the electric mobility segment. In this connection, it should be highlighted that the Solaris Urbino 12 electric bus was crowned "Bus of the Year" as the best city bus in 2017.

The relative importance of electric buses in Solaris' sales structure is consistent with the company's long-term development strategy and the CAF Group's electrical mobility strategy. It is estimated that within the next decade the low- or zero-emission bus segment will grow to 80% of the entire urban bus market, mainly at the expense of conventional propulsion systems. Solaris is well placed for this change and in the coming years buses with alternative propulsion systems are expected to represent half of the company's output.



¹ Source: CME Solutions/Solaris

Solaris launched various products in 2018. During the Kielce Transexpo fair in autumn 2018, one of the most recent additions to its portfolio, the hybrid Solaris Urbino 12 LE Lite, was unveiled. The "Lite" in the vehicle's name refers to its biggest advantage, i.e. its low fuel consumption, which results in reduced operating costs compared with similar vehicles available on the market. From January 2019, the new design is standard for all recently manufactured buses. The redesigned Solaris Urbino buses that were awarded prizes at the Transexpo fair also offer tangible benefits to users thanks to LED lighting, a new design that improves the driver's field of view, the visibility of the destination display for passengers, the buses' aerodynamics, and increased efficiency in their subsequent maintenance.

Solaris will launch two new products in 2019. The first product to be launched is the Solaris Urbino 12 Hydrogen Electric, with an electric propulsion system and a hydrogen fuel cell which is expected to be launched at the Public Transport Summit in Stockholm. The latest technological developments in the market in terms of hydrogen storage and power generation have been used in this product.

The second vehicle, whose debut is planned for the Busworld Exhibition in Brussels in October, is the Solaris Trollino 24. The trolleybus under construction is the first bi-articulated vehicle with 2 drive shafts and measures over 24 metres in length. Ultimately, it will build a construction platform for trolleybuses and hybrid and electric buses.

Solaris faces 2019 with ambitious objectives and a backlog that ensures activity for this year. A significant portion of these buses' designs include alternative propulsion systems, of which Solaris is now an expert producer at European level. Also, the after-sales services offered to our customers is a significant part of the business strategy, development of which is a key focus of the Solaris Group.

Investments

Capital expenditure by the CAF Group in 2018 amounted to EUR 52,823 thousand. The most salient investments in 2018 are as follows:

At the Rolling Stock Business Unit, the plan to improve the industrialisation model is under way, with the aim of equipping the Group with the capacity and installations required to provide an efficient response to the projects awarded. This plan included most notably the investment in manufacturing areas, such as the new robotised bogie facility, the creation of specific lines by product platform, the adaptation of the new structure manufacturing plant and the renovation, the fit-out of the finishing warehouses using the lean methodology and the expansion of the areas of those industrial buildings where the kitting activity is to take place.

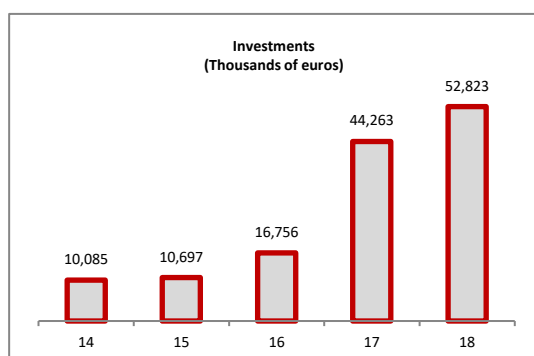
At the Wheel Sets and Components Business Unit (MiiRA), the necessary adaptation is under way in order to obtain the accreditation of the new automatic axle machining and verification line and be able to meet the demands of various customers. That area's general facilities are also being modernised.

Investments in the Parent's other areas include most notably the investment made in the Quality department, prompted by the increase in projects and the number of external inspectors working at the facilities, which allowed new offices to be fitted out and measurement tools to be acquired for the correct performance of quality activities. Also, reorganisation and extension work continued on the existing offices, which commenced in 2017 due to the growth in the workforce.

In the IT area, the backup hardware infrastructure is being updated and extended. In Engineering, the virtual design station solution is also being extended. In relation to security, the access control for the Parent's ITC services is being worked on in order to meet one of the requirements of the security audit performed in 2017.

Also noteworthy were the investments being made by certain subsidiaries as part of their growth plans, such as CAF Power & Automation, which is extending and improving its traction laboratory, and CAF Signalling, which is extending and improving its R&D laboratory.

Outside Spain, mention should be made, due to its volume and significance, of the completion of the new manufacturing plant in the UK, the construction of which commenced in 2017. The plant is located in Newport (Wales) and was designed for the manufacture of all manner of rolling stock. The plant is expected to be used for vehicle assembly and finishing activities, as well as all necessary pre-commissioning tests. In a similar vein, we can underline the recent investments to extend the Mexican plant and the acquisition of equipment and facilities at the US plant, which were necessary to execute the projects currently under way at that plant.



Main risks and uncertainties

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

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

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

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

- 1) Establishment of the risk-management context for each activity;
- 2) Identification of the various risk types (due to their corporate or business-related nature) to which the Group is exposed;
- 3) Analysis of the risks identified and what they entail for the CAF Group as a whole;
- 4) Risk assessment based on the defined risk appetite;
- 5) The measures envisaged to address the risks; and
- 6) Regular monitoring and control of current and potential risks.

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

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

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

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

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

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

- Operational risks: these are the risks inherent to all the Group's activities, products, systems and processes that give rise to economic losses arising from human/technological errors, inappropriate/defective internal processes, or the participation of external agents. They include risks of a corporate nature and those related to the execution of projects.
- Corporate governance risks: arising from potential non-compliance with the Group's corporate governance system, which comprises: (i) the bylaws and other rules governing the corporate governance governing bodies; (ii) the corporate policies and rules approved by the Board of Directors of the Group's Parent; and (iii) the other internal policies, rules and implementing protocols approved by other competent bodies of the Group that govern the design, integration and operation of the governance bodies and their relationship with the Parent's stakeholders and that in turn are based on the commitment to ethical principles, best practices and transparency and are organised around the defence of the company's interests and the creation of sustainable value.
- Compliance and regulatory risks (including tax risks and contractual requirements): these risks arise from the Group's litigation, contractual requirements, the securities market law, the data protection law, environmental legislation, applicable employment law, the Spanish Criminal Code, local, national and international tax legislation, among others.

The consolidated non-financial information statement for 2018 further details the various types of risk listed above. Specific emphasis is placed on risks related to human rights, the community, the environment, people and combating corruption and bribery.

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

Liquidity and capital resources

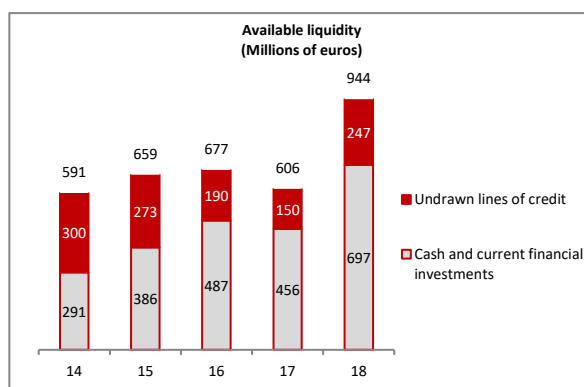
Availability of liquidity at short term-

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

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

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

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



Capital structure-

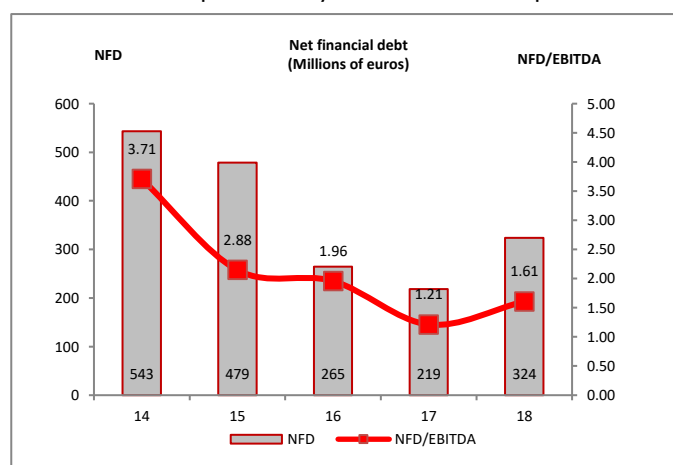
The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital and ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order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

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

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

In September 2018 Construcciones y Auxiliar de Ferrocarriles, S.A. acquired all the share capital of the Polish bus manufacturer Solaris. The acquisition cost of the share capital was financed primarily with additional long-term debt of the Group's Parent. This acquisition had a significant impact on the Group's gross borrowings, both due to the increase in the Parent's borrowings used to purchase the shares and Solaris's inclusion in the scope of consolidation.

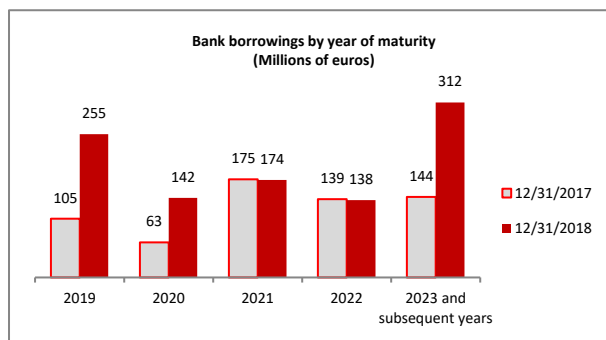
The main aggregates of the Group's liability structure have performed as follows in recent years:



Millions of euros	2014	2015	2016	2017	2018
Gross debt - Concessions	421	346	364	283	239
Gross debt - Solaris	-	-	-	-	145
Gross debt - Corporate	429	531	403	406	650
Total	850	877	767	689	1,034

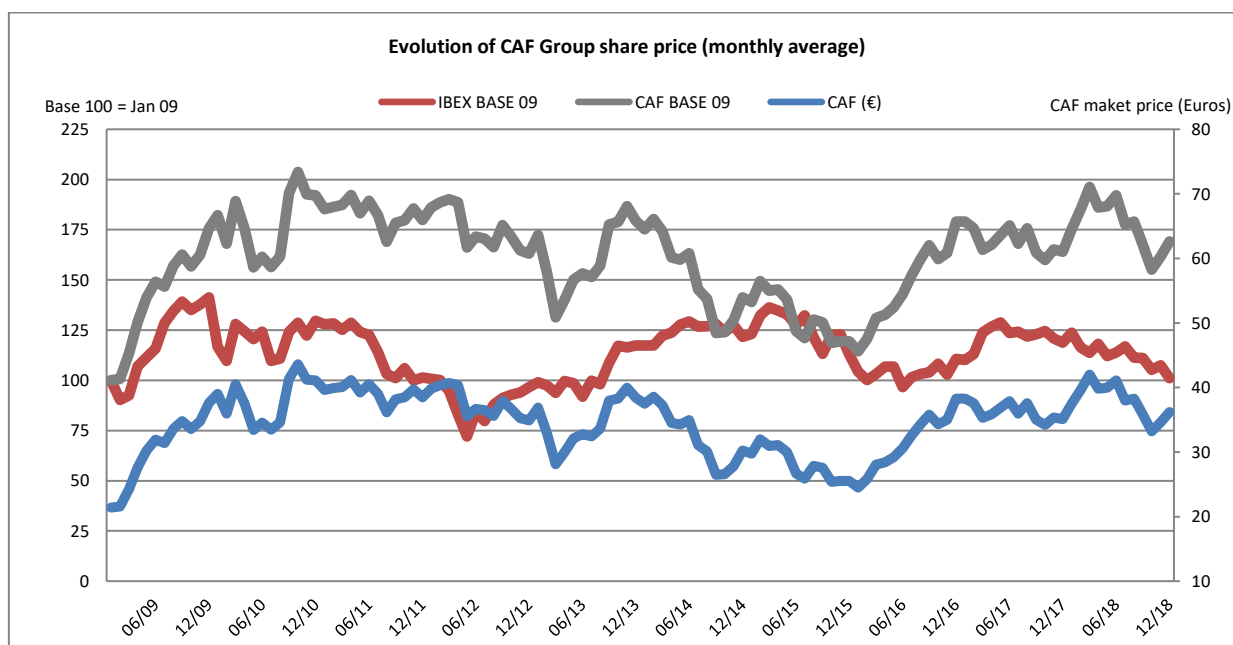
The CAF Group is constantly renegotiating its financial liability structure, in order to minimise borrowing costs and bring maturities into line with its needs, within the possibilities offered by bond markets.

The maturity schedule of the Group's borrowings at 31 January 2018 and 2017 was as follows:



STOCK MARKET INFORMATION

	2018	2017	2016	2015	2014
Market price-					
Market capitalisation at year-end (millions of euros)	1,241	1,172	1,313	876	1,036
Closing price (euros)	36.20	34.18	38.30	25.55	30.23
Low (euros)	31.30	32.22	20.66	23.45	23.01
High (euros)	43.60	39.50	38.39	34.39	39.70
Data per share (euros)-					
Earnings per share (EPS)	1.27	1.24	1.02	1.20	1.74
Dividend per share	0.765	0.66	0.58	0.525	0.525
Market ratios-					
PER (average market price/EPS)	30.14	29.06	30.30	23.76	18.53
Market price/EBITDA	6.50	6.84	7.84	5.87	7.55
PBV (average market price/BV)	1.74	1.64	1.37	1.39	1.50
Dividend yield	2.00%	1.84%	1.87%	1.85%	1.63%
Pay-out ratio (Dividend/EPS)	60.3%	53.4%	56.8%	43.9%	30.2%
Liquidity ratios-					
Free-float rotation	65%	71%	89%	99%	123%
Traded volume (millions of shares)	10.8	11.8	15.6	16.2	21.2



EVENTS AFTER THE REPORTING PERIOD

At 31 January 2019, the Group had a firm backlog of EUR 8,071,641 thousand.

Also, in February 2019 Transport for New South Wales awarded the consortium Momentum Trains Pty Ltd., formed by CAF, Pacific Partnership and DIF Infrastructure V, the project, under a public-private partnership, to supply and maintain the new fleet of regional trains for the Australian state of New South Wales over a period of 15 years.

CAF's work under this agreement exceeds EUR 500 million and its scope includes the supply of 29 regional diesel-electric units, two simulators, and the construction and equipment of a new maintenance depot in Dubbo, located to the northwest of Sydney. Also, CAF will invest in the share capital of the company that will operate the system, the first units of which are expected to enter into commercial service in 2022.

ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2018 neither Construcciones y Auxiliar de Ferrocarriles, S.A. nor its subsidiaries purchased or held treasury shares.

PAYMENTS TO SUPPLIERS

The average period of payment to suppliers in 2018 was 80.77 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Group is making an effort to align events giving rise to payments with those giving rise to collection in order to reduce the payment time without losing the necessary liquidity.

ALTERNATIVE PERFORMANCE MEASURES

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

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

EBITDA: 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".

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

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

- + Inventories
- + Trade and other receivables

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

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

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

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

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

CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT

2018

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INTRODUCTION

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

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

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

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

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

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

In order to make progress in corporate social responsibility management, the activities necessary to ensure compliance with the guidelines contained in the ISO 26000:2012 standard were performed; this made it possible to obtain a positive third party declaration for rolling stock and wheel sets and components and MiiRA in 2018.

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

To this end, CAF carried out a CSR materiality analysis using internal and external sources of information, following the guidelines defined by the *Global Reporting Initiative* standards and with the participation of the various departments involved in this area throughout the process for identifying, prioritising and validating material matters. The result thereof is still in force and was confirmed following the analysis performed in 2018 pursuant to the CSR guidelines contained in the ISO 26000:2012 standard.

The CAF Group prepared its 2018 Corporate Social Responsibility Report in accordance with the Core option of the GRI standards.

For more information than that disclosed below, see the "2018 Corporate Social Responsibility Report", which is available on the CAF Group's website.

ENVIRONMENTAL ACTIVITY

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

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

The following environmental risks associated with both the products and services the company provides and the industrial activities it carries on are identified in these two areas: (i) use of pollutants; (ii) sub-optimal energy consumption; (iii) impact on water sources; (iv) impact on biodiversity; (v) greenhouse gas emissions; (vi) generation of waste; (vii) environmental impact of products and services; (viii) non-compliance with applicable environmental regulations; (ix) non-compliance with requirements set by customer specifications; and (x) extreme weather situations relating to climate change.

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

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

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

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

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

As regards the aim of offering means of transport that are more efficient and respectful of the environment, mention must be made of the considerable ecological advantages of the railway, which have made this means of transport the most efficient and competitive system, with enormous potential to reduce environmental impact, improve citizens' quality of life and contribute actively to the protection of the ecosystem. As the most ecological means of transport, the railway industry can contribute significantly to the fight against climate change.

In this connection, CAF, through its Strategic Innovation Plan, prioritises activities focusing on the eco-design methodology and reducing the environmental impact. These activities include several areas of work:

- Implementation of the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their lifecycle. As a result of these activities, the Group's Parent already has six Environmental Product Declarations (EPDs) in various segments. In 2018 a preliminary study was performed of whether the locomotive project for RATP could be recycled, and a preliminary lifecycle assessment (LCA) for the HS2 bid.
- Smart management of the energy used by the vehicle, including driver support systems, efficient automatic driving systems and smart systems for the management of the functioning of equipment.
- Development of on-board energy storage systems based on batteries and supercondensers and rapid-loading systems, and research on new propulsion systems, such as hydrogen, with application to the operation of trains using catenary-free infrastructure.
- Development of specific technologies aimed at reducing train energy use, either by improving efficiency (traction equipment based on new silicon carbide components, aerodynamic improvements etc.) or by reducing the weight of the vehicle (new materials, simplifying the architecture or eliminating cabling).

Furthermore, as regards how to minimise the environmental impact of its activities, the Group has implemented an environmental management system which is certified under ISO 14001:2015 at its most important factories. The most recent maintenance audits for ISO 14001:2015 certification in 2018 were performed in December at CAF, S.A. and in July at Solaris Bus & Coach, a company that was included in the Group in September 2018.

The Group's other production plants are immersed in a plan for the implementation and certification of the Group's environmental management model by the end of 2020. Internal audits of all the production plants were carried out in 2018, in which an analysis was performed of the situation with respect to the implementation of the management system. Other centres, such as CAF T&E and CAF Signalling, which, although not considered to have a significant environmental impact, have environmental management systems that are certified under ISO 14001.

Following is a summary of the measures taken to control significant environmental matters in the most important production plants and the results obtained in 2018².

Raw materials

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

Most of the purchases made are processed materials, i.e. components, and metal is the most common element thereof. However, raw materials (all of which are renewable) are also acquired, to be used in the manufacture of components. The most used items are metals, in particular steel and aluminium profiles and sheets (10,221 t) and steel blocks (54,337 t).

² Showing the measures and results of the environmentally significant manufacturing plants, which represent 90% of the headcount of the CAF Group's manufacturing facilities.

Energy

Systems for taking maximum advantage of renewable energies, which are a clean and ecological technology, for example, the use of solar panels for the generation of energy, were incorporated into the operation of the production plants.

Essentially, and as a result of the energy audit action plans, the measures taken to reduce energy use at CAF, S.A.'s plants in 2018 were based on:

- The replacement and optimisation of the functioning of key elements regarding the energy efficiency of the production processes (engines, heat exchangers, ventilators, etc.).
- The replacement of lighting with more eco-efficient lighting.

The action plan at Solaris Bus & Coach in 2018 was as follows:

- The replacement of two transformers with others with lower energy loss, in order to save 22,600 kwh/year.
- The replacement of lighting with more eco-efficient lighting, in order to save 9,500 kwh/year.

Direct and indirect energy consumption	2018
Natural gas (KWh)	114,631
Gas oil (l)	25,173
Electricity (MWh)	51,762
Energy intensity (total energy consumption (KWh/HHT))	47.15

Emissions and greenhouse gas (GHG)

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

In addition, as regards emissions of volatile organic compounds (VOC), in 2018 progress continued to be made in the reduction of specific VOC emissions. In order to achieve this, the facilities have been adapted for the use of water-based paint and/or a hybrid painting process. This has been established as a standard painting process in the most important rolling stock manufacturing facilities. Similarly, changes have been made in the painting processes at Solaris Bus & Coach's main plant so that anti-corrosive paint can be applied.

Waste

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

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

- Reducing the generation of waste at source, e.g. by using returnable machine tools.
- Maximising reuse, recycling and recovery of waste. 54% of waste was recovered in 2018.
- Encouraging awareness campaigns on separating and minimising waste.
- Correct treatment and management of waste.

Water

The Group is aware that water, among natural resources, is a scarce resource to be preserved. The main actions performed by the Group to make its use of water more sustainable are as follows:

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

Water consumption	2018
Tap water consumption (ML)	70.208

For more information on environmental matters, see Chapter 5 "Contributing to the care of the environment" in the "2018 Corporate Social Responsibility Report", which is available on the CAF Group's website.

HUMAN RESOURCES

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

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

In order to attain this balance and continuous improvement, since 2017 the CAF Group has reviewed its human resources practices, giving rise to the definition of a new people management process at corporate level. This framework defines a proprietary standard that is common to all the companies in the Group. The standard's integrated nature gives it a broad scope, from ensuring organisational adequacy, through hiring and internal mobility, the assessment and qualification of its professionals to their training and development. In addition, both the remuneration management and labour relations policies at corporate level were also reviewed and defined. In 2018 actions were commenced to ensure compliance therewith in the Group's various lines of business and at its Spanish and international subsidiaries; these actions will take place throughout 2019.

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

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

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

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

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

People are key

In 2018 the plan to increase resources to respond to the growth initiatives of the various lines of business continued. The Group's average headcount was 9,630 in 2018, and the headcount at 31 December 2018 was 11,433³. In this connection, in 2018 the CAF Group increased its average number of employees by 1,682; at year-end the headcount had increased by 3,005.

³ Data obtained from each company's IT systems. In order to enable the activities that the company considers necessary at its facilities to be performed by subcontractors, CAF enters into service contracts in which the type of activities to be performed are defined. CAF supervises the activities it outsources and does not consider it necessary to keep statistics on subcontractors, since the data are not considered significant. Therefore, this document does not include the information on subcontractors required by GRI standards, specifically Disclosures 102-8 and 102-41.

Mention must be made of the effect of the inclusion in the Group of Solaris Bus & Coach, which had 2,432 employees at year-end.

Headcount of the CAF Group

	31/12/18	31/12/17	Change
Further education college graduates	3,634	2,783	851
Middle management and clerical staff	1,906	1,306	600
Production and services	5,893	4,339	1,554
Total	11,433	8,428	3,005

The headcount of the Parent stood at 4,275 at year-end and 4,237 in average terms.

Headcount of CAF, S.A.

	31/12/18	31/12/17	Change
Further education college graduates	1,155	1,064	91
Middle management and clerical staff	589	558	31
Production and services	2,531	2,307	224
Total	4,275	3,929	346

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

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

Distribution by age

(of the headcount at 31/12/18)

	%
Under 30	15%
Between 30 and 50 years old	72%
More than 50 years old	13%
Total	11,433

Distribution by gender

(of the headcount at 31/12/18)

	%
Men	85%
Women	15%
Total	11,433

Distribution by country (of the headcount at 31/12/18)

	Region percentage	Country percentage
Europe ⁴	85%	
Spain		55%
Poland		20%
UK		5%
Rest of Europe		5%
America ⁵	12%	
Brazil		4%
Mexico		4%
US		3%
Rest of America		1%
Rest of the world	3%	3%
Total	100%	100%

CAF is committed to stable quality employment. Experience and knowledge of people is one of the cornerstones that have enabled CAF to attain its current competitive position in all its business activities. 89% of CAF's employees had permanent contracts at year-end. This

⁴ The main countries in Europe are Spain, Poland and the UK, which account for 94% of the region.

⁵ The most important countries in America are the US, Mexico and Brazil, which account for 85% of the continent.

percentage is 87% in the case of women. In geographical terms, all the countries in which the CAF Group has a significant presence ⁶, 86% of employees have permanent contracts. Similarly, more than 87% of permanent employees are classified as professionals (employees⁷ and manual workers). The changes in the distribution by type of contract correspond to groups or geographic locations whose size increased most in 2018. In this connection, 69% of employees less than 30 years old have permanent contracts. These figures mean that permanent employment at the Group can be considered to be stable. In 2017 90% of employees had permanent contracts.

Distribution by contract type (of the headcount at 31/12/18)

	%
Permanent employees	89%
Temporary employees	11%
Total	11,433

However, if we consider the average headcount and take into account the type of contract⁸ and criteria representing diversity: namely gender, age and professional group, the data are similar and are shown in the following tables.

Distribution of the average headcount by type of contract and age

	Permanent employees	Temporary employees
Under 30	68%	32%
Between 30 and 50 years old	91%	9%
More than 50 years old	97%	3%

Distribution of the average headcount by type of contract and gender

	Permanent employees	Temporary employees
Men	88%	12%
Women	89%	11%

Distribution of average headcount by type of contract and professional group

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

These year-end figures are the net result of the numbers of new hires and terminations that took place in 2018. With respect to the latter, non-voluntary terminations represented 1.2% of the total headcount, leaving to one side the group terminations tied to the completion of activities, mainly in Brazil. These data are in line with the distribution of the Group's headcount considering diversity criteria.

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

These general criteria have given rise to appropriate remuneration levels and employees⁹ average remuneration¹⁰ in 2018 was EUR 34,903.91. The difference with regard to average

⁶ The Group's presence in Spain, Poland, the UK, the US, Mexico and Brazil accounts for 90% of the headcount.

⁷ Professional employees include further education college graduates, middle management and clerical staff.

⁸ In order to calculate the average by type of contract the distribution at year-end was used as reference, which was extrapolated by applying to it the average headcount at year-end. The average number of part-time contracts is not included as the number thereof in the Group's headcount is not significant.

⁹ Excluding directors and senior executives, to whom specific reference is made.

remuneration, by professional group, is as follows: employees' remuneration is 18% higher than the average, and other employees' remuneration is 17% below the average.

Remuneration by professional group

	Pay gap by group ¹¹
Employees	(18%)
Manual workers	17%

The average remuneration by age at the CAF Group discloses a correlation between age and remuneration earned. Employees aged over 50 earn average remuneration more than 20% above the average, employees aged between 30 and 50 earn average remuneration 3% above the average, and the remuneration of employees under 30 is 34% below the average.

The average remuneration of women working at the CAF Group is EUR 34,678.25 and is 1% lower than men's average remuneration. Length of service was identified as the source of the gender pay gap at the Group.

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

	Gender pay gap ¹²	Difference in length of service ¹³
Employees	15%	27%
Manual workers	23%	28%
General	1%	29%

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

	Gender pay gap	Difference in length of service
Employees	15%	28%
Manual workers	12%	33%
General	(1%)	31%

If we analyse the data by age range, in the over 50 range alone, women's remuneration is 6% lower. However, in the under 30 and 30-50 age ranges, the difference is positive in favour of women, standing at 14% and 1%, respectively.

Gender pay gap by age

	Gender pay gap
Under 30	(14%)
Between 30 and 50 years old	(1%)
More than 50 years old	6%
Total	1%

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

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

The treatment of remuneration of the Parent's directors responds to transparency criteria applicable to a listed company. In this connection, the detail and individual breakdown of the

¹⁰ All available annual fixed items for full-time employees were used, related to at least 98% of the Group's total activities, and took into account the annualised remuneration of Solaris Bus & Coach and its subsidiaries. The average exchange rate for the year was used to translate the data to euros.

¹¹ (Average remuneration – average remuneration by group)/Average remuneration.

¹² (Average remuneration of men by group – average remuneration of women by group)/average remuneration of men by group.

¹³ (Average length of service of men by group – average length of service of women by group)/average length of service of men by group.

directors' remuneration conditions are shown in the Annual Report on Directors' Remuneration, which is prepared for this purpose and published pursuant to current legislation. As regards the remuneration of the Group's executive management in 2018, it is not appropriate to break down the average data by gender as there are no women in the executive management team.

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

One personnel indicator that organisations habitually use is the absenteeism rate. This indicator measures time lost in relation to theoretical hours worked. In 2018 the absenteeism rate stood at 4%¹⁴ at corporate level.

Social dialogue

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

All the employees of the Parent and the Spanish subsidiaries of all the Group's business lines are covered by industry-specific or company-specific collective agreements, which together are generally applicable to all employees. At international level, mention must be made of the collective bargaining processes held in relation to various matters (remuneration, working days and times, etc.) in various geographies (Algeria, Brazil, Chile, Mexico, New Zealand, Poland, etc.), thus covering 85% of the CAF Group's headcount.

Training

The training process is a basic item in people management activities, and this is evidenced both at the Parent and at the domestic and international subsidiaries associated with its main activities¹⁵.

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

The indicators of training process activity and its effectiveness were positive at 2018 year-end. At Group level, more than 196,000 hours of training were given, distributed equally among non-manual and manual workers. Each person receives an average of 21 hours of training every year, and in the case of women this figure is 23 hours.

Equal opportunities and diversity

¹⁴ This absenteeism rate corresponds to 82% of the headcount and takes into account time lost due to occupational accidents or illness.

¹⁵ The domestic and international subsidiaries associated with the Group's main activities represent 84% of CAF's total headcount.

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

In this connection, the collective agreement of CAF, S.A. (for the Beasain, Irún and Madrid plants) states its willingness to encourage women's access to employment and supports the effective application of the principle of equal treatment and absence of discrimination in working conditions between women and men.

In 2018 women represented 17% of the total new hires joining the CAF Group. Lastly, it must be highlighted that these new hires contributed to the total number of women employed at the Group exceeding the 2017 year-end figure of 14%.

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

In order to obtain full control of these commitments and their respective initiatives, all the Group companies comply with legal regulations relating to the preparation of equality plans¹⁶ and have constituted various management mechanisms such as the action protocol in the event of sexual harassment or gender harassment, and equality committees on which the company and workers are represented. Noteworthy due to its size at the Parent is the existence of an equality committee that is responsible for the preparation, implementation and monitoring of equality plans and analysing possible measures and actions to contribute to the work-life balance. At present, the next equality plan is being prepared. This plan will be in force until 2022 and shows the Group's desire for continuous improvement.

The principles of non-discrimination equal opportunities applied at the CAF Group are included in the Code of Conduct. No cases of discrimination in relation to this framework were detected at the CAF Group in 2018.

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

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

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

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

In the case of railway rolling stock manufactured by CAF, the requirements of the technical specification for interoperability relating to persons with reduced mobility of the European Union of 2014 are adhered to. City buses are built in accordance with the specifications of Annex IV of

¹⁶ All the companies have implemented the plan in the period subsequent to compliance with the requirements included in the regulation.

Directive 2007/46 establishing a framework for the approval of motor vehicles, recently modified by Regulation (EU) 2017/2400. These provisions include the requirements of Regulation No 107 of the United Nations Economic Commission for Europe (ECE) on uniform provisions concerning the approval of category M₂ or M vehicles with regard to their general construction and in particular their accessibility for passengers with reduced mobility.

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

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

Occupational health and safety

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

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

In 2018 an integrated risk prevention and environmental policy applicable to the main activities¹⁷ was published for the first time, thus adding to the integrated policies at the other significant subsidiaries¹⁸. Moreover, the company that has recently joined the Group, Solaris Bus & Coach, also has its own occupational risk prevention policy.

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

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

In this connection, in 2018 the audit for the renewal of the management system certificate pursuant to the requirements of OHSAS 18001:2007, the required audit of the Beasain and Irún plants and the audit for the renewal of the same certificate for the Zaragoza plant and for the CAF T&E and CAF Signalling subsidiaries were conducted. Also, in order to perform an internal follow-up of the management system implemented in accordance with the requirements of the standard, internal audits were conducted at each one.

With a view to extending CAF's occupational risk prevention management system to the other rolling stock¹⁹ and bus production plants, internal audits were performed of all such plants, in

¹⁷ Rolling stock, rail and maintenance, wheel set and component (MiiRA) services

¹⁸ Subsidiaries such as CAF T&E, CAF Signalling and CAF P&A

¹⁹ CAF France, CAF USA, CAF México, Trenasa and CAF UK.

which the situation regarding the implementation of the management system was analysed and actions and objectives were established for each one, such as the certification of Solaris Bus & Coach's management system under ISO 45001:2018 for 2020.

There is also a social dialogue managed through formal worker-company committees in the health and safety field. Each of CAF's main rolling stock and bus production plants and those of the CAF T&E, CAF Signalling and CAF Rail Services subsidiaries have occupational health and safety committees, on which management, prevention delegates, the prevention service and, where appropriate, those responsible for production activity participate. These committees are responsible for gathering information from the various operating levels and approving occupational risk prevention plans, involving workers in the definition thereof. These committees also adopt the appropriate decisions and follow up the proposed actions, pursuing achievement of the objectives set. The other companies have defined forums for worker consultation and participation which serve as a channel of communication with interested parties and through which proposals and significant matters of interest are gathered. These mechanisms make it possible for all employees in the various business lines who require special attention and 71% of all Group employees to be represented in occupational health and safety matters.

The occupational risk prevention plans of the Group's main plants and lines of business define the planning of preventive measures and the annual objectives in the occupational risk prevention area. With respect to accident targets, three main indicators are measured, namely the frequency rate, the severity rate and the absolute frequency rate. The following table shows these indicators for the CAF Group's most significant domestic and international ²⁰ operations and the number of occupational disease cases identified.

Occupational risk prevention in figures	CAF Group
Frequency rate	20.40
Severity rate	0.42
Absolute frequency rate	78.69
Occupational disease rate	10.28

For more information on human resources matters, see Chapter 4 "The Excellence of Our Team" in the "2018 Corporate Social Responsibility Report", which is available on the CAF Group's website.

²⁰ Indicators on 94% of the CAF Group's total headcount are included. The number of hours worked in the aforementioned scope was 16,812,399. The frequency rates were calculated on the basis of 1,000,000 hours worked, the severity rate was calculated on the basis of 1,000 hours worked and the occupational disease rate was calculated on the basis of 10,000 workers. Taking into account the current distribution of the headcount by gender, it is not considered necessary to keep a statistical breakdown by gender of the aforementioned rates.

RESPECT FOR HUMAN RIGHTS

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

The CAF Group adopts the measures that it considers necessary to ensure that employees can exercise their rights to freedom of association and collective bargaining in all the countries where it operates. It also has the required measures in place to prevent child labour, forced or compulsory labour or the assignation of hazardous labour to young people, both in its own operations and upstream among its suppliers, thanks to the collaboration with Ecovadis detailed in the "Social Matters" section, and the oversight activities performed to ensure compliance with the Code of Conduct in CAF's core activity at domestic and international levels. In 2017 the Group published a slavery and human trafficking statement in accordance with UK Modern Slavery Act 2015.

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

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

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

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

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

The CAF Group has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 91% of the personnel included in the training plan established to this end have participated in these activities. In addition, the CAF Group is committed to maintaining the highest standards of professionalism and integrity in its commercial relationships. Specifically, the supplier evaluation process includes the evaluation of human rights matters, as described in greater detail in the "Social Matters" section²¹.

Lastly, mention should be made of the existence in this area of the Psychological Harassment Prevention Protocol, which is integrated in the occupational risk prevention system. The purpose of this Protocol is to define situations of psychological harassment in the workplace, establish preventive measures to prevent and avoid these situations, and establish procedures so that, should they arise, the Company's personnel know how to act. No cases of human rights

²¹ These evaluations are conducted mainly on the suppliers of the rolling stock business, which is the CAF Group's core business.

violations were processed by personnel employed directly by the Group or through its business relationships in 2018.

For more information on human rights matters, see the "2018 Corporate Social Responsibility Report", which is available on the CAF Group's website.

FIGHTING CORRUPTION AND BRIBERY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Also, the CAF Group did not make any significant contributions to foundations or not-for-profit entities in 2018.

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

Specific management of the risks identified in the CAF Group's Corporate Compliance Handbook is performed: (i) by applying specific conduct policies; (ii) by raising awareness among all individuals of the CAF Group to whom the Handbook applies through training and dissemination activities; (iii) by managing a whistleblowing channel that enables detection of behaviour that violates the Code of Conduct or the aforementioned Handbook; and (iv) by adapting the Handbook at the CAF Group's subsidiaries to ensure that it is applied at all the Group's companies.

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

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

Specific conduct policies

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

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

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

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

Corporate Compliance Handbook dissemination and training

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

In 2018 the Group continued to provide to the CAF Group's personnel the training activities commenced in 2016 aimed at raising awareness of, disseminating and applying the Corporate Compliance Handbook.

At the date of preparation of this document, 93% of the personnel at the Parent and Spanish subsidiaries included in the corporate compliance training plan had completed the training. Significant progress was made at international level in 2018; training programmes were launched at 98% of the companies within the scope of consolidation. More than 3,800 people (91% of eligible employees) have received training in this connection. The training programme is currently being studied by 687 employees. Similarly, a training system is in place for new recruits that includes this programme in the on-boarding plans. The training materials are kept up to date.

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

Whistleblowing channel

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

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

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

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

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

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

At 31 December 2018, the CAF Group had 61 foreign subsidiaries in 33 countries around the world.

The basic adaptation of the Corporate Compliance Handbook was fully completed in 2017 for all subsidiaries that were already part of the CAF Group and included: (i) the legal formalities relating to the adoption of the CAF Group's Corporate Compliance Handbook; (ii) the acknowledgement of the Compliance Committee or Unit; and (iii) the training and information

provided to governance bodies. Henceforth, that basic adaptation is produced systematically, both when the new subsidiary is incorporated and in the context of the integration plan in the case of a pre-existing company joining the CAF Group.

Also, the specific adaption can be produced, either through an Appendix to the Corporate Compliance Handbook, or by developing a Compliance Sub-Programme; this will depend largely on the legislation in force in the country in question. More specifically, the most recent of the five supplementary appendices to the CAF Group's Corporate Compliance Handbook in as many other countries was produced in 2018. The supplementary appendices adapted the Code of Conduct where necessary, identifying at the same time the significant offences pursuant to the corresponding legislation and adapting the conduct policies accordingly.

Also, Corporate Compliance Sub-Programmes were launched in four countries pursuant to the local legislation, which seemingly will be completed in 2019.

For more information on combating corruption and bribery matters, see Chapter 2 "Good Corporate Governance" in the "2018 Corporate Social Responsibility Report", which is available on the CAF Group's website.

SOCIAL MATTERS

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

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

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

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

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

The Company's commitment to sustainable development

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

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

The Group is committed to the local economy, which materialises on two fundamental, but not exclusive levels. The first of the levels is reflected in the generation of quality employment wherever it carries on its activities. The quality of employment results in appropriate general conditions and a vocation of employment stability. The fact that more than 89% of CAF's employees have permanent contracts is a demonstration of this. In this connection, the CAF Group also ensures that men and women have equal starting salaries under the collective agreements in force at the Group companies.

It should also be noted that CAF promotes the recruitment of personnel from the geographical areas where it carries on its activities. In 2018 nine out of ten workers were local²².

²² Including available data relating to the Group's employees, understanding local to mean located in the same country.

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

The direct economic impacts arise as a result of the cash flows generated by the Group, such as disbursements at local providers. In 2018 the proportion of this local expenditure amounted to 64%²³, which made an indirect contribution to keeping jobs at local suppliers.

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

As in previous years, the CAF Group continues to collaborate in order to generate knowledge where it carries on its activities. In 2018 CAF had various initiatives in progress that can be structured in three categories: participation in governing or management bodies of research and/or technology centres; long-term collaboration to develop knowledge with universities and research centres; and participation in public or private entities focusing on innovation.

CAF collaborates with technology centres, which include CEIT – IK4, CiC Nanogune, Lorterk-*IK4* and the Fundación Tecnalia Research & Innovation, through its participation in governing or management bodies.

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

Lastly, as mentioned above, CAF also collaborates in public and private entities whose aim is to innovate, such as the "European Railway Research Advisory Council" or the Shift2Rail initiative, in which CAF, as a founding member, participates in R&D activities and seeks solutions by increasing the speed at which advanced technologies are integrated in innovative rolling stock products. CAF is also a member of the Executive Board of Innobasque, an investing partner of the "Fik" initiative led by the Tecnalia technology centre aimed at functional diversity and aging, and collaborates in the Bind 4.0 (Basque Industry 4.0) programme. As regards hydrogen energy, the Group collaborates with the Foundation for the Development of New Hydrogen Technologies in Aragon and with Hydrogen Europe (formerly NEW – IG), the leading European industry association working to bring forward the market introduction of these clean technologies in the energy and transport industries.

Similarly, the Group remains committed to training future professionals and with this in mind establishes agreements to collaborate with educational institutions or entities that foster youth

²³ Including the data relating to purchases made at the Group's significant establishments, which represent 85% of CAF's headcount. For the bus business, data from its inclusion in the Group in September were included. A provider is deemed to be local when it is located in the same country.

employment in the area in which it operates. It has in-force agreements with the main universities and professional schools. Of note in 2018's international activity is the Group's promotion of internships for graduates at CAF Group headquarters in countries such as Sweden, Finland, The Netherlands, France, the UK, Chile, Mexico, Hungary or Saudi Arabia, among others.

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

The main institutions with which CAF actively collaborated in 2018, thereby contributing to their domestic and international development, are as follows: the Goierry Eskola Foundation, which is an educational project based on comprehensive training of individuals, thereby contributing to local social and cultural development; the Elhuyar Foundation, with which it awards the CAF-Elhuyar award for fostering scientific culture in the Basque language; the SuEskola Foundation, which provides fire prevention and extinguishment training using innovative technology that incorporates actual fire; the Green Dachshund Foundation, created in 2012 by Solaris Bus & Coach to help the most needy.

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

To conclude this section, among these activities, mention should be made of the use of Basque in the Beasain and Irún workplaces; of note is the obtainment of the Silver Bikain certificate. This certificate recognises the quality of the use of Basque in a professional environment.

Integration of sustainability in the supply chain management strategy

The CAF Group requires that all its suppliers and subcontractors comply with the ethical principles contained in CAF's Code of Conduct, which is published on the corporate website (www.caf.net), and includes social, gender equality and environmental commitments²⁴. Furthermore, in 2018 the rolling stock business, the most important in revenue terms, approved its Procurement Policy and the Suppliers Code of Conduct²⁵ which implement the commitments already established in the Group's CSR Policy and Code of Conduct.

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

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

In order to evaluate suppliers' compliance with the Code of Conduct, in 2018 the CAF Group performed the following activities which resulted in a significantly stronger Responsible Purchases Programme:

- Joining the Railsponsible industry initiative, which focuses on spreading sustainable practices throughout the railway industry's value chain.

²⁴ Data representative of 66% of the purchases made at Spanish and international subsidiaries of the core businesses in 2018 (rolling stock, railway services, components, signalling, power and traction equipment and engineering and buses). For the bus business, data from its inclusion in the Group in September were included.

²⁵ Applicable to both suppliers and subcontractors.

- Collaboration agreement with Ecovadis, which specialises in sustainability assessments.
- Providing Corporate Social Responsibility and Environmental Management training to 36 individuals who are involved in the procurement process, including CAF, S.A.'s middle managers, buyers and supplier accreditation team.
- The rolling stock and wheel sets and components businesses implemented a campaign to evaluate compliance with CAF's Code of Conduct, focusing on suppliers of commodities and equipment with a greater environmental impact, and those transactions in countries presenting social risks. As a consequence of launching this evaluation of suppliers who represent 46% of the purchases made by the aforementioned businesses, three suppliers with adverse social or environmental impacts were identified, whom have been requested by the Group to implement mitigating measures.

Excellence in customer and user relationships

Customers are key to each of CAF's activities, and its clear aim is to satisfy their needs and meet their expectations effectively and sustainably.

Fulfilling the internationalisation strategic objective, over recent years CAF has expanded to the five continents. The Group's international experience is evidenced by a trajectory of more than 148 projects in 44 countries. A close relationship with customers allows the Group to produce more efficiently and provide an excellent range of assistance and maintenance services.

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

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

Product quality and safety

The CAF Group businesses have a quality and safety policy whose primary focus is the customer and which also serves as the basis and backbone of the Quality and Safety Management System.

The Rolling Stock Business (the most important in revenue terms), very much like the other CAF Group businesses, has a Quality and Safety Policy that expresses CAF's commitment to its customers and indirect commitment to users by promoting the safety culture, which has a higher priority than all other railway goods and services matters. In addition to the foregoing, satisfaction of contractual, legal and regulatory requirements, the importance of personnel competence and training and fostering a working environment that encourages the quality and safety of all our goods and services are also basic principles. Furthermore, the activities to effectively manage safety are applied consistently to all products and services throughout the organisation and over the entire lifecycle of the project, from the tender process, to development and manufacture of the product and its start-up, up to the end of the contractual warranty period, including contractors and suppliers.

The safety risks during operations are eliminated or reduced to an acceptable level in accordance with railway standards and the applicable legislation and contractual safety requirements. Their analysis helps to prevent possible variances and to implement the Quality and Safety Management Systems' best practices. Objectives in line with the Group's strategic plan that can be reviewed at least once a year are established.

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

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

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

Customer satisfaction

Customer satisfaction is one of CAF's primary objectives and applies to the entire organisation through the businesses, processes and projects.

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

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

Also, of note are the meetings held with potential customers (trade fairs, visits, etc.) defined as marketing activities, as well as the customer satisfaction surveys distributed to measure customers' direct perception of the elements of CAF's value proposition and identify factors that enable the Group to improve competitiveness.

Tax information

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

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

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

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

the Economic and Financial Department to the Audit Committee, for it to be subsequently relayed to the Board.

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

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

	Thousands of euros	
	Profit/Loss before tax (1)	Income tax paid (2)
Spain	17,534	1,880
Western Europe	1,138	2,379
Eastern Europe	-6,582	630
Middle East	4,191	894
Africa	297	13
North America	47,791	27,526
South America	15,731	6,625
Asia and Oceania	475	407
Total	80,575	40,354

- (1) Profit/Loss before tax in each country includes additional consolidation adjustments to eliminate dividends, internal margins and provisions of investees, among others.
- (2) Income tax paid in 2018 is drawn from the consolidated statement of cash flows in the consolidated financial statements.

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

For more information on social matters, see Chapter 6 "The Social Value of Our Activity" in the "2018 Corporate Social Responsibility Report", which is available on the CAF Group's website.

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

(2) This content is not material to the CAF Group's activity.

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries

Independent limited assurance report on
the non-financial information statement

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

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND SUBSIDIARIES FOR 2018

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

In accordance with Article 49 of the Spanish Commercial Code, we have performed the verification, with a scope of limited assurance, of the accompanying Consolidated Non-Financial Information Statement ("NFIS") for the year ended 31 December 2018 of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries ("the Group"), which forms part of the accompanying Directors' Report of the Group.

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

Responsibilities of the Directors

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

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

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

Our Independence and Quality Control

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

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

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

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, which refers exclusively to 2018. The information relating to previous years was not subject to the verification provided for in current Spanish corporate legislation.

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

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

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

- Meetings held with Group personnel to ascertain the business model, policies and management approaches applied, and the main risks relating to these matters, and to obtain the information required for the external review.
- Analysis of the scope, relevance and completeness of the contents included in the 2018 NFIS based on the materiality analysis performed by the Group and described in the "Introduction" section of the NFIS, also taking into account the contents required under current Spanish corporate legislation.
- Analysis of the processes used to compile and validate the data presented in the 2018 NFIS.
- Review of the information relating to risks and the policies and management approaches applied in relation to the material matters presented in the 2018 NFIS.
- Verification, by means of sample-based tests, of the information relating to the contents included in the 2018 NFIS and the appropriate compilation thereof based on the data furnished by CAF's information sources.
- Obtainment of a representation letter from the directors and management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, nothing has come to our attention that causes us to believe that the Group's NFIS for the year ended 31 December 2018 was not prepared, in all material respects, in accordance with the content specified in current Spanish corporate legislation and with the criteria of the selected GRI standards, as well as other criteria described as indicated for each matter in the "Non-financial information statement content and GRI content reference table" of the Directors' Report.

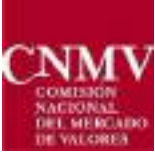
Use and Distribution

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

DELOITTE, S.L.

Pablo Mugica
27 February 2019

**ANNUAL
CORPORATE GOVERNANCE
REPORT FOR
2018**



ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER IDENTIFICATION

Year-end date: [31/12/2018]

Tax Identification No. [C.I.F.]: [A20001020]

Company Name:

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

Registered Office:

[JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA]

A. CAPITAL STRUCTURE

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

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

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

- Yes
 No

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

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
CARTERA SOCIAL, S.A.	25.16	0.00	0.00	0.00	25.16
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0.00	14.06	0.00	0.00	14.06
INDUMENTA PUERI, S.L.	0.00	5.02	0.00	0.00	5.02
EDM GESTIÓN, S.A. S.G.I.I.C.	0.00	3.02	0.00	0.00	3.02
TEMPLETON INVESTMENT COUNSEL, LLC	0.00	3.01	0.00	0.00	3.01
INVESCO LIMITED	0.00	1.02	0.00	0.00	1.02

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	14.06	0.00	14.06
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	5.02	0.00	5.02
EDM GESTIÓN, S.A. S.G.I.I.C.	EDM INVERSIÓN FI	3.00	0.00	3.00
TEMPLETON INVESTMENT COUNSEL, LLC	GROUP'S COMPANIES	3.01	0.00	3.01
INVESCO LIMITED	GROUP'S COMPANIES	1.02	0.00	1.02

State the most significant shareholder structure changes during the year:

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

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

Breakdown of the indirect holding:

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

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

Name of related Party	Nature of relationship	Brief description
No data		

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

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

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

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

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

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

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

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

Yes
 No

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

Yes
 No

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

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

Yes
 No

A.9. Complete the following table with details of the company’s treasury shares:

At the close of the year:

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

(*) through:

Name of direct shareholder	Number of direct shares
No data	

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

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

A.11. Estimated working capital:

	%
Estimated working capital	48.71

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

Yes
 No

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

Yes
 No

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

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

Yes
 No

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

B. GENERAL SHAREHOLDERS' MEETING

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

Yes
 No

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

Yes
 No

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

The General Shareholders' Meeting shall be competent to agree on the amendments to the bylaws. In accordance with Articles 13 and 20 of the By-Laws, when adopting agreements on the issuance of convertible bonds or bonds conferring a stake in corporate earnings for bondholders, the increase or reduction of capital, the elimination or restriction of pre-emptive rights over new shares, the Company's transformation, merger or spin-off or overall assignment of assets and liabilities and the transfer of its registered office 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 on second call shareholders representing 25% or more but less than 50% of the subscribed capital with the right to vote attend the meeting, such resolutions may only be validly adopted with the favourable vote of two thirds of the capital, present or represented, at the General Meeting. Pursuant to Article 21 of the by-laws, shareholders with one thousand or more shares in the Company may attend the General Shareholders' Meeting and take part in the discussions with a right to speak in the debates, as well as vote. Those holding less number of 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. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:**

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

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

Yes
 No

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

Yes
 No

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

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

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

- Yes
 No

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

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

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

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

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

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

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

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

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

C.1.2 Please complete the following table on directors:

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

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
ANE AGIRRE ROMARATE		Independent	DIRECTOR	19/12/2017	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JULIÁN GRACIA PALACÍN		Independent	DIRECTOR	10/06/2017	10/06/2017	AGREEMENT GENERAL SHAREHOLDERS' MEETING
MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR – SECRETARY OF THE BOARD	22/01/2016	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING

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

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
No data					

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

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisational chart of the company	Profile
ANDRÉS ARIZKORRETA GARCÍA	Chairman and CEO	Holds a degree in Economics and Business Administration from the University of Deusto and has spent his entire professional life at CAF, where he was appointed General Manager of the company in 1992. He has been a Director of CAF since 1991. On 26 July 2006, he was appointed Chief Executive Officer, a post he has held ever since. Since 29 December 2015, he has been Chairman of the Board of Directors of CAF.

EXECUTIVE DIRECTORS

Name or company name of director	Post in organisational chart of the company	Profile
MARTA BAZTARRICA LIZARBE	Director – Secretary of the Board	Holds a Degree in Law and in Economic and Business Sciences from Comillas Pontifical University (ICADE E-3) and an Executive Master Degree in Business Management from ICADE. She has developed her professional career at CAF and holds the position of Director of the Group's Legal Department. She is Secretary of the Board of Directors of CAF and its Committees.

Total number of executive directors	2
Percentage of Board	20.00

EXTERNAL PROPRIETARY DIRECTORS

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

Total number of proprietary directors	1
Percentage of the Board	10.00

INDEPENDENT EXTERNAL DIRECTORS

Name of director	Profile
JUAN JOSÉ ARRIETA SUDUPE	PhD in Economic and Business Sciences from the University of Deusto. He has extensive experience in the management of financial entities and currently holds the position of Deputy General Manager of the Deusto Business School.
JAVIER MARTÍNEZ OJINAGA	Lawyer and Economist from the University of Deusto, holds an MBA from the University of Glasgow. He has developed his professional career in companies within the electric sector as well as in project management and interim management.

INDEPENDENT EXTERNAL DIRECTORS

Name of director	Profile
CARMEN ALLO PÉREZ	Degree in Exact Sciences and Master in Business Administration from the "Instituto de Empresa". She has spent most of her professional career within the financial sector. She is also a member of the Board of Directors of NATRA, S.A. and Chairwoman of its Audit Committee.
JULIÁN GRACIA PALACÍN	Industrial engineer and MBA from ICADE. He has spent his professional career in the telecommunications, logistics and consulting sectors. He is also the sole director of Samuelson Consulting, S.A. and Samuelson Logistics, S.A. and a board member of CITYNET, S.A.
ANE AGIRRE ROMARATE	Degree in Business and Economics and Master in Advanced Management from Deusto University. She has vast experience in the area of analysis and strategic assessment of human resources. She is also a partner of the consulting firm Vesper Solutions.

Total number of independent directors	5
Percentage of the Board	50.00

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

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

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

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

OTHER EXTERNAL DIRECTORS

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

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
ALEJANDRO LEGARDA ZARAGÜETA	Director Alejandro Legarda Zaragüeta has been CAF General Manager until fiscal year 2014.	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.	Industrial Engineer, MBA from IESE and PhD in Innovation Economics. He was General Manager of CAF for more than

OTHER EXTERNAL DIRECTORS

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

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
			twenty years. Since 2017, he has been Chairman of Nortegas Energía y Distribución. He is also a member of the Board of Directors of DURO FELGUERA, S.A.
LUIS MIGUEL ARCONADA ECHARRI	Director Luis Miguel Arconada Echarrri holds no relationship whatsoever either with the Company or its management and shareholders. However, he cannot be considered as independent since he has been Director for more than twelve years.	LUIS MIGUEL ARCONADA ECHARRI	Mr. Luis Arconada has broad experience and knowledge in the corporate and business sectors. He is also well renowned in various social and economic circles, due to his success in the sports world.

Total number of other external directors	2
Percentage of the Board	20.00

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

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

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

	Number of female directors				% of directors for each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive	1	1	1		50.00	50.00	50.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	2	1		40.00	40.00	33.33	0.00
Other external					0.00	0.00	0.00	0.00
Total	3	3	2		30.00	30.00	22.22	0.00

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

- Yes
 No
 Partial policies

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

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

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

Since 2015, 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 Code of Listed Companies' Good Governance, and articles 529 a and 529 n of the Companies Law.

In light of the most recent regulations on diversity with regard to the selection criteria of directors, the Board of Directors of the Company, by proposal of the Appointments and Remuneration Committee, has agreed to update the Directors Selection Policy, with the approval of the latest Director Diversity and Selection Policy at a meeting held on 12 November 2018, which has replaced the previous version.

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

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

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

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

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

Training and professional experience:

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

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

Age:

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

Disability:

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

Gender:

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

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

The Board of Directors of CAF has a balanced membership, with a diversity of knowledge, ages and gender, education and broad professional experiences that is coherent with the business needs and the independent directors make up 50% of its membership.

In particular, with regard to the promotion of diversity, progress made during this fiscal year regarding the presence of women on the Board of Directors is noteworthy, since the 2020 objective of having at least 30% women directors has already been achieved.

The Board's gender diversity objectives have also been strengthened during 2018, with the incorporation of women on both Committees, due to the rotation of its members that was agreed to in February.

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

Explanation of means

CAF's Appointments and Remuneration Committee ensures that when covering new vacancies, the selection processes being utilised are not implicitly impartial and do not hinder the selection of female directors, thus it includes women with the expected profile among potential candidates and under the same conditions to balance the men and women representation. This objective is stipulated in point 4 of the Company's Director Diversity and Selection Policy, approved by the Board of Directors on 12 November 2018.

During fiscal year 2018, the Appointments and Remuneration Committee was responsible for selecting and issuing favourable opinions for the appointment of the board members referred to in section C.1.7 below.

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

Explanation of means

--

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

On 17 December 2018, the Appointments and Remuneration Committee issued its Annual Report on the compliance with the Director Diversity and Selection Policy.

During fiscal year 2018, the General Shareholders Meeting ratified the re-election of three board members, as well as the ratification of the appointment of a new board member, whose appointment by co-option had been approved by the Board of Directors at the end of the previous year.

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

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

Name of shareholder	Reason
No data	

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

Yes

No

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

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

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

Name of director	Name of group member	Position	Does the director have executive powers?
ANDRÉS ARIZKORRETA GARCÍA	CAF ARGELIA EURL	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF CHILE S.A.	Chairman	NO
ANDRÉS ARIZKORRETA GARCÍA	CAF DEUTSCHLAND GmbH	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF FRANCE SAS	Chairman	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF INDIA PRIVATE LTD	Managing Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF NEW ZEALAND LIMITED	Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF SISTEME FERROVIARE, S.R.L.	Sole Director	YES

Name of director	Name of group member	Position	Does the director have executive powers?
ANDRÉS ARIZKORRETA GARCÍA	CAF TURNKEY & ENGINEERING, S.L.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Natural person who represents the Sole Director of CAF, S.A.	YES
ANDRÉS ARIZKORRETA GARCÍA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF INVESTMENT PROJECTS, S.A.U.	Joint Director	YES
ANDRÉS ARIZKORRETA GARCÍA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF HUNGARY Korlátolt Felelősségu Társaság	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF NETHERLANDS B.V.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF BELGIUM, S.P.R.L.	Sole Director	YES
ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS, S.A.P.I. DE C.V.	Chairman Non-executive	NO
MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇÃO, S.A.	Director	NO
MARTA BAZTARRICA LIZARBE	PROVETREN, S.A. de C.V.	Director	NO

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

Name of director	Name of listed company	Position
ALEJANDRO LEGARDA ZARAGÜETA	DURO FELGUERA, S.A.	INDEPENDENT COORDINATING DIRECTOR

Name of director	Name of listed company	Position
CARMEN ALLO PÉREZ	NATRA, S.A.	DIRECTOR

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

Yes
 No

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

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

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

Board remuneration in financial year (thousand euros)	1,902
Amount of vested pension interests for current members (thousand euros)	1,230
Amount of vested pension interests for former members (thousand euros)	

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

Name	Position
JESUS ESNAOLA ALTUNA	GENERAL CHIEF SALES OFFICER
AITOR GALARZA RODRÍGUEZ	CHIEF FINANCIAL, CONTROLLING AND STRATEGY OFFICER
JOSU VILLAR ELORZA	CHIEF OPERATING OFFICER
JUAN GASTESI IRIARTE	CHIEF HUMAN RESOURCES OFFICER
JOSU IMAZ MURGUIONDO	CHIEF CORPORATE OFFICER, BUSINESS AND TECHNOLOGY
IÑIGO ONA LARUMBE	CHIEF CORPORATE DIGITAL OFFICER
IBON GARCÍA NEILL	CHIEF RAIL SERVICES OFFICER
FÉLIX FERNÁNDEZ LOPETEGUI	CHIEF PROJECT OFFICER
EDUARDO GÁLVEZ LISON	CHIEF QUALITY, SAFETY AND HOMOLOGATION OFFICER
IRUNE LÓPEZ FERNÁNDEZ	INTERNAL AUDITOR
Total senior management remuneration (thousand euros)	2,613

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

Yes
 No

Description of amendment

On 18 December 2018, the Board of Directors unanimously agreed to amend articles 3, 4, 5, 7, 8, 11, 12, 13, 15, 16, 18, 25, 29, 30, 31 and 34 of its Regulations, which had the following key objectives: (i) Incorporate the recommendations issued by the independent expert responsible for evaluating the Board's performance during fiscal year 2017, with regard to the possibility of proposing other items of the agenda that were not initially envisaged, (ii) Adapt its wording to the actual text of certain articles under the Spanish Capital Companies Act, as well as expressly reflect the terms of certain Recommendations of the Good Governance Code for Listed Companies, which had been complied with by the Company but were not expressly included under the Regulations, (iii) Standardise its content with the remainder of the Company's internal regulations, including the current version of the By-Laws after it had been amended and then ratified at the last General Shareholders Meeting, (iv) Incorporate the more substantial guidelines under the Technical Guide on Audit Committees and the Proposed Technical Guide on Appointments and Remuneration Committees, published by CNMV, which had not been expressly set out in the internal regulations, and (v) Incorporate other technical improvements.

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

Selection and Appointment

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

Additionally, Board Regulations establishes the following rules related to directors appointment: Any appointment or re-election proposal submitted by the Board of Directors to the General Meeting for approval and any appointments made by the Board by its legally stipulated powers of co-option shall be preceded by the corresponding proposal by the Appointments and Remuneration Committee, in the case of Independent Directors and by the Board for the rest of the cases. The proposal shall be accompanied with an explanatory report issued by the Board of Directors, assessing the competence, experience and merits of the proposed candidate, to be attached to the General Meeting or Board of Directors' Meeting minutes. The proposal for the appointment or re-election of any non-independent director shall also be preceded by a report from Appointments and Remunerations Committee. The abovementioned shall also apply to natural persons appointed representatives of an artificial person acting as director. The natural person proposed to be a representative shall be subject to the report from the Appointments and Remuneration Committee. Should the Board decide not to follow the proposals of the Appointments and Remuneration Committee, it shall submit and minute its reasons for such decision. The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance scheme. Likewise, Directors should also be offered refresher programmes when circumstances so advise (Article15 of the Board Regulations).

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

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

Description of changes

The Board of Directors, on the basis of previous reports issued by Committees on their respective reviews and on the previous report raised by the Appointments and Remuneration Committee on the performance of the Board, has positively evaluated the performance of the Board and its Committees in 2018 and has verified that all Action Plans scheduled for that year had been fulfilled.

Furthermore, within the scope of this evaluation process, the Board of Directors has established various Action Plans for the 2019 fiscal year, however, they do not led to any significant changes to the internal organisation or in the procedures concerning its activities.

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

Description of the evaluation process and evaluated areas

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

In this regard, and with respect to the year 2018, the following main areas have been assessed:

- a) The quality and efficiency of the Board's operation.
- b) The operation and structure of its committees.
- c) The structure and competence diversity of the Board of Directors.
- d) The performance of the Chairman and CEO of the Board of Directors.
- e) The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

Following this process, the Board of Directors has positively evaluated its performance and that of its members and Committees for fiscal year 2018, being in line with the favourable opinions of the previous reports issued by the Committees on their respective evaluations and on the evaluation of the Board, which was approved by the Board of Directors at the meeting held on 30 January 2019. Specifically, the Board has verified that the action plans earmarked for the evaluated year have been satisfactorily fulfilled.

Notwithstanding the foregoing, the Board has identified areas for improvement and determined the corresponding action plans for fiscal year 2019.

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

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

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

In any case, directors are to inform and, if applicable, resign during any such events that may be detrimental to the Company's name and reputation (article 18 of the Regulations of the Board of Directors).

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

- Yes
 No

If so, please describe any differences.

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

- Yes
 No

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

- Yes
 No

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

- Yes
 No

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

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

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

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

Number of Board meetings	9
Number of Board meetings without the chairman	0

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

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

Number of meetings held by the Audit Committee	11
Number of Meetings held by the Appointments and Remuneration Committee	5

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance:

Number of meetings when all directors attended	9
% of attendance over total votes during the year	100.00
Number of meetings in situ or representations made with specific instructions of all directors	9
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

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

- Yes
 No

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

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

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

The Board of Directors delegates on the Audit Committee the monitoring of financial balances and auditing services in order to avoid any qualifications. Financial statements for the year ended 31 December 2017 as well as previous years were approved without qualifications.

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

- Yes
 No

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

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

Mechanisms to preserve the independence of financial analysts:

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

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

finalised, the Committee will review, along with the external auditor, any significant findings brought to light from these tasks, as well as the content of its mandatory reports.

With regard to the fiscal year 2018:

- The auditor reported before the Audit Committee on three separate occasions, and once before the Board of Directors, to report on various matters concerning the auditing process.
- On 27 February 2018, the external auditor submitted before the Audit Committee a written statement confirming its independence with regard to the audit of the consolidated financial statements of the CAF Group for the year ended 31 December 2017.
- On the same date, the Committee issued its own report on the independence of the auditor for the Board of Directors, in which it concluded that no aspect had been identified, at the time, that could jeopardise regulatory compliance of the audit process regarding matters of the independence of the auditor.
- At its December meeting, the Committee approved the budget for non-audit services for the fiscal year 2019.
- At the Committee meeting held in December 2018, the auditors provided detailed information on matters relating to: (i) the reappointment of the auditors, (ii) the internal quality control system of the audit firm on matters regarding the independence of the auditor; and (iii) the prevailing practices among the listed companies regarding communications with the auditor.

Mechanisms to preserve the independence of financial analysts:

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

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

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

- Yes
 No

If there were any disagreements with the outgoing auditor, please provide an explanation:

- Yes
 No

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

- Yes
 No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	0	230	230
Amount invoiced for non-audit services/Amount for audit work (in %)	0.00	32.00	32.00

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

- Yes
 No

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

	Individual	Consolidated
Number of consecutive years	29	18

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	71.00	100.00

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

- Yes
 No

Explanation of procedure

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

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

- Yes
 No

Explain the rules

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

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

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

- Yes
 No

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

There are no such agreements.

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

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

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

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

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

C.2. Committees of the Board of Directors

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

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

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

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

Organisation:

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

Functions:

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

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

Name of directors with experience	JAVIER MARTÍNEZ OJINAGA / JUAN JOSÉ ARRIETA SUDUPE / CARMEN ALLO PÉREZ
Date of appointment of the chairperson	28/10/2015

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

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

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

Organisation:

The Committee shall be composed of no less than three (3) and no more than five (5) Directors, as determined by the Board of Directors, who will be non-executive directors only, two of which shall be independent. The Chairman of the Committee shall be elected by the Board of Directors among Committee members who are Independent Directors. The Board shall appoint its Secretary, who shall not necessarily hold the office of Director (Articles 4 and 5 of the Appointments and Remuneration Committee Regulations). The Chairman is responsible for summoning the Committee, organising the agenda for the meeting and acting as moderator during the debates. Committee members shall be appointed for a four-year term and shall be re-elected for equal periods while their appointments as Company Directors are effective. (Article 7 of the Appointments and Remuneration Committee Regulations).

Functions:

The Appointments and Remuneration Committee has the following basic responsibilities: a) Evaluate the balance of skills, knowledge and experience on the Board. For this purpose, it shall define the functions and skills required for candidates to cover each vacancy and shall evaluate the time and dedication required to attain goals effectively. b) Set a representation goal for the gender with less representation at the Board of Directors and preparing recommendations on how to achieve that goal. c) Bring to the Board of Directors the proposals for the appointment of independent directors by co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. d) Report the proposal for appointment of the remaining directors by co-option or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. 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, for such succession to occur in an orderly and planned manner. g) Propose to the Board of Directors the remuneration policy for directors and general managers or those who carry out their senior management functions under direct control of the Board, Executive Committees or Managing Directors, as well as the individual remuneration and other contractual conditions of Executive, ensuring compliance. (Article 3 of the Appointments and Remuneration Committee Regulations).

In addition, the Committee is responsible for the following tasks: i) Review periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives. ii) Ensure that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee and (iii) Verify the information on the compensation provided to directors and high executives, as contained in the different corporate documents, including the annual report on directors' compensation.

Furthermore, the Commission is entrusted with the following responsibilities regarding the supervision of the compliance of corporate governance rules, the internal codes of conduct and the corporate social responsibility policy: i) Supervising compliance with internal codes of conduct and the corporate governance rules of the Company. ii) Evaluating, on a regular basis, the adequacy of the Company's corporate governance rules and procedures, so it can accomplish its mission of promoting social interest, considering, accordingly, the legitimate interests of the remaining stakeholders, (iii)) Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value, (iv) Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance, (v) Supervising and evaluating the relations with the different stakeholders and (vi) Coordinating the process of reporting non-financial and diversity information, according to the applicable regulations and the international standards of reference.

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

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	1	33.33	0	0.00	0	0.00	0	0.00
APPOINTMENTS AND REMUNERATION COMMITTEE	1	33.33	1	33.33	1	33.33	0	0,00

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

AUDIT COMMITTEE: The up to date version of the resolution is available in the CAF web site (www.caf.net), under section Information for Shareholders and Investors. The Regulations of the Audit Committee were amended on 18 December 2018, so as to include: (i) the measures proposed by the external consultant for the 2017 Assessment Report of the Board of Directors of CAF, (ii) the more important aspects covered by the CNMV Technical Guide that were not expressly established in the internal regulations, (iii) the powers conferred by the Board of Directors under the scope of Recommendation 53 of the Code of Good Governance of Listed Companies, (iv) changes required for the standardisation of the Regulations of the Board and its Committees and, (v) other technical improvements. An annual report on the activities carried out during the fiscal year 2018 by this Committee has been prepared, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV.

APPOINTMENTS AND REMUNERATION COMMITTEE: The up to date version of the resolution is available in the CAF web site (www.caf.net), under section Information for Shareholders and Investors. There have not been amendments on the Appointments and Remuneration Committee Bylaws and Regulations in 2018. Nonetheless, the Committee has been working on a proposal to amend the Regulations of the Committee. With the upcoming publication of the final text of the Technical Guide on Appointments and Remuneration Committees of the CNMV, it has been deemed appropriate to wait for the definitive publication of this text before including the finally approved principles and criteria. An annual report on the activities carried out during the fiscal year 2018 by this Committee has been prepared, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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

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

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

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

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

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

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

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

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
Metro CAF Mauritius, Ltd.	Assignment of the scope of the train supply agreement	8,636

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

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

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

Note 10 of the consolidated Notes to the Financial Statements for fiscal year 2018 includes the details on balances and transactions with associated companies that have not been removed during the consolidation process.

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

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

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

Yes
 No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

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

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

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

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

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

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

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

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

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

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

For fiscal year 2018, the Board of Directors approved the Market Risk Policy, the Liquidity and Financing Policy and the Investment Policy, all of which are at a corporate level. The management of risks connected with these policies is also carried out under the framework of the Comprehensive Risk Control and Management System.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Strategic risks: these being risks stemming from the uncertainty of the macroeconomic and geopolitical environment, along with the inherent characteristics of the sector and markets where the Group operates, and the decisions adopted on strategic and technological plans.
- Financial risks: deriving from market fluctuations, which include the following risk subcategories:
 - Market risk, considering the following typologies:
 - Interest rate risk: risk to changes in interest rates that may cause variations in both the results and the value of the Group's assets and liabilities.
 - Currency risk: risk arising from changes in the exchange rates of currencies with an effect on future transactions and the valuation of assets and liabilities denominated in currency.
 - Risk of raw material prices: risk derived from changes in prices and market variables in relation to raw materials needed in the business supply chain.
 - Credit risk: it is the risk of insolvency or bankruptcy or possible non-payment of quantifiable monetary obligations by the counterparts to which the Group has effectively granted net credit and are pending liquidation or collection.

• Liquidity and financing risk: in relation to liabilities, it is the risk linked to the impossibility of carrying out transactions or to non-compliance with obligations arising from operating or financial activities due to lack of funds or access to financial markets, whether derived from a decrease in the company's credit quality (rating) or other causes. In relation to the asset, it is the risk of not being able at any given moment to obtain asset acquirers, for the sale at market price, or the lack of market price.

For more information on the financial risks, see the section on "Financial Risk Management" of the Notes to the Financial Statements.

- Operational risks: inherent to all Group activities, products, systems and processes that lead to financial losses due to human/technological error, inadequate/defective internal processes or the intervention of external agents. These include corporate risks and risks related to the performance of projects. Others are explained in greater detail in their corresponding sections and some of which are: people/labour, human rights, social and environmental risks.
- Corporate Governance Risks: arising from the potential non-compliance of the Group's Corporate Governance System, being composed of the: (i) By-Laws and other regulatory rules for corporate governance bodies, (ii) Corporate Policies and standards approved by the Board of Directors of the Group's parent company, and (iii) all other internal policies, standards and development protocols, approved by other competent bodies of the Group, regulating the design, integration and role of the Governance Bodies and its relationship with the Company's stakeholders, which are the basis of the commitment towards ethical principles, good practices and transparency, being articulated around preserving the Company's best interest and the creation of sustainable value.
- Compliance and Regulatory Risks (including those on tax and contractual requirements): arising from litigations involving the Group, contractual requirements, Securities Market governing regulations, data protection law, applicable environmental legislation, applicable labour legislation, criminal law, including those related to corruption, regional, national and international tax regulations, among others.

As for the Statement of Non-Financial Information for the fiscal year ended in 2018, which was included in the Directors Report, the various types of aforementioned risks were assessed in detail. In particular, there was an emphasis on the risks relating to human rights, society, the environment, people and the fight against corruption and bribery.

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

The risk tolerance level established at the corporate level is understood at CAF as the willingness to assume a certain risk level, insofar as it allows value creation and business development, achieving an adequate balance between growth, performance and risk. The CAF Group presents an overall prudent risk profile with a low tolerance level, in which the objective of guaranteeing the continuity over time of its activity and the sustainable growth, and therefore of its value contribution to its shareholders and to the company in general, prevails.

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

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

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

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

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

Regarding Financial and Strategic Risks, there is a tolerance level in terms of its economic impact at the corporate level. In the case of the other identified risks, fundamentally as regards those aspects related to reputation, environment, cyber security and regulation (including corruption), there is a zero tolerance level. With regard to fiscal risks, the Fiscal Policy expressly covers the basic principles regarding tax matters for the Group, including, wherever possible, the prevention and reduction of the fiscal risks during the development of its activities.

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

During 2018 no material or extraordinary risks materialized, beyond those included in the Directors' Report and the Notes to the Financial Statements. The main risks that may affect the achievement of business goals are managed actively by the organisation, while minimising any adverse risks faced by the Group. In general terms, the Group's business and regional diversification assists in reducing any impacts on the Company's equity due to risk exposure.

The exchange rate risk to which the Company is exposed due to its international operation is managed in accordance with the Market Risk Policy, approved by the Board of Directors in this fiscal year, which basically provides 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 depreciation of the Brazilian real has had a negative impact on the Company's equity.

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

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

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

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

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

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

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

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

1. The First Line of Defence rests on the business's own operating units which are responsible for day-to-day risk management in CAF, identifying, measuring, monitoring, mitigating and reporting each exposure, in consideration of established policies, procedures and controls. Additionally, they are responsible for effectively maintaining internal control and implementing actions to address control deficiencies.
2. The Second Line of Defence complements the activities of the first one and is formed by the Risk Management Department, which carries out monitoring and reporting and is responsible for the risk levels assumed by CAF in the projects, independently controlling business lines.
3. The Third Line of Defence includes an independent and effective Internal Audit Function reporting to CAF's Audit Committee based on its overall reviews of the risk framework, internal control and the Internal Control System of the CAF Group's Financial Information. Additionally, it provides an independent review of the first two Lines of Defence.

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

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

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

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

F.1. Control environment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With regard to training activities that began in 2016, the actions aimed to raise awareness, disseminate and implement the Manual on Crime Prevention among the CAF Group staff continued during 2018.

- At the date of preparing the document, while including the head office and national subsidiaries, 93% of staff members included in the training plan had completed the training courses. In 2018, significant progress was made on an international level with training programmes being delivered to 98% of the consolidation scope. More than 3,800 people have received training on this matter, which accounts for 91% of the eligible group. At this moment, 687 people are participating in the programme. Also, a training framework for new employees is underway, which included this programme within the plans for the induction of new employees. Training materials are constantly being updated.

- **Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature:**

In order to channel general complaints and those relating to financial and accounting aspects, a single complaint channel is established which is supervised by the Compliance Committee or Unit. This body periodically analyses the complaints received and, if appropriate, adopts the relevant actions related to the specific circumstances of each complaint. In case the Compliance Committee or Unit understands that the complaint deserves more attention, it may send the documentation to the relevant department with the objective of jointly assessing the facts and determining the measures to be taken. Likewise, it reports relevant financial irregularities to the Audit Committee. After the information has been made available through this mechanism and reviewed, and should it be deemed necessary, the Committee must propose any appropriate actions to improve its performance and reduce the risk of any irregularities in the future.

An adequate record is kept for all complaints received which guarantees the confidentiality of both the sender and its content. Additionally, for situations such as discrimination, harassment, mobbing or safety at work, specific channels are established for the communication and treatment of any improper conduct that may occur in those areas.

- **Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management:**

The Group has a corporate training budget and a training plan designed biannually. Training needs are detected and activities for each department are scheduled as part of this plan.

Staff performance assessments are held every year and an individual development and training plan is set out for every employee included in the Training Plan. In addition, refresher courses taught by external specialist are held at least on an annual basis so as to ensure staff remains up-to-date on regulatory changes that can affect the preparation of the financial statements.

With regard to learning programmes for CAF S.A.'s economic and financial subjects, in order to support the different businesses in fiscal year 2018, the main reference indicators of this activity have been as follows:

- Number of participants in the training actions on this matter: 137
- Number of training hours received: 980 hours

Apart from wide training, the main training activities are focused on the technical updates within the economic and financial area, (legislation, tax scheme, risks, ...).

F.2. Assessment of financial information risks.

Report on at least the following:

F.2.1 The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists and is documented:

The identification of risks within the financial information sphere is a continuous and documented process carried out by the Company's Management as part of the risk management system, which begins with the offer preparation and allows identifying and managing the different risks faced by the Group during its normal course of business.

- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency:

At the beginning of each year, supported by projected financial information, the main control objective and risks of error are analysed, estimating the likelihood and impact this would have on the financial information. This analysis includes the review of the routine financial reporting processes. During the year, the identified risk areas are followed up and updated, taking into account new significant events that have taken place during the period. In addition, the internal control system contemplates the performance of regular control activities focused on identifying new risk areas, such as meetings of CAF's Financial Department and the persons responsible for business areas and meetings to review the financial information reported by the subsidiaries.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities:

At least on a quarterly basis, the Financial Department receives the Group's company organisation chart from the Corporate Development Department, which shows the changes in scope that have taken place during the period. All changes to the scope are analysed by the Financial Department.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements:

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

- The governing body within the company that supervises the process:

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

F.3. Control activities.

Report on whether the company has at least the following, describing their main characteristics:

F.3.1 Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

Financial Statements certification: The financial statements are certified by the Chairman and Managing Director and the Chief Financial Officer. There has been a prior supervision process of submitted data conducted by senior staff involved in preparing these financial statements, as well as control activities designed to mitigate risks of error that may affect financial reporting.

The main financial reporting generation processes significantly affecting financial statements are documented and programmed. The financial reporting processes that are covered include the following:

- Consolidation and Reporting
- Accounting closing
- Employee compensation
- Treasury management
- Income and expense recognition (for every business unit)
- Invoicing and trade receivables
- Inventories and Supplies (for every business unit)
- Investments
- Taxes
- Provisions
- Information systems

The risks of error that may affect the reliability of the financial information (including risks of error in relevant judgements, estimates, assessments and projections) have been identified for each of these processes, as have the control activities to mitigate those risks. A person is appointed for each control activity, in charge of implementing and overseeing the activity, the timing of implementation, as well as the evidence necessary to execute the activity.

This system is updated on a continual basis and is adapted according to the risks identified.

F.3.2 Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The Management of Information and Communication Technologies (ICT) is a corporate process that falls under the CAF Group's Management Model. Its mission is to provide and manage services, supporting the Group's information technology and communication needs in any of the areas of business activity, enhancing the use of these technologies and providing an efficient and effective management over the available resources, ensuring confidentiality, integrity, availability and assurances over the information.

The objectives of this process are to:

- Comply with the Corporate ICT development plan
- Ensure the availability of information systems (availability)
- Guarantee the security (confidentiality and integrity) of Information Systems.
- Promote the standardisation of the Systems
- Improve the satisfaction level of ICT systems
- Develop the ICT corporate framework

The ICFR includes control activities that monitor the proper performance of the processes of Information Systems, in relation to:

- Information technology management:

- User management
- Configuration management
- Physical safety management
- Change management
- Operational management and system control
- Continuity management
- Third-Party Management

Furthermore, since 2017, in accordance with ISO 27001, it is worth mentioning the rolling out of an Information Security Management System (ISMS), which was certified in the spring of 2018 with regard to the information systems supporting the CAF corporate processes, which are managed by the Corporate Digital Directorate. As a result of this implementation, a Security Committee has been formed along with the appointment of a Security Officer, where the affected suppliers and staff have had to read the Security Policy, whereby expressly accepting the Terms and Conditions therein, and the Good Practices Handbook.

F.3.3 Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

There is an Accounting and Financial Procedures and Policies Manual applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing the financial statements.

The main activities identified as having been subcontracted to third parties include the preparation of the payroll and tax returns of certain subsidiaries (areas considered to be low-risk and in subsidiaries that cannot materially affect the Group's financial statements) and the subcontracting of services in the IT department (the effectiveness of which is regularly monitored). Furthermore, during the fiscal year 2018, the valuation of acquired assets and liabilities was contracted to independent third parties, according to IFRS 3 of business combinations. In these cases, the Company's policy is to resort to firms of renowned background and independence.

F.4. Information and communication.

State whether the company has at least the following, describing their main characteristics:

F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

CAF, S.A.'s Financial Department is responsible for preparing the consolidated financial statements as well as Parent Company's financial statements. Some of their tasks are to resolve accounting questions for the rest of the Group companies with which the Company has a direct and constant relationship through the designated persons in charge of control at each subsidiary and to update the Accounting and Financial Procedures and Policies Manual. During fiscal year 2018, one of the main adaptations of the Manual introduced new accounting standards (mostly in relation to the recognition of income) as well as the work involved in preparing for the new IFRS 16 on Leases.

The Manual is available on CAF's web site.

F.4.2 Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

Every year a schedule is drawn up of the information required to prepare the financial information for the following year.

The financial information of each subsidiary is reported directly to CAF, S.A.'s Financial Department, through a web-based tool with consistent reporting formats which is used to gather the information supporting the consolidated financial statements, as well as the consolidated information in the financial statement notes and which is also used to roll up and consolidate the reported information.

CAF, S.A.'s Financial Department is responsible for establishing the formats on the web application (chart of accounts, reporting package). Those who have been designated for each subsidiary and are in charge of control supervise the process used to harmonise the information of each subsidiary with the Group standards.

F.5. Supervision of system performance.

Describe at least the following:

F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

In accordance with the provisions of its own Regulations, the Audit Committee is responsible for supervising the preparation process and the integrity of the financial information, ensuring its compliance with the legal provisions, the accurate determination of the consolidation scope, as well as to oversee the proper internal controls risk management systems, including ICFR. Likewise, the Committee reviews that the information published on the Company's web site is constantly updated and reflects the one prepared by the Board of Directors, which has been published in the CNMV's web site.

The Audit Committee ensures the staff involved in the Financial Information Internal Control System evaluation tasks:

- Show integrity and is independent in the performance of their work, so that their conclusions are objective and impartial.
- Are competent and have the necessary technical ability to perform their work diligently.

Under the scope of the external audit, the Audit Committee holds meetings with the external auditors with regard to more significant aspects concerning the review of the financial statements and the findings of the audit work (which include, where appropriate, material aspects detected in the internal control area).

The CAF Group has an Internal Audit Area whose role includes assisting the Audit Committee in its task of supervising the ICFR design and operation.

Each year, the Manager of Internal Audit presents the internal audit activities before the Audit Committee for its approval, which includes ICFR oversight tasks. The content of the Annual Work Plan is reviewed and updated on an ongoing basis.

Based on this plan, the Internal Audit Manager reviews the ICFR's design and functioning by periodically reporting to the Audit Committee its assessments, weaknesses detected, action plans to correct them and recommendations for improvement. This report can be presented either in person at the Audit Committee meetings or by sending it to the Committee.

In the 2018 reporting period the Annual Work Plan submitted and subsequently implemented by the Internal Audit Area covers the following matters related to the ICFR:

- Identification of the main risks on financial information.
- Analytical review of the financial information sent to the National Securities Market Commission (CNMV) on a quarterly basis, together with a review of the design and adequate performance of the main control activities involving fiscal year closing processes, consolidation and reporting, as well as a review of the main judgments and estimates.
- Review of financial reporting processes and of the main subsidiaries, as per a three-year turnover plan.
- Quarterly follow-up on the status of the action plans proposed to tackle identified shortfalls and improvement recommendations.

F.5.2 If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The Audit Committee meets prior to the issuance of financial information to the markets with the Internal Audit Manager and the Management responsible for preparing the financial information to comment on any relevant aspects and, if appropriate, discuss significant control weaknesses identified.

During 2018, the Head of Internal Audit attended six meetings of the Audit Committee, who reported on the Annual Work Plan's evolution and the existing action plans to implement recommendations for internal control improvement.

Likewise, in 2018, the external auditors had appeared before the Audit Committee on three occasions to:

- Report on the results of the audit of the 2017 financial statements and the limited review on the 2018 semi-annual financial statements.
- Report on the quality control system and internal practices that the external auditor had established for matters of the independence of the auditor.
- Address the impact of the acquisition of the Polish company Solaris Bus & Coach, S.A. on the Group's accounts.

Also, the external auditors had attended the meeting of the Board of Directors held on 18 December 2018 to report on:

- The audit progress report corresponding to fiscal year 2018.
- The working plan regarding the updating of significant risks.
- The audit schedule for the Solaris integration, while explaining the most significant aspects of it.
- The Statement of Responsibilities of the auditors regarding the audit for the fiscal year, in accordance with the applicable legislation.
- Significant developments and trends. In particular, it commented on the recent adoption of the Law on non-financial information and diversity and its main implications, including the obligation to verify this information by a service provider at arm's length.

During 2018, auditors have not revealed significant internal control weaknesses.

F.6. Other relevant information.

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

F.7. External auditor's report.

Report from:

F.7.1 If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

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

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies [] Explanation []

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.
- b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies [] Complies partially [] Explanation [] Not applicable []

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

- a) Changes that have occurred since the last General Shareholders' Meeting.
- b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies [] Complies partially [] Explanation []

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies [] Complies partially [] Explanation []

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies [X] Complies partially [] Explanation []

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:
- a) Report regarding the auditor's independence.
 - b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.
 - c) Report by the audit committee regarding related-party transactions.
 - d) Report on the corporate social responsibility policy.

Complies [X] Complies partially [] Explanation []

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies [X] Explanation []

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies [X] Complies partially [] Explanation []

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies [X] Complies partially [] Explanation []

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:
- a) Immediately distributes the additions and new proposals.
 - b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
 - c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
 - d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies [] Complies partially [] Explanation [] Not applicable []

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies [] Complies partially [] Explanation [] Not applicable []

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies [] Complies partially [] Explanation []

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies [] Explanation []

14. That the Board of Directors approves a selection policy for directors that:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.
- c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation []

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies [X] Complies partially [] Explanation []

16. That the percentage of proprietary directors divided by the number of non- executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

- a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.
- b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X] Explanation []

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X] Explanation []

18. That companies publish and update the following information regarding directors on the company website:

- a) Professional profile and biography.
- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

Complies [X] Complies partially [] Explanation []

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [] Complies partially [] Explanation [] Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X] Complies partially [] Explanation [] Not applicable []

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X] Explanation []

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation []

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies [X] Complies partially [] Explanation [] Not applicable []

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies [X] Complies partially [] Explanation [] Not applicable []

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies [X] Complies partially [] Explanation []

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies [X] Complies partially [] Explanation []

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies [X] Complies partially [] Explanation []

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X] Complies partially [] Explanation [] Not applicable []

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies [X] Complies partially [] Explanation []

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [X] Explanation [] Not applicable []

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies [X] Complies partially [] Explanation []

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X] Complies partially [] Explanation []

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company; should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X] Complies partially [] Explanation []

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non- executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies [X] Complies partially [] Explanation [] Not applicable []

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X] Explanation []

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:
- The quality and efficiency of the Board of Directors' work.
 - The workings and composition of its committees.
 - Diversity of membership and competence of the Board of Directors.
 - Performance of the chairman of the Board of Directors and the chief executive officer of the company.
 - Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies Complies partially Explanation

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies Complies partially Explanation Not applicable

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies Complies partially Explanation Not applicable

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies Complies partially Explanation



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40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies [X] Complies partially [] Explanation []

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X] Complies partially [] Explanation [] Not applicable []

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:
 - a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
 - b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re- election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
 - c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.
2. With regard to the external auditor:
 - a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
 - b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor’s independence.
 - c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
 - d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
 - e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor’s billing, and all other rules regarding the auditor’s independence.

Complies [X] Complies partially [] Explanation []

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X] Complies partially [] Explanation []

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies partially [] Explanation [] Not applicable []

45. That the risk management and control policy identify, as a minimum:

- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.
- b) Fixing of the level of risk the company considers acceptable.
- c) Means identified in order to minimise identified risks in the event they transpire.
- d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X] Complies partially [] Explanation []

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

- a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.
- b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.
- c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies [X] Complies partially [] Explanation []

47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate -- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X] Complies partially [] Explanation []

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Complies [] Explanation [] Not applicable []

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [] Complies partially [] Explanation []

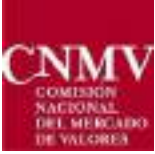
50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [] Complies partially [] Explanation []

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [] Complies partially [] Explanation []



52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:
- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
 - b) That their chairmen be independent directors.
 - c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
 - d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
 - e) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies partially [] Explanation [] Not applicable []

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:
- a) Verification of compliance with internal codes of conduct and the company’s corporate governance rules.
 - b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
 - c) The periodic evaluation of the suitability of the company’s corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
 - d) Review of the company’s corporate social responsibility policy, ensuring that it is orientated towards value creation.
 - e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.
 - f) Supervision and evaluation of the way relations with various stakeholders are handled.
 - g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.
 - h) Coordination of the process of reporting on diversity and reporting non- financial information in accordance with applicable rules and international benchmarks.

Complies [X] Complies partially [] Explanation []

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:
- a) The objectives of the corporate social responsibility policy and the development of tools to support it.
 - b) Corporate strategy related to sustainability, the natural environment and social issues.
 - c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
 - d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.
 - e) Means of supervising non-financial risk, ethics, and business conduct.
 - f) Communication channels, participation and dialogue with stakeholders.
 - g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies Complies partially Explanation

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies Complies partially Explanation

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies Explanation

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies Complies partially Explanation

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
- c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies [X] Complies partially [] Explanation [] Not applicable []

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies [X] Complies partially [] Explanation [] Not applicable []

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies [] Complies partially [] Explanation [] Not applicable [X]

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies [] Complies partially [] Explanation [X] Not applicable []

During the current fiscal year, for the first time the Company has used a variable remuneration system for executive directors, based on the attainment of certain predetermined performance parameters, in accordance with the Remuneration Policy approved at the General Meeting. This Policy does not include the possibility of establishing a variable remuneration system associated with the delivery of shares or any other share-based financial instrument.

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies [] Complies partially [] Explanation [] Not applicable []

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [] Complies partially [] Explanation [] Not applicable []

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies [] Complies partially [] Explanation [] Not applicable []

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.
2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010:

A.3. As the system only allows for 2 decimal points, we have not been able to enter the correct percentages of the total voting rights, which are as follows: 72,564,821M JUAN JOSE ARRIETA SUPUDE 0.003% and 30,605,037H ANE AGIRRE ROMARATE % 0.002. TOTAL 0.005%.

C1.16

f) Significant shareholders, Executive Directors or senior managers of an entity receiving significant donations from the Company or its Group currently or in the last 3 years. Mere employees of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the Appointments Committee. i) Individuals who had been directors during a continuous term exceeding 12 years. j) Individuals falling under any of the assumptions mentioned in subsections a), e), f) or g) above with respect to any significant shareholder or any shareholder represented on the Board. In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company. Proprietary Directors forced to resign after their shareholders sell their shareholding may only be re-elected as Independent Directors when the shareholder they represented up to that moment sold his/her entire shareholding in the Company. A Director with Company shares may be an Independent Director provided he/she meets all the requirements pursuant to this Article and does not hold a significant shareholding (Article 16 of the Board Regulations).

Re-election:

Directors shall hold office for four years. Directors may be re-elected once or several times for equal periods. Directors' appointments shall be effective upon acceptance thereof (Article 29 of the bylaws). The Board of Directors shall be renewed upon members' office expiration. (Article 30 of the bylaws).

Assessment:

The Appointments and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Appointments and Remuneration Committee has the following basic responsibilities: 1.- Evaluate the balance of skills, knowledge and experience on the Board of Directors. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. 2.- Set an objective for the representation of the gender that is underrepresented on the Board of Directors, drawing up guidelines on how to achieve this objective, 3.- Submit to the Board proposals for Independent Directors' appointment through co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. 4.- Report on the proposals for Directors' appointment through co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. 5.- Report on proposals for appointment and removal of senior managers and the basic terms of their contracts. 6.- Examine and organise the succession of the Board of Directors' Chairman and the Company's Chief Executive and, where appropriate, make proposals to the Board of Directors for such succession to occur in an orderly and planned manner. 7.- Propose to the Board of Directors the remuneration policy for directors and general managers or those who carry out their senior management functions under direct control of the Board, Executive Committees or Managing Directors, as well as the individual remuneration and other

contractual conditions of Executive Directors, ensuring compliance. (Art. 3 of the Appointments and Remuneration Committee Regulations).

Any Director shall request the Committee to consider them in case they are adequate potential candidates to cover Directors' vacancies.

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 Board of Directors upon Report from the Appointments and Remuneration Committee on default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement. Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any of the crimes stated in Article 213 of the Companies Law, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such determinations in the Annual Corporate Governance Report. In any case, Directors are to inform and, if applicable, resign during any such events that may be detrimental to the Company's name and reputation. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the Board, based on a proposal from the Appointments Committee. (Article 18 of the Board Regulations).

The Directors' Selection Policy, approved by CAF's Board of Directors on 12 November 2018, repeats the functions applicable to the Appointments and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, along with the prerequisites that the candidates must meet, with a special emphasis on the fundamental objective to enrich the diversity of knowledge, experiences and gender from among the Board members, by following criteria to ensure the existence of appropriate diversity in its membership and the absence of any implicit biases that may lead to discrimination based on age, gender, disability, or any other personal circumstance or situation, in accordance with Recommendation 14 c) under the Code of Good Governance of Listed Companies, and with articles 529 bis and 529 quidecies of the Spanish Capital Companies Law.

C1.30

In order to implement the abovementioned principles, the Company has various official communication channels with shareholders and investors, for example:

- The corporate web site of CAF (www.caf.net), where relevant information for shareholders and investors is published. This web site is continuously updated. The web site includes announcements of information on the results and other corporate events on the Investor Agenda, as well as for example the list of independent entities that carry out the reviews of CAF as a listed company.
- Personalised attention for analysts and investors, via the Shareholders and Investor Services Office, through the channels provided on the corporate web site.

C.2.1

AUDIT COMMITTEE

e) Submit to the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, pursuant to article 16, sections 2, 3, 5 and 17.5 of the Regulations (EU) 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. The Committee must carry out the final evaluation of the auditor's performance and its contribution to the quality of the audit and the integrity of the financial information. f) Establish the appropriate relations with the external auditor in order to gather information on issues that may prejudice the independence of the auditor, to be assessed by the Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established under article 5, sections 4 and article 6.2.b) of Regulation (EU) 537/2014 of 16 April and under paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July on Account Auditing, regarding the principles of independence, as well as establishing, with the external auditor, any other notifications pursuant to the legislation and audit requirements. In any case, receive from the auditors or audit companies an annual written confirmation of their independence from the Company or companies directly or indirectly related to the them, as well as information concerning the additional services of any kind rendered to the Company by said auditors or companies, or by the individuals or companies related to them pursuant to the Account Auditing legislation. g) Issuing, prior to the issuance of the audit report, an annual report expressing an opinion as to whether the independence of the external auditor is prejudiced. Such report must contain, in any case, an assessment on the provision of each and every additional service referred to in the previous section, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. h) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements

designed to safeguard auditors' independence. i) Supervise the Company's internal control and management risk function. j) Report in advance to the Board of Directors on all matters under the Law, bylaws and the Board's Regulations; and particularly on: 1.º the financial information that the Company must make public on a regular basis, 2.º the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens and 3.º related party transactions. k) Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. l) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders. m) Evaluation of the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks. n) Be informed on the structural and corporate changes intended by the Company for reviewing and submitting the report to the Board of directors on the economic conditions and the accounting effects and, specifically, on the swap ratio proposed. o) Approving an annual work plan, which contains, among others, the yearly schedule for Committee meetings in order to facilitate the achievement of goals efficiently pursued. p) Issue a report on those transactions made by the Company or the Group's Companies with directors or shareholders holding a significant interest, individually or collectively, including those represented on the Board of Directors of the Company or other Companies of the same group, or with persons related thereto, pursuant to the Capital Companies Law. The issue of this report shall not be applicable for any transaction meeting all of the three following conditions: i) they are governed by standard form agreements applied on an across-the board basis to a large number of clients, ii) they are performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and iii) they contain amounts not exceeding one percent of the Company's annual revenues. q) According to the Internal Code of Conduct within the Company's securities markets area: i) Upon request of the Control and Monitoring Body, issue a report on the possible approval of transactions of Affected Securities and Instruments during the restricted periods, and ii) In coordination with the Control and Monitoring Body, assess whether the market research processes that have been carried out contain the disclosure of inside information. r) Submit an annual evaluation report on its own performance before the Board of Directors, in accordance with the framework of the annual assessment of the Board of Directors and its Committees. s) Every year submit a report on the Committee's activities and performance during the previous year. t) Any other function attributed to it by law, the By-Laws, the Regulations of the Board of Directors or conferred by the Board of Directors. The provisions of sections f), g) and h) will be understood notwithstanding the regulatory standards of account auditing. Likewise, the Committee has the following powers: 1.- The Committee shall have full access to any type of Company information, documentation or records considered necessary for the furtherance of its duties. 2.- The Committee shall request the Board of Directors external expert advice on matters especially relevant if deemed necessary when Company or Group companies' experts or technicians may not duly or independently provide it. 3.- Moreover, at any time, the Committee may request the personal collaboration and reports from any of the executive directors of the Company and/or group companies, any other non-executive board member, employee and expert, when it is deemed necessary or appropriate in order to comply with the duties of the Committee, as well as to request the attendance of any such person at a Committee meeting to report on any specific item on the agenda.

Operation:

The Committee shall convene upon the Chairman's decision to perform its functions. The Committee will meet, at least, at the time of each publication date of the annual or interim financial information and, at these meetings, the internal auditor will be asked to attend and, when a review report has been issued, the external auditor will also join the meeting to address the corresponding points on the agenda. At least some of these meetings held with the internal auditor or the external auditor must take place without the presence of the Company's senior management, so that any specific issues arising from the reviews can be discussed exclusively with them.

Moreover, the Committee will meet when required by the Board of Directors (Article 5 of the Audit Committee Regulations). Meetings are to be convened by the Secretary of the Committee as per the instructions of the Chairperson, at least five calendar days in advance, to be sent by letter, fax, telegram or e-mail. As an exception it may be less than this when it is deemed by the Chairperson to be an urgent matter.

The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss and approve matters not included in the cited agenda. In any event, the Chairperson of the Committee will rely on the Secretary to forward and make available any necessary information and documentation to the other of the members of the Committee with sufficient lead time so that they can be analysed prior to a meeting (Article 6 of the Audit Committee Bylaws and Regulations). Committee meetings will be held at the place stated in the call, except for the case described in the following section. Exceptionally, Committee meetings may be held via telephone conference, video conference or by any other means of non-face-to-face communication, as long as the identity and participation of the attendee is duly ensured and that all members of the Committee are a party to such communication. In this case, the meeting will constitute a quorum and be open at the place where the Chairperson is located (Article 7 of the Audit Committee Bylaws and Regulations). The Committee shall be duly convened when half of the members attend the meeting in person or by proxy. The Committee Chairman and Secretary shall be those individuals appointed for such positions. In case of absence or inability, the Chairman shall be replaced by the member of the Committee with more seniority, or the most senior Committee member in case of several members holding the same seniority. In case of absence or inability, the Secretary shall be replaced by the member of the Committee of less age. Furthermore, the Committee may hold a meeting without a prior call when all the members are present, or duly represented, and when they unanimously agree to hold the meeting. (Article 8 of the Audit Committee Regulations). The Audit Committee's decisions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Secretary shall record the minutes of each meeting which, once approved either at the end of the meeting or in the following one, shall be signed by the Chairman and the Secretary. (Article 9 of the Audit Committee Regulations).

The main actions carried out by the Committee during the fiscal year 2018 were as follows: (i) Activities concerning financial and non-financial information and the associated internal control mechanisms:

a) Prior to being submitted before the Board of Directors for their preparation, the examination of the individual and consolidated Financial Statements and the Directors Reports of CAF, S.A. and the CAF Group, respectively, corresponding to the 2017 fiscal year. The Directors Report includes the Statement of Non-Financial Information, which contains information on non-financial indicators relating to environmental activity, social issues, Human Resources, Respect for Human Rights and the Fight against Corruption and Bribery, which are explained in greater detail under the Corporate Responsibility Report, b) The review of the individual and consolidated quarterly and half-yearly financial statements, prior to being submitted before the Board of Directors for approval, c) The Review of any other information so that it may be announced to the market or submitted to the supervisory bodies during this fiscal year. d) Analysis for the one-year renewal of the Short-Term Commercial Paper Issuance Programme (Euro-Commercial Paper Programme) -ECP), launched in December 2017, proposed before the Board of Directors for its approval, e) Continued monitoring, by the Head of Internal Audit and the Financial Department, of the proper functioning of

the internal control systems, including the ICFR, while identifying any deficiencies in its performance, in the case of there being any.

(ii) Activities associated with related-party transactions:

a) Review of significant related-party transactions carried out by the Company and planned for the upcoming fiscal year and determine whether they need to be brought to the attention of the Board, b) Regular information for the Board of Directors concerning related-party transactions carried out by the Company.

(iii) Activities relating to the corporate social responsibility policy and its terms of implementation during the year:

Activities regarding matters of corporate social responsibility activities conferred by the Board to the Appointments and Remuneration Committee, notwithstanding the verification of the relative information included in the Directors Report attached to the individual and consolidated Financial Statements of CAF, S.A. and the CAF Group, respectively, by the Audit Committee.

(iv) Activities relating to risk management and control:

a) Ongoing evaluation of the Internal Control over Financial Reporting (ICFR) system and the analysis of its recommendations and improvement plans, proposed by Internal Audit, b) Supervision of the tasks and performance of the Risk Management Unit. The attendance of the Unit's Manager at Committee meetings, to report on the main risks and contingencies of the Company and its Group. In this context: Periodic risk map supervision for the risks identified and evaluated during the various processes throughout the Organisation. Monitoring of the risk management models implemented by the Company, c) Monitoring of the actions of the Internal Fiscal Function of the Company, which is responsible for the control and management of fiscal risks for the Group and the preparation of periodic reports on the situation of the different phases of development of its function and the more relevant developments of fiscal matters that affect the Company, d) Analysis of the transaction and acquisition of the Polish company "Solaris Bus & Coach, S.A.", whose corporate purpose is the manufacture of buses, and favourable report raised before the Board for the presentation of a binding offer. e) Analysis of any other possible relevant corporate transaction. f) Evaluation of the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks.

(v) Activities relating to Internal Audit:

The Committee has directly and continuously analysed and supervised the actions carried out by the Company's Internal Audit. Apart from the outcomes of the foregoing, the Committee has conducted the following actions:

a) Supervision of the 2017 Internal Audit Work Plan compliance, b) Approval of the 2018 Internal Audit Work Plan, which is comprised of: The review of financial information (quarterly, semi-annual, annual financial statements and the directors report) and monitoring of the main financial and fiscal risks.

Monitoring of the ICFR, covering processes and subsidiaries. Monitoring of the risk management model. Consulting for the drafting of policies. c) Monitoring of the development of the Internal Audit Work Plan and the degree of compliance with the issued recommendations.

(vi) Activities of the external auditor:

a) Preparing the proposal for the renewal of the external auditor, to be submitted at the General Shareholders Meeting, b) Analysis of the external auditor's reports on the individual and consolidated financial statements of the Company for fiscal year 2017, c) Analysis of the limited review report on the semi-annual financial statements for fiscal year 2018, d) Request for the written confirmation of independence issued by the auditor and preparation of the report on the independence of the auditor for fiscal year 2017, e) Establishing the scope and criteria for the approval of non-audit services and approving the budget for non-audit services for fiscal year 2019, f) In coordination with the external auditor, the analysis of: The duration of the audit engagement term and its calculation, in accordance with Regulation (EU) 537/2014, of 16 April. Non-auditing services provided by the external auditor during the year, while assessing their nature, circumstances and context, so that these do not compromise the independence of the auditor. The quality control system and internal practices that the external auditor has established regarding matters of the independence of the auditor. Determining the required parameters to assess the performance of the auditor and how it has contributed to the quality of the audit and to the integrity of the financial information. The impact of the acquisition of the Polish company Solaris Bus & Coach, S.A. on the Company's accounts.

(vii) Monitoring activities of the Committee's own action plans:

Throughout the current year, the Committee has continuously monitored the 2018 Action Plans. It has verified that all of these have been satisfactorily implemented.

(viii) Other activities:

a) Gathering information on possible corporate transactions that require reviewing, b) Approval of the report on the function of the Audit Committee for fiscal year 2017, c) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders. d) Proposing to the Board of Directors the following new Policies on: (i) Liquidity and Financing, (ii) Market Risks, and (iii) Investments, e) Proposing to Board of Directors the amendments made to the Regulations of the Audit Committee, so as to include: (i) the measures suggested by the external consultant for the 2017 Assessment Report of the Board of Directors of CAF, (ii) the more important aspects covered by the CNMV Technical Guide that were not expressly established in the internal regulations, (iii) the powers conferred by the Board of Directors under the scope of Recommendation 53 of the Code of Good Governance of Listed Companies, (iv) changes required for the standardisation of the Regulations of the Board and its Committees and, (v) other technical improvements. f) Proposing the amendments of its Regulations to the Board of Directors, g) Approving an annual work plan for fiscal year 2019, which contains the yearly schedule for Committee meetings with the external auditors, h) Preparing the Report on the Annual Evaluation of its performance, i) preparing an Annual Report on the activities carried out by this Body in 2018, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV.

APPOINTMENTS AND REMUNERATION COMMITTEE

Operation:

The Committee shall meet periodically as required and in particular when asked by the Board of Directors. The call notice shall be issued at least three days prior to the meeting. The call notice shall include the meeting's agenda and the relevant information duly summarised and prepared. Prior call notice of Committee meetings shall not be necessary when 100% of its members are convened and accept holding the meeting by unanimous vote. The Committee shall be duly convened when, at least, the majority of its members attend the meeting in person or by proxy. The meeting shall be chaired by the Chairman of the Committee. In the absence or inability of the Chairman, the meeting shall be chaired by the most senior member. Should several Directors hold the same seniority, the meeting shall be chaired by the most senior member among them. The Chairman shall organise the debate ensuring and promoting the participation of all Committee members during the body's deliberations. At the Committee's request, its meetings may be attended by any executive or worker, the Executive Director, the Board of Director's Chairman or any other director. The Board of Director's Chairman or the Executive Director may indistinctly request the Committee to hold special informative meetings. Resolutions shall be adopted by majority vote of the Directors attending the Committee's meeting in person or by proxy.

The Chairman of the Committee has the casting vote in the event of a tie. Adopted resolutions shall be minuted, reported by the Secretary and approved during such meeting or at the beginning of the next one immediately after.

During 2018 the most relevant actions carried out by this Committee were as follows:

(i) Activities regarding appointments:

a) Analysis of the Board of Directors' needs so as to provide advice on any vacancies that could arise in its membership, b) Issuing a favourable opinion prior to the Board's proposal for the re-election of an Executive Director, c) Issuing a favourable opinion prior to the Board's proposal for the re-election of a Non-Executive Director, d) Proposing the re-election of an Independent Director to the Board of Directors before being submitted to the General Meeting, e) Proposing the appointment by co-option of a female independent Director to the Board of Directors, to be raised before General Meeting for its ratification, f) Issuing its favourable opinion regarding the appointment of a senior executive and the contractual conditions to the Board of Directors.

(ii) Activities regarding remuneration:

a) Proposing to the Board of Directors the Director Remuneration Report corresponding to fiscal year 2017, b) Raising before the Board of Directors the proposal to review the remuneration of the Executive Committee during the fiscal year 2018, which included bonuses linked to the achievement of certain KPIs, c) Proposing to the Board of Directors an increase in Board meeting attendance allowances for this fiscal year, d) Analysis and proposal to the Board of Directors of the introduction of bonuses for Executive Directors linked to the achievement of certain KPIs.

(iii) Activities regarding matters of corporate governance:

a) Analysis and raising before the Board of Directors the 2017 Corporate Social Responsibility Report, b) Reporting on the oversight and assessment of the Corporate Governance System and Corporate Social Responsibility.

(iv) Other actions:

a) Approving of the Performance Report of the Appointments and Remuneration Committee for the fiscal year 2017, b) Reviews on the process of reporting non-financial and diversity information and proposing to the Board of Directors, for approval, so it becomes part of the Directors Report for fiscal year 2017, c) Monitoring of the process of nominating the executives and directors of the Polish company "Solaris Bus & Coach, SA", d) Proposing to the Board of Directors amendments on Diversity to the Directors Selection Policy, e) Monitoring of the situation regarding liability insurance for Company directors and executives. f) Monitoring of the new jurisprudence on the remuneration system for executive directors of non-listed companies, g) Compliance checks regarding the Policy on Diversity and Selection of Directors, h) Approving the Report on its own annual performance assessment, as well as the Report on the annual assessment of the Board of Directors, in accordance with the provisions of Recommendation 36 of the Code of Good Governance of Listed Companies, i) Preparatory work for the amendment of the Regulations of the Appointments and Remuneration Committee, which is dependent upon the final text of the upcoming publication of the Technical Guide on Appointments and Remuneration Committees by the CNMV, j) Preparing the Report on the Annual Evaluation of its performance, k) Preparing an Annual Report on the activities carried out by this Body in 2018, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV. (v) Monitoring activities of the Committee's own action plans: Throughout the current fiscal year, the Committee has continuously monitored the 2018 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 19 December 2017. It has verified that all of these have been fulfilled satisfactorily.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

[27/02/2019]

State whether any directors voted against or abstained from voting on this report.

[] Yes

[v] No

**Construcciones y Auxiliar
de Ferrocarriles, S.A. and
Subsidiaries
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 2018

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

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 2018

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 7 November 2018, 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 2018, which summarises the internal control procedures of the Group in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system.

It should be noted in this regard that, irrespective of the quality of the design and operating effectiveness of the internal control system adopted by the Group in relation to its annual financial reporting, the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the consolidated financial statements and pursuant to Technical Standards on Auditing, the sole purpose of our assessment of the internal control of the Group was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Group's consolidated financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of consolidated financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the "Guidelines on the Auditor's Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies", published by the Spanish National Securities Market Commission (CNMV) on its website, which establish the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Group's annual financial reporting for 2018 described in the Information relating to the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the system of internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

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

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Group in relation to the ICFR system -disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report, as established in Circular no. 5/2013 of the National Securities Market Commission dated June 12, 2013, which has been modified by Circular 7/2015 of the National Securities Market Commission dated 22 December 2015 and the Circular 2/2018 of the National Securities Market Commission dated 12 June 2018 ("the Circulars of the NSMC").
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of: (i) obtaining an understanding of the process that goes into drawing up the information; (ii) obtaining information that permits an evaluation of whether the terminology used complies with the framework definitions; and (iii) obtaining information on whether the control procedures described are in place and functioning at the Group.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including mainly the documentation furnished directly to those responsible for describing the ICFR system. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Group's ICFR system obtained through the procedures applied during the 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 "the Circulars of the NSMC", for the purposes of the description of the ICFR system in annual corporate governance reports.

Deloitte, S.L.

Pablo Mugica
27 February 2019

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

**Consolidated Balance Sheets as at 31 December 2018 and 2017 (Notes 1, 2 and 3)
(Thousands of Euros)**

Assets	31/12/18	31/12/17 (*)	Equity and liabilities	31/12/18	31/12/17 (*)
Non-current assets:			Equity (Note 14):		
Intangible assets (Note 7)			Shareholders' equity-		
Goodwill (Note 2-f)	101,827	24,124	Registered share capital	10,319	10,319
Other intangible assets	206,535	46,421	Share premium	11,863	11,863
	308,362	70,545	Revaluation reserve	39,119	39,119
Property, plant and equipment (Notes 6 & 8)	365,084	244,513	Other reserves of the Parent and of fully consolidated companies and companies		
Investments accounted for using the equity method (Note 9)	18,188	19,752	accounted for using the equity method	793,755	770,489
Non-current financial assets (Note 9)	537,061	560,660	Profit for the year attributable to the Parent	43,462	42,406
Non-current hedging derivatives (Note 17)	10,720	15,842		898,518	874,196
Deferred tax assets (Note 18)	148,548	144,989			
Other non-current assets (Note 21)	2,684	-			
Total non-current assets	1,390,647	1,056,301	Valuation adjustments-		
			Available-for-sale financial assets (Note 9)	-	39
			Hedges	(5,024)	(6,580)
			Translation differences	(141,782)	(117,238)
				(146,806)	(123,779)
			Equity attributable to the Parent	751,712	750,417
			Non-controlling interests	5,555	9,783
			Total equity	757,267	760,200
			Non-current liabilities:		
			Long-term provisions (Note 20)	6,877	7,071
			Non-current financial liabilities (Notes 15 & 16)-		
			Bank borrowings and debt instruments or other marketable securities	766,464	625,645
			Other financial liabilities	47,774	52,039
				814,238	677,684
			Deferred tax liabilities (Note 18)	177,191	153,805
			Non-current hedging derivatives (Note 17)	11,206	18,131
			Other non-current liabilities (Note 3-f & 21)	82,186	55,821
			Total non-current liabilities	1,091,698	912,512
Current assets:			Current liabilities:		
Inventories (Note 11)	375,426	71,654	Short-term provisions (Note 20)	224,970	227,939
Trade and other receivables			Current financial liabilities (Notes 15 & 16)-		
Trade receivables for sales and services (Notes 10 & 12)	1,311,835	1,277,243	Bank borrowings and debt instruments or other marketable securities	255,416	46,262
Other receivables (Notes 9, 10 & 19)	205,122	198,470	Other financial liabilities	23,356	40,725
Current tax assets (Note 19)	13,633	10,030		278,772	86,987
	1,530,590	1,485,743	Trade and other payables-		
			Payable to suppliers (Note 26)	664,865	423,385
			Other payables (Notes 12, 15 & 19)	911,961	646,593
			Current tax liabilities (Note 19)	6,447	5,009
				1,583,273	1,074,987
Current financial assets (Note 13)	94,293	84,838	Current hedging derivatives (Note 17)	64,167	52,313
Current hedging derivatives (Note 17)	5,849	41,864	Other current liabilities (Note 21)	5,814	316
Other current assets (Note 21)	6,343	3,229			
Cash and cash equivalents	602,813	371,625	Total current liabilities	2,156,996	1,442,542
Total current assets	2,615,314	2,058,953	Total Equity and liabilities	4,005,961	3,115,254
Total Assets	4,005,961	3,115,254			

(*) 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 2018.

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 2018 and 2017
(Notes 1, 2 and 3)
(Thousands of Euros)**

	(Debit) Credit	
	2018	2017 (*)
Continuing operations:		
Revenue (Notes 6, 9 & 10)	2,048,419	1,477,039
+/- Changes in inventories of finished goods and work in progress	73,250	(77,035)
In-house work on non-current assets	14,488	8,977
Procurements (Note 22)	(1,089,940)	(542,771)
Other operating income (Notes 22-b & 22)	21,339	7,886
Staff costs (Note 23)	(518,473)	(446,381)
Other operating expenses (Note 22)	(347,605)	(247,463)
Depreciation and amortisation charge (Notes 7 & 8)	(46,738)	(34,690)
Impairment and gains or losses on disposals of non-current assets (Notes 2-f, 7, 8 & 9)	(10,572)	148
Profit from Operations	144,168	145,710
Finance income (Notes 9, 10 & 13)	7,627	7,309
Finance costs (Notes 9, 16 & 17)	(64,160)	(68,551)
Changes in fair value of financial instruments	7	35
Exchange differences	(6,673)	(17,591)
Impairment and gains or losses on disposals of financial instruments (Note 9)	9	4
Financial Loss	(63,190)	(78,794)
Result of companies accounted for using the equity method (Note 9)	(403)	594
Profit before Tax	80,575	67,510
Income tax (Note 18)	(40,955)	(24,993)
Profit for the year from continuing operations	39,620	42,517
Consolidated Profit for the Year	39,620	42,517
Attributable to:		
The Parent	43,462	42,406
Non-controlling interests	(3,842)	111
Earnings per share (euros)		
Basic	1.27	1.24
Diluted	1.27	1.24

(*) 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 2018.

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 2018 and 2017
(Notes 1, 2 and 3)
(Thousands of Euros)**

	2018	2017 (*)
A) Consolidated profit for the year:	39,620	42,517
B) Other comprehensive income - Items not reclassified to profit or loss:	10,917	(4,771)
Arising from actuarial gains and losses (Note 3-j)	(2,403)	(5,525)
Equity instruments at fair value through other comprehensive income (Note 9)	13,320	-
Tax effect (Note 18)	-	754
C) Items that may be reclassified subsequently to profit or loss:	(22,988)	(41,168)
Cash flow hedges:	1,700	(2,058)
Revaluation gains/losses (Note 17)	1,620	(2,138)
Amounts transferred to profit or loss	80	80
Available-for-sale financial assets:	-	39
Revaluation gains/losses (Note 9)	-	39
Amounts transferred to profit or loss	-	-
Translation differences:	(24,635)	(40,385)
Revaluation gains/losses (Note 14)	(24,635)	(40,385)
Amounts transferred to profit or loss	-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:	442	656
<i>Revaluation gains/losses-</i>		
Cash flow hedges (Notes 9 & 17)	31	160
Translation differences	91	(150)
	122	10
<i>Amounts transferred to profit or loss-</i>		
Cash flow hedges (Note 17)	320	646
Translation differences	-	-
	320	646
Tax effect	(495)	580
Total comprehensive income (A+B+C)	27,549	(3,422)
Attributable to:		
The Parent	31,391	(3,533)
Non-controlling interests	(3,842)	111

(*) 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 2018.

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 2018 and 2017 (Notes 1, 2 and 3)
(Thousands of Euros)**

	Equity attributable to the Parent								Non-controlling interests	Total equity
	Shareholders' equity					Valuation adjustments	Translation differences			
	Share capital	Share premium	Reserve for unrealised fair value gains and losses	Other reserves	Net profit for the year					
Balances at 31 December 2016	10,319	11,863	39,119	758,268	35,013	(5,908)	(76,703)	11,706	783,677	
Total comprehensive income	-	-	-	(4,771)	42,406	(633)	(40,535)	111	(3,422)	
Transactions with shareholders or owners	-	-	-	1,862	(19,883)	-	-	(2,034)	(20,055)	
Dividends distribution	-	-	-	-	(19,883)	-	-	(3,005)	(22,888)	
Other transactions with non-controlling interests (Note 2-f)	-	-	-	1,862	-	-	-	971	2,833	
Other changes in equity	-	-	-	15,130	(15,130)	-	-	-	-	
Transfers between equity items (Note 14)	-	-	-	15,130	(15,130)	-	-	-	-	
Balances at 31 December 2017	10,319	11,863	39,119	770,489	42,406	(6,541)	(117,238)	9,783	760,200	
Adjustments due to changes in accounting policies (Notes 2-b & 7)	-	-	-	(7,432)	-	(39)	-	-	(7,471)	
Adjusted balances at 1 January 2018	10,319	11,863	39,119	763,057	42,406	(6,580)	(117,238)	9,783	752,729	
Total comprehensive income	-	-	-	10,917	43,462	1,556	(24,544)	(3,842)	27,549	
Transactions with shareholders or owners	-	-	-	-	(22,625)	-	-	(386)	(23,011)	
Dividends distribution	-	-	-	-	(22,625)	-	-	(1,555)	(24,180)	
Business Combination	-	-	-	-	-	-	-	97	97	
Other transactions with non-controlling interests (Note 2-f)	-	-	-	-	-	-	-	1,072	1,072	
Other changes in equity	-	-	-	19,781	(19,781)	-	-	-	-	
Transfers between equity items (Note 14)	-	-	-	19,781	(19,781)	-	-	-	-	
Balances at 31 December 2018	10,319	11,863	39,119	793,755	43,462	(5,024)	(141,782)	5,555	757,267	

(*) 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 2018.

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 2018 and 2017
(Notes 1, 2 and 3)
(Thousands of Euros)**

	2018	2017 (*)
Cash flows from operating activities:		
Profit before tax	80,575	67,510
Adjustments for-		
Depreciation and amortisation charge (Notes 7 & 8)	46,738	34,690
Impairment losses (Notes 7, 8 & 9)	10,634	(222)
Changes in provisions (Notes 3 & 20)	40,078	8,912
Other income and expenses	22,389	20,734
Gains and losses on disposals of non-current assets (Note 8)	(175)	108
Investments accounted for using the equity method (Note 9)	403	(594)
Finance income	(7,627)	(7,309)
Finance costs	64,160	68,551
Changes in working capital-		
Trade receivables and other current assets (Notes 3-d & 12)	(57,630)	(22,989)
Inventories (Note 11)	(105,264)	(25,282)
Trade payables (Note 12)	352,938	33,461
Other current liabilities	(3,877)	45
Other non-current assets and liabilities	(11,087)	(1,263)
Other cash flows from operating activities-		
Income tax paid (Note 19)	(40,354)	(10,351)
Other amounts paid relating to operating activities	(2,575)	(944)
Net cash (used in) / from operating activities (I)	389,326	165,057
Cash flows from investing activities:		
Payments due to investment-		
Group companies and associates	-	(61)
Business units (Note 2-f)	(171,664)	(8,329)
Property, plant and equipment, intangible assets and investment property (Notes 7 & 8)	(90,588)	(51,254)
Other financial assets (Notes 9 & 13)	(17,387)	(4,028)
Proceeds from investments-		
Group companies and associates (Note 9)	9,081	693
Property, plant and equipment, intangible assets and investment property (Notes 7 & 8)	921	182
Other financial assets (Notes 9 & 13)	24,717	35,567
Interest received (Notes 9 & 13)	6,560	5,189
Net cash (used in) / from investing activities (II)	(238,360)	(22,041)
Cash flows from financing activities:		
Proceeds from issue of equity instruments - non-controlling interests	1,072	4,000
Purchase of equity instruments - non-controlling interests	-	(1,167)
Proceeds/(Payments) relating to financial liability instruments-		
Issue (Notes 15 & 16)	544,557	76,543
Repayment (Notes 15 & 16)	(376,346)	(128,307)
Dividends and returns on other equity instruments paid (Note 14)	(24,180)	(22,888)
Other cash flows from financing activities-		
Interest paid (Note 16)	(64,539)	(76,862)
Net cash (used in) / from financing activities (III)	80,564	(148,681)
Net increase / (decrease) in cash and cash equivalents (I+II+III)	231,530	(5,665)
Cash and cash equivalents at beginning of year	371,625	392,022
Effect on cash of foreign exchange rate changes	(342)	(14,732)
Cash and cash equivalents at end of year	602,813	371,625

(*) 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 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (Notes 2 and 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 2018

1. Description and activities of the Parent

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

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

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

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2018 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 2018 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 2017 were approved by the shareholders at the Annual General Meeting of CAF on 2 June 2018. The 2018 consolidated financial statements of the Group and the 2018 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

Accounting standards IFRS 15, Revenue from Contracts with Customers, and IFRS 9, "Financial Instruments", came into force on 1 January 2018.

In both cases, the transition to these standards was carried out retrospectively as an adjustment to the beginning balance for 2018. Therefore, the comparative information for 2017 was not restated. The cumulative effect of the initial application of the standard is recognised as an initial adjustment to reserves.

The impact, by line item, on the consolidated balance sheet as at 1 January 2018 was as follows:

	Balance at 01/01/18	Transition to IFRS 9	Transition to IFRS 15	Adjusted balance at 01/01/18
Non-current assets	1,056,301	(849)	590	1,056,042
Intangible assets	70,545	-	-	70,545
Property, plant and equipment	244,513	-	-	244,513
Investments accounted for using the equity method	19,752	-	-	19,752
Non-current financial assets	576,502	(3,054)	-	573,448
Deferred tax assets	144,989	2,205	590	147,784
Current assets	2,058,953	(4,237)	(86,069)	1,968,647
Inventories	71,654	-	20,815	92,469
Trade and other receivables	1,485,743	(3,626)	(106,884)	1,375,233
Other current financial assets	126,702	(27)	-	126,675
Other current assets	3,229	-	-	3,229
Cash and cash equivalents	371,625	(584)	-	371,041
TOTAL ASSETS	3,115,254	(5,086)	(85,479)	3,024,689
Equity	760,200	(5,086)	(1,867)	753,247
Non-current liabilities	912,512	-	-	912,512
Long-term provisions	7,071	-	-	7,071
Non-current financial liabilities	695,815	-	-	695,815
Deferred tax liabilities	153,805	-	-	153,805
Other non-current liabilities	55,821	-	-	55,821
Current liabilities	1,442,542	-	(83,612)	1,358,930
Short-term provisions	227,939	-	(83,612)	144,327
Current financial liabilities	139,300	-	-	139,300
Trade and other payables	1,074,987	-	-	1,074,987
Other current liabilities	316	-	-	316
TOTAL EQUITY AND LIABILITIES	3,115,254	(5,086)	(85,479)	3,024,689

The summary of the impacts of the transition to IFRS 15 detailed above is as follows:

- In certain of the Group's contracts there are extensions which are optional for the customer and are recognised by the Group once the extension is signed with the customer. In accordance with the new standard, the original contract and the option exercised are recognised separately, not in aggregate as had been the case to date, which affects the timing of recognition of the Group's income and expenses.
- Distinct products and services are being provided under certain of the Group's contracts that, until the transition date, had been accounted for in aggregate. Under the new standard, the distinct products and services must be recognised separately, giving rise to an impact on the timing of recognition of the Group's income and expenses, as the stage of completion of each product and service is estimated separately.
- In addition, most of the Group's contracts include penalty clauses which could change the probable transaction price. Under the new standard, these penalties are reclassified as a reduction of revenue (reducing the balance of "Trade and Other Receivables" in the consolidated balance sheet), rather than recognised as an expense item (under "Short-Term Provisions" in the consolidated balance sheet).
- Lastly, the Group changed the method of recognising income from sales of waste and scrap metal and rebillings to suppliers. Since 1 January 2018 this income has been recognised under "Other Operating Income" in the accompanying consolidated statement of profit or loss.

The summary of the impacts of the transition to IFRS 9 detailed above is as follows:

- Impairment losses: a new impairment model based on expected credit losses is established, as opposed to the current incurred loss model. Under the expected credit loss model, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The Group has established an adaptive measurement model in which each customer's degree of solvency and the guarantees the Group has in place to ensure collection therefrom are used as the main calculation assumptions.

The accounting policies and measurement bases used as a result of the entry into force of the new standards are detailed in Notes 3-d and 3-f.

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
IFRS 16 Leases	1 January 2019	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021	Pending
Amendments to IFRS 3 - Clarifications of the definition of a business	1 January 2020	Pending
Amendments to IFRS 9 - Financial Instruments	1 January 2019	1 January 2019
IFRIC 23 - Uncertainty Over Income Tax Treatments	1 January 2019	1 January 2019
Amendment to IAS 1 - Presentation of Financial Statements	1 January 2020	Pending
Amendment to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020	Pending
Amendment to IAS 19 - Plan Amendment, Curtailment and Settlement	1 January 2019	Pending
Amendments to IAS 28 - Investments in Associates and Joint Ventures	1 January 2019	1 January 2019
Annual Improvements to IFRS Standards - 2015-2017 Cycle	1 January 2019	Pending

The Group performed a preliminary assessment of the impact that the future application of the standards that come into force in annual reporting periods beginning on or after 1 January 2019 will have on the consolidated financial statements. The Group considers that the main impact will arise from the application of IFRS 16.

The Group performed a preliminary analysis of the impact of the application of IFRS 16 and of the additional disclosures so that the consolidated financial statements may be adapted, if required, after the entry into force thereof.

The right of use and corresponding financial liability at 31 December 2018 are estimated to represent around 1.5% of the Group's total assets at that date, and no significant impacts on the Group's equity are expected at the date of first application.

Also, in the consolidated statement of profit or loss, operating lease expenses, which are currently recognised under "Other Operating Expenses", will cease to be recognised under this line item, with the depreciation of the right-of-use asset being recognised under "Depreciation and Amortisation Charge" and the cost associated with the financial liability under "Finance costs". The amount recognised in relation to operating leases in 2018 was EUR 16,268 thousand (Note 3-m).

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 2018 estimates were occasionally made. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The assessment of possible impairment losses on certain assets (Notes 7, 8, 9, 10, 11, 12 and 13);
- The assumptions used in the actuarial calculation of pension and other obligations to employees (Note 15);

- The useful life of the property plant and equipment and intangible assets (Notes 3-a and 3-b);
- The fair value of certain financial assets (Note 3-d);
- The calculation of provisions (Note 20);
- The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised (Note 18);
- Changes in estimated costs in the budgets for construction projects performed and percentage of completion (Note 3-f).

Although these estimates were made on the basis of the best information available at 31 December 2018 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statement of profit or loss.

There have been no changes in accounting estimates with respect to 2017 that might have had a material impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2018 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2017.

The 2017 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 2018. However, for an appropriate understanding, it should be taken into account that the Group availed itself of the option not to restate information in the transition to the new IFRS 9 and IFRS 15. The main items affected are detailed in Note 2-b to the consolidated financial statements.

In addition, with a view to performing an appropriate comparison between the consolidated financial statements for 2018 and 2017, the changes in scope described in Note 2-f should be taken into account.

f) Consolidated Group and basis of consolidation

Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2018 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - Note 1) at that date and of the subsidiaries and associates listed below:

Rolling stock segment	% of control or influence	Location	Line of business
Fully consolidated companies - CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of rolling stock equipment and components
CAF USA, Inc.	100%	Delaware	Manufacturing
CAF México, S.A. de C.V.	100%	Mexico City	Manufacturing and maintenance
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Manufacturing and maintenance
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance
CAF Rail UK, Ltda.	100%	Belfast	Manufacturing and maintenance
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance
CAF Rail Australia Pty. Ltd.	100%	Sydney	Manufacturing and maintenance
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance
CAF France, S.A.S.	100%	Paris	Manufacturing and maintenance
Trenes de Navarre, S.A.U.	100%	Navarre	Manufacturing
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing
CAF Digital & Design Solutions, S.A. (*****)	100%	Jaén	Manufacturing and engineering
Tradinsa Industrial, S.A.	100%	Lleida	Repairs and maintenance
CAF New Zealand, Ltd.	100%	Auckland	Manufacturing and maintenance
CAF Sisteme Feroviare, S.R.L.	100%	Bucharest	Manufacturing and maintenance
CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance
CAF Arabia, Co.	100%	Riyadh	Manufacturing and maintenance
CAF Deutschland, GmbH	100%	Munich	Manufacturing and maintenance
CAF Taiwan, Ltd.	100%	Kaohsiung	Manufacturing and maintenance
CAF Hungary, K.F.T.	100%	Budapest	Manufacturing and maintenance
CAF Netherlands, B.V.	100%	Utrecht	Manufacturing and maintenance
CAF Rolling Stock UK, Ltd.	100%	Newport	Manufacturing
CAF Track Test Center, S.L.	100%	Navarre	Track testing
Metro CAF Mauritius, Ltd.	100%	Mauritius	Manufacturing and maintenance
CAF Belgium, S.P.R.L.	100%	Brussels	Manufacturing and maintenance
Tram Liège Maintenance, S.A.	65%	Liège	Maintenance
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D
CAF Power & Automation, S.L.U.	100%	Guipúzcoa	Electronic and power equipment
Vectia Mobility Research & Development, A.I.E.	70%	Navarre	R&D
Vectia Mobility, S.L.	70%	Navarre	Solutions for urban transport
CAF Turnkey & Engineering, S.L.U.	100%	Vizcaya	Engineering
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests
Lander Simulation and Training Solutions, S.A.	57%	Guipúzcoa	Simulators
Geminys, S.L.	100%	Guipúzcoa	Operating manuals
CAF Signalling, S.L.U.	100%	Guipúzcoa	Signalling
CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi	100%	Istanbul	Signalling
BWB Holdings, Ltd. (**)	100% (*)	Nottingham	Engineering
Actren, S.A.	51%	Madrid	Maintenance
Sermanfer, S.A.	100%	Madrid	Maintenance
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services
CAF Investment Projects, S.A.U.	100%	Guipúzcoa	Business development
CAF Diversified Business Development, S.A. (*****)	100%	Guipúzcoa	Holding company
Ctrens Companhia de Manutenção, S.A.	100%	Sao Paulo	Lease services
Provetren, S.A. de C.V.	100%	Mexico City	Lease services
Regiotren, S.A. de C.V.	100%	Mexico City	Lease services
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services
Ennera Energy and Mobility, S.L.	100%	Guipúzcoa	Power generation
Ennera Kaihatsu CO, Ltd.	100%	Tokyo	Power generation
Rail Line Components, S.L.U.	100%	Guipúzcoa	Marketing
Sermanbra Serviços de Manutenção Brasil, Ltda.	100%	Sao Paulo	Maintenance
CAF Group UK, Ltd.	100%	Coventry	Holding company
Rifer S.R.L.	100% (*)	Milan	Component maintenance
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	Mexico City	Equipment
Companies accounted for using the equity method (Note 9) -			
Ferrocarril Interurbano, S.A. de C.V.	49.63%	Mexico City	Manufacturing and equipment
Nuevas Estrategias de Mantenimiento, S.L. (***)	50%	Guipúzcoa	Technology solutions
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automated production
Tumaker, S.L.	21.11%	Guipúzcoa	Printing equipment
Ferrocarriles Suburbanos, S.A. de C.V.	43.35%	Mexico City	Transport services
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, L.L.C.	20%	Delaware	Operation and maintenance
Orbital Sistemas Aeroespaciales, S.L.	30%	Navarre	Aeronautical solutions
Great River City Light Rail Pty. Ltd.	30%	Sydney	Operation and maintenance

(*) Considering the options described in Note 15 to these consolidated financial statements.

(**) This company owns all the shares of Quincey Manon Practice, Ltd., BWB Consulting, Ltd. and BWB Regeneration, Ltd.

(***) 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.

(*****) Formerly Construcciones Ferroviarias - CAF Santana, S.A.

(*****) Formerly Urbanización Parque Romareda, S.A.

Buses segment	% of control or influence	Location	Line of business
Fully consolidated companies -			
Solaris Bus & Coach, S.A.	100%	Bolechow	Solutions for urban transport
Openaco Trading Co. Ltd.	100%	Chipre	Holding company
Solaris Deutschland GmbH	100%	Berlin	Solutions for urban transport
Solaris Austria GmbH	100%	Viena	Solutions for urban transport
Solaris Schweiz GmbH	100%	Hausen	Solutions for urban transport
Solaris Italia S.R.L.	100%	Rome	Solutions for urban transport
Solaris Bus & Coach Latvia Ltd.	100%	Riga	Solutions for urban transport
Solaris Czech spol. S.r.o.	100%	Ostrava	Solutions for urban transport
Solaris Norge AS	100%	Oslo	Solutions for urban transport
Solaris Bus Iberica, S.L.	100%	Madrid	Solutions for urban transport
Solaris France SARL	100%	Ennery	Solutions for urban transport
Solaris Sverige AB	100%	Malmö	Solutions for urban transport
Solaris Hellas, S.A.	70%	Athens	Solutions for urban transport
Solaris Slovakia s.r.o.	100%	Kosice	Solutions for urban transport
Solaris Bulgaria EOOD	100%	Sofia	Solutions for urban transport
Solaris Bus Israel Ltd.	100%	Tel Aviv	Solutions for urban transport
Solaris Bus & Coach Romania SRL	100%	Bucharest	Solutions for urban transport
Solaris Danmark Bus A/S	100%	Padborg	Solutions for urban transport
Companies accounted for using the equity method (Note 9) -			
JBM Solaris Electric Vehicles Private Limited	20%	Ballabgarh, India	Solutions for urban transport

Changes in the scope of consolidation

At 4 September 2018, the Parent acquired control of Solaris Bus and Coach S.A. and subsidiaries ("Solaris"), which have been included in the scope of consolidation of the CAF Group. Note 2-f above contains a detail of the companies composing Solaris and the percentage of ownership of each company.

The costs incurred by the Group in relation to this transaction amounted to EUR 3,424 thousand and were recognised as expenses in the accompanying consolidated statement of profit or loss for 2018.

The detail of the fair value assets acquired and liabilities assumed in the aforementioned transaction is as follows:

	Thousands of euros
Non-current assets	
Intangible assets	142,068
Property, plant and equipment	106,207
Investments in Group companies and associates	1,586
Non-current financial assets	84
Deferred tax assets	15,316
Other non-current assets	2,684
Current assets	
Inventories	165,824
Trade and other receivables	89,232
Current financial assets	2,725
Other current assets	3,764
Cash and cash equivalents	31,939
Non-current liabilities	
Long-term provisions	(206)
Non-current financial liabilities	(111,891)
Deferred tax liabilities	(27,016)
Other non-current liabilities	(40,976)
Current liabilities	
Short-term provisions	(44,556)
Current financial liabilities	(74,388)
Trade and other payables	(149,177)
Other current liabilities	(8,862)
Total net assets	104,357
% acquired	100%
Total net assets acquired	104,357

At 31 December 2018, the business combination had been provisionally accounted for and determined and was within the one-year period provided for under applicable legislation to determine the fair value of the assets acquired and liabilities assumed. The work required to obtain a market measurement of the assets acquired and liabilities assumed will be completed before the end of that period. The provisional calculation of the goodwill is broken down as follows:

	Thousands of euros
Consideration	197,979
Net assets acquired	104,357
Goodwill (Note 7)	93,622

The net cash flow generated by this transaction at 31 December 2018 is broken down in the following table:

	Thousands of euros
Cash paid in the transaction	197,979
Cash acquired in the transaction	31,939
Net cash transferred	166,040

Had the acquisition of the Solaris Group been completed on the first day of the year, Group revenue for the year would have been EUR 297,059 thousand higher and the profit contributed would not have been material.

Note 6 contains a detail of the contribution of the Solaris Group to the accompanying consolidated statement of profit or loss for 2018.

In 2018 the Parent also acquired a 30% ownership interest in Orbital Sistemas Aeroespaciales, S.L. for EUR 5,500 thousand and incorporated Metro CAF Mauritius, Ltd., CAF Belgium, S.P.R.L., CAF Track Test Center, S.L., Tram Liège Maintenance, S.A. and Great River City Light Rail Pty. Ltd.

Also, in 2018 the company name of Urbanización Parque Romareda, S.A. was changed to CAF Diversified Business Development, S.A. The company name of Construcciones Ferroviarias – CAF Santana, S.A. was also changed, to CAF Digital & Design Solutions, S.L.

Lastly, there was a change in the percentage of ownership of Tumaker, S.L. resulting in a 21.11% holding.

In 2017 the Parent acquired majority ownership interests granting it control over Rifer S.R.L. and BWB Holdings Ltd., which were included in the scope of consolidation of the CAF Group as described in Note 2-f to the consolidated financial statements for 2017.

In 2018, within the periods established by the legislation, the measurement of all the assets acquired and liabilities assumed was reviewed with the assistance of an independent expert (Note 2-e). In relation to the foregoing, the detail of the assets acquired and liabilities assumed in the aforementioned transactions measured at fair value is as follows:

	Thousands of euros		
	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Non-current assets			
Intangible assets	4,142	14,298	18,440
Property, plant and equipment	372	661	1,033
Other non-current assets	22	-	22
Current assets			
Inventories	513	1,688	2,201
Trade and other receivables	1,702	18,070	19,772
Other current assets	8	-	8
Cash and cash equivalents	108	1,384	1,492
Non-current liabilities			
Non-current financial liabilities	-	(94)	(94)
Other non-current liabilities	-	(618)	(618)
Deferred tax liabilities	(1,123)	(2,694)	(3,817)
Current liabilities			
Bank borrowings	(129)	-	(129)
Current financial liabilities	-	(4,938)	(4,938)
Trade and other payables	(1,882)	(17,670)	(19,552)
Other current liabilities	(398)	-	(398)
Total net assets	3,335	10,087	13,422
% acquired	100%	100%	
Total net assets acquired	3,335	10,087	13,422

The calculation of the goodwill is broken down as follows (in thousands of euros):

	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Consideration	4,713	18,434	23,147
Net assets acquired	3,335	10,087	13,422
Goodwill	1,378	8,347	9,725

In 2017, CAF Netherlands, B.V., CAF Group UK, Ltd., CAF Rolling Stock UK Ltd. and Sermanbra Serviços de Manutenção Brasil, Ltd. were incorporated and BASA TMB, S.L. and UPR Argentina, S.A. were liquidated. In addition, changes occurred in the percentage of ownership interests in Vectia Mobility Research & Development, A.I.E., Vectia Mobility, S.L. and CAF Santana, S.A. (2.52%, -9.46% and 16.27%, respectively). The Group already had a controlling interest in these companies, and these changes gave rise to a cash inflow of EUR 2,833 thousand in the Group's scope of consolidation.

Consolidation method

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

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

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

- its assets and liabilities, including its share of any assets and liabilities held or incurred jointly;
- its share of the revenue and expenses arising from the joint operation.

Translation of foreign currency financial statements

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

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

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2017.

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 2018 and 2017 were as follows:

a) Intangible assets

Goodwill

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3-c and, where appropriate, are written down.

Other intangible assets

Intangible assets (internal computer software developments and development projects for which there are no doubts as to their technical and commercial success) are measured at their acquisition cost or accumulated production cost applied in accordance with inventory measurement bases (Note 3-e).

Commercial relationships, customer portfolio and trademarks arise mainly from business combinations (acquisitions of BWB, Rifer and Solaris) and are recognised initially at acquisition-date fair value, which is their deemed cost (Note 2-f).

Other intangible asset items are amortised on a straight-line basis at rates based on the following years of estimated useful life:

	Years of estimated useful life
Commercial relationships and customer portfolio	1,5 – 18
Patents, licences and trademarks	20 – indefinite useful life
Development expenditure	5
Computer software and other	2 - 10

Development projects are amortised on a straight-line basis over five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (Note 7).

b) Property, plant and equipment

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

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

In-house work performed by the consolidated companies on items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (Note 3-e).

The items of property, plant and equipment are depreciated on a straight-line basis at rates based on the following years of estimated useful life:

	Years of estimated useful life
Buildings	25 – 50
Plant and machinery	3 – 10
Transport equipment (Leasing)	5 – 10
Other fixtures, tools and furniture	3 – 10
Other items of property, plant and equipment	5 – 20

In general, for items of property, plant and equipment that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans borrowed specifically or generally directly attributable to the acquisition or production of the assets.

c) Impairment of assets

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

The recoverable amounts are calculated for each cash-generating unit, although in the case of property, plant and equipment, wherever possible, the impairment tests are performed individually for each asset.

If an impairment loss has to be recognised for a cash-generating unit to which all or part of an item of goodwill has been allocated, the carrying amount of the goodwill relating to that unit is written down first. If the loss exceeds the carrying amount of this goodwill, the carrying amount of the other assets of the cash-generating unit is then reduced, on the basis of their carrying amount, down to the limit of the highest of the following values: fair value less costs to sell; value in use; and zero.

Where an impairment loss subsequently reverses (not permitted in the specific case of goodwill), the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised as income.

d) Financial instruments

In accordance with the classification criteria established by IFRS 9, the Group classifies its financial assets in the following categories:

Financial assets

The financial assets held by the Group are classified on the basis of the nature of the financial asset's contractual cash flows and the business model for managing its financial assets, in the following categories:

1. Financial assets at amortised cost

This category includes financial assets that are held for the purpose of collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised at fair value and are subsequently measured at amortised cost.

The Group calculates a loss allowance for expected credit losses taking as a reference the expected losses in the next 12 months, unless the credit risk has increased significantly, in which case the Group calculates the loss allowance taking as a reference the expected life of the financial instrument.

In order to calculate this impairment, the Group uses as reference the creditworthiness of the borrowers, which is estimated using information available in the market (ratings) and adjusted following a case-by-case analysis of the collection guarantees available.

The Group derecognises a financial asset when all the risks and rewards of ownership of the asset have been transferred to another entity or when the contractual rights to the cash flows from the asset expire. At 31 December 2018, the Group had derecognised receivables amounting to EUR 28,108 thousand (31 December 2017: EUR 63,151 thousand) as a result of non-recourse factoring agreements.

2. Financial assets measured at fair value through other comprehensive income

Equity instruments that the Group has made the irrevocable election to classify as financial assets at fair value through other comprehensive income are recognised in this category.

The financial assets included in this category are initially recognised at fair value including any transaction costs. These assets are subsequently measured at fair value through other comprehensive income. The cumulative gain or loss is not transferred to profit or loss on disposal of these equity instruments. Dividends are recognised under "Finance Income" in the consolidated statement of profit or loss.

The Group has designated all its investments in equity instruments as measured at fair value through other comprehensive income (Note 9).

3. Financial assets at fair value through profit or loss

Assets that do not meet the requirements to be included in either of the other two categories are included in this category. The financial assets included in this category are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given. Directly attributable transaction costs are recognised in profit or loss. After initial recognition, the assets in this category are measured at fair value through profit or loss.

Financial Liabilities

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate. The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

Borrowings are recognised initially at fair value less the transaction costs incurred. They are subsequently measured at amortised cost, and any difference between the funds obtained (net of the costs required to obtain them) and the repayment value is recognised in the statement of profit or loss over the term to maturity of the debt using the effective interest method.

The Group only derecognises financial liabilities when the obligations giving rise to them are cancelled, eliminated or expire.

Derivative financial instruments

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

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

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

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

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

- In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under "Financial Loss" in the accompanying consolidated statement of profit or loss. The Group recognises as fair value hedges the hedges arranged for construction work when the necessary conditions are met for hedges of this nature (existence of a firm commitment).
- In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instrument are recognised temporarily in equity under "Valuation Adjustments - Hedges". This method is used by the Group to hedge projects in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction, and for interest rate hedges. To the extent that a highly probable transaction gives rise to a firm commitment, the amounts previously recognised in equity are reclassified to profit or loss.
- In hedges of net investments in foreign operations, the gains or losses attributable to the portion of the hedging instrument qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences". This type of hedging was used for the equity of CAF USA, Inc. (partially) and Provetren, S.A. de C.V.

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 2018 and 2017 is as follows (in thousands of euros):

2018

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	22,834	22,834
Derivatives (Note 17)	-	16,569	-	16,569
Other financial assets (*) (Note 13)	59,281	-	-	59,281
Total assets	59,281	16,569	22,834	98,684
Liabilities				
Derivatives (Note 17)	-	75,373	-	75,373
Total liabilities	-	75,373	-	75,373

(*) The amounts recognised as "Other Financial Assets" in 2018 relate to those denominated "Held-for-Trading Financial Assets" in 2017.

2017

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	9,506	9,506
Derivatives (Note 17)	-	57,706	-	57,706
Held-for-trading financial assets (Note 13)	55,120	-	-	55,120
Total assets	55,120	57,706	9,506	122,332
Liabilities				
Derivatives (Note 17)	-	70,444	-	70,444
Total liabilities	-	70,444	-	70,444

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

To calculate the fair value of equity instruments, the Group uses appropriate measurement techniques based on the circumstances and on the volume of inputs available for each ownership interest, attempting to maximise the use of relevant observable inputs. These investments were measured at fair value using the business model of each one and the contractual terms and conditions thereof, assessing different scenarios and using discount rates checked with independent experts (Note 9-b).

e) Inventory measurement bases

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

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

- Materials and expenses allocated to each project: at the average acquisition or production cost.
- Processing costs: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ significantly from actual hourly rates.
- For inventories that require a period of more than twelve months to be ready for sale, cost includes borrowing costs.

f) Recognition of contract revenue and profit

The Group recognises revenue from the following main sources:

- *Construction and engineering contracts*

For train and traction equipment construction contracts, the Group generally recognises the income and profit or loss on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the actual hours incurred in each contract as a percentage of the estimated total hours, which is in keeping with other methods for determining the stage of completion on the basis of the costs incurred compared with the budgeted costs.

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

- With a percentage of completion of between 0% and 10%, no profit or revenue is recognised, in order to take into account the initial margin of uncertainty of the contracts in the long term.
- From 10% onwards, a percentage of profit and revenue equal to the percentage of completion is recognised.

For civil engineering construction contracts, signalling and engineering services, revenue and the profit or loss on these contracts are recognised by reference to the estimated stage of completion of the contract, calculated on the basis of the costs incurred compared with the total budgeted costs.

Potential losses on project contracts are recognised in full when they become known or can be estimated.

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

Based on the revenue realised, the projected profit or loss on each contract (calculated as described above) and the stage of completion, inventories are derecognised for the amount of the costs settled with a charge to the related consolidated statement of profit or loss and a credit to "Inventories" on the asset side of the consolidated balance sheet (Note 11).

Lastly, since the guarantees that are offered on these contract are not higher than those offered in the industry and are not additional guarantees, they are considered to be a single performance obligation together with the construction of the train or traction equipment.

- *Sale of buses, wheel sets, replacement parts and lesser refurbishments*

Revenue from sales of buses, wheel sets, replacement parts and lesser refurbishments is recognised when control of the asset is transferred to the customer and the entity satisfies a performance obligation deemed to be the point in time when the bus is delivered.

In certain bus contracts there are repurchase options (buybacks) in which a case-by-case analysis is performed to determine whether control has been transferred to the customer. The transfer criterion in these cases is based on whether or not the customer has a significant economic incentive to exercise that right. If it is considered that the customer has a significant economic incentive to exercise that right, the entity shall account for the revenue as an operating lease over the term of the transaction until the date of the repurchase option (Note 21).

The main factor taken into consideration in order to conclude as to whether there is an economic incentive for the client is the relationship of the repurchase price to the expected market value of the bus at the date of the repurchase.

If it is concluded that the customer does not have a significant economic incentive to exercise its right, the revenue is recognised as if it were the sale of a product with a right of return. In this case, a large proportion of the revenue is recognised when the bus is delivered. Also, a liability for the amount to be returned to the customer and an asset for the right of return are recognised in the consolidated balance sheet. If finally the bus is not returned at the right date, the Group recognises the liability as revenue and the asset as an expense (Note 21).

- *Maintenance contracts*

Maintenance revenue is recognised over the term of the contract. In general, revenue is recognised on a straight-line basis over the aforementioned time interval, unless there is evidence that another method better reflects the stage of completion at any time. That is, in multi-year projects with constant monthly billings where the resources available to perform the service are recognised on a straight-line basis, the billings made are assumed to be equal to the corresponding revenue.

However, when major repairs take place over specific periods of time, the percentage of completion of a contract is postponed and the recognition of a portion of the revenue from the billings received is deferred until the periods when the major repairs take place.

In these cases, this difference is recognised with a charge to "Revenue" in the accompanying consolidated statement of profit or loss and a credit to "Other Non-Current Liabilities" in the accompanying consolidated balance sheet (Note 21).

- *Income for financial assets*

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

g) Consolidated balance sheet balances relating to revenue recognition

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on achievement of the various milestones established in the contract and on acknowledgement thereof by the customer. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to the customer. The difference between revenue recognised on each project (Note 3-f) and the amount billed for the project is recognised as follows:

- If the difference is positive, "Contract Assets" under "Trade and Other Receivables - Trade Receivables for Sales and Services" (Note 12).
- If the difference is negative, "Contract Liabilities" under "Trade and Other Payables - Other Payables" and "Other non-current assets" (Note 12).

h) Current/Non-current classification

Items are classified under "Current Assets" and "Current Liabilities" (contract assets, contract liabilities and short-term provisions) which may be realised or settled in more than twelve months, since they form part of the Group's normal cycle as established in the applicable legislation. Considering the items as a whole, the directors' estimates indicate that the current assets will be realised essentially in the short term and, in any event, the current liabilities to be settled in more than twelve months exceed the current assets that would be realised in more than twelve months (Notes 12 and 21).

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 Group companies' legal and contractual obligations to certain of their employees in relation to supplementary retirement and death benefits are met through premiums under defined benefit plans to external funds deposited, or in the process of being externalised, at independent insurance companies. The contributions made in 2018 for various groups of employees amounted to EUR 8,543 thousand (2017: EUR 6,777 thousand). The impact of these obligations on the consolidated statement of profit or loss for 2018 amounted to EUR 3,308 thousand (2017: EUR 4,085 thousand) with a charge to "Staff costs". In 2018 a net actuarial loss of EUR 2,403 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2017: a net actuarial loss of EUR 5,525 thousand).

In accordance with the accrual basis of accounting, at 31 December 2018 the Group recognised a current asset of EUR 268 thousand, calculated by an independent valuer, in the consolidated balance sheet. This amount is the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as "plan assets" (31 December 2017: a liability of EUR 2,833 thousand and an asset of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (Notes 15, 18 and 23).

In the assumptions applied in the actuarial study performed by an independent third party, the future obligations were discounted at a market rate, taking into account salary increases similar to those made in the past.

In accordance with the applicable collective agreement, the Parent contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (Notes 23, 24 and 25).

Lastly, certain subsidiaries have other obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2018 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 3,946 thousand and EUR 3,456 thousand, respectively (31 December 2017: EUR 3,095 thousand and EUR 2,703 thousand, respectively) (Note 20).

k) Early retirements and termination benefits

At 31 December 2018, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR 3,408 thousand and EUR 2,799 thousand, respectively (31 December 2017: EUR 5,892 thousand and EUR 3,113 thousand), relating to the present value estimated by the Parent's directors of the future payments to be made to employees who in December 2018 were included in the early retirement plan approved in 2013, or with whom hand-over contracts had been entered into. The net provision for 2018 was recognised with a charge of EUR 575 thousand (2017: EUR 6,272 thousand) to "Staff costs" in the consolidated statement of profit or loss (Note 23).

l) Income tax

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

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

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

m) Leases

The 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.

Finance 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 (Note 9-c).

Operating leases

As stated in Note 3-f, the Group as the lessor recognises revenue from bus leases under the operating lease model on a straight-line basis until the end of the lease.

The billings received in advance on these contracts are recognised under "Other Non-Current Liabilities" and "Other Current Liabilities" in the accompanying consolidated balance sheet (Note 21). Leased assets are recognised under "Property, Plant and Equipment" in the accompanying consolidated balance sheet.

At 31 December 2018, the Group had various outstanding operating leases for which it had recognised an expense of EUR 16,268 thousand in 2018 (2017: EUR 9,917 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 2018 amounted to EUR 83,195 thousand over the next few years, of which EUR 13,259 thousand are due in 2019 (31 December 2017: EUR 30,057 thousand, EUR 7,908 thousand of which were to be paid in 2018). In estimating the future payment obligations, at 31 December 2018, the Group companies took into account exercisable future extension options.

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.

n) Administrative concessions

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

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

These concession arrangements are accounted for in accordance with IFRIC 12, "Service Concession Arrangements". In general, a distinction must be drawn between two clearly different phases: the first in which the operator provides construction or upgrade services which are recognised as intangible or financial assets by reference to the stage of completion pursuant to IFRS 15 "Revenue from Contracts with Customers", and a second phase in which the operator provides a series of maintenance or operation services for the aforementioned infrastructure, which are recognised in accordance with the same standard.

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

4. Distribution of the profit of the Parent

The proposed distribution of the profit for 2018 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	4,285
Voluntary reserves	21,940
Distribution	
Dividends	26,225

5. Financial risk management

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

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

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

The Group's Financial Department identifies, analyses, assesses and defines the treatment, and performs the monitoring and control, of the financial risks in accordance with the General Risk Management and Control Policy and the specific policies for the management of financial risk established by the Board of Directors.

a) Market risk

The CAF Group manages market risk in accordance with the principles set out in the Market Risks Policy.

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

The interest rate risk arises from the possibility that changes may occur in the value of the Group's financial assets and liabilities as a result of changes in market interest rates. In accordance with the policy, financing transactions are performed under appropriate cost, term and risk terms and conditions, considering at all times optimal use of the various instruments and sources of financing. Specifically, the Group sets an objective, to the extent permitted by the markets, of maintaining a borrowing structure balanced between fixed and floating interest rates (usually Euribor) the goal of which is to maintain an adequate balance between the cost of financing and the risk of changes in interest rates.

In this regard, a significant portion of the financial debt at 31 December 2018 related, on the one hand, to the concessions obtained in Brazil and Mexico (Notes 9 and 16), and, on the other, to the Parent's debt for the financing of its activity and that of the other Group companies.

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

With regard to the Parent's debt at 31 December 2018, it has a liability exposure of EUR 205.8 million in relation to changes in market interest rates (31 December 2017: EUR 103 million) and EUR 410.2 million in relation to fixed interest rates (31 December 2017: EUR 263 million), of which EUR 31.7 million were fixed as a result of interest rate derivatives (Notes 16 and 17). The debt of the subsidiaries CAF Investment Projects, S.A.U. and Solaris Group are tied to market interest rates (Note 16).

Taking into consideration the balance at 31 December 2018 and 2017, if the average of the market-tied interest rates of third-party borrowings had been 100 basis points higher or lower, with all other variables remaining constant, and considering the hedging policies described above, the finance costs arising from the financial debt would have risen by approximately EUR 5,283 thousand and EUR 3,125 thousand, respectively.

a.2) Foreign currency risk

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

The foreign currency risk to which the Group is exposed as a result of its operations in the international sphere is managed in accordance with the Market Risks Policy, which envisages various strategies aimed at reducing that risk, such as, for example, the arrangement of financial or natural hedges, ongoing monitoring of exchange rate fluctuations and other complementary measures.

In line with the principles of this policy, as a general rule the Group transfers to third parties, provided that the cost is reasonable, the foreign currency risk associated with its contracts denominated in currencies other than the Group's functional currency, which is the euro. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Group's results present fairly its industrial and services activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2018 of a 10% depreciation of the Brazilian real against the euro at 31 December 2018 would be a loss of EUR 3,297 thousand (31 December 2017: EUR 4,801 thousand). In the event of a 10% devaluation of its functional currency (Polish zloty) against the euro with respect to its closing exchange rate at 31 December 2018, the Group company Solaris Bus & Coach, S.A. would obtain a gain of EUR 4,429 thousand. The exchange rate fluctuation described above would have an opposite sign effect on the net investment in a foreign operation denominated in Polish zlotys. The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2018 and 2017, the Group was exposed to the foreign currency risk on the net investment in those subsidiaries whose functional currency is not the euro, except in the case of the US dollar, the exposure to which is partially hedged.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2018 and 2017 is as follows:

Currency	Equivalent value in thousands of euros					
	31/12/18			31/12/17		
	Assets	Liabilities	Net exposure	Assets	Liabilities	Net exposure
Chilean peso	27,615	24,547	3,068	20,841	18,569	2,272
Mexican peso	145,372	124,414	20,958	134,198	115,494	18,704
Argentine peso	980	492	488	2,355	1,414	941
Brazilian real	451,589	265,408	186,181	614,174	365,957	248,217
US dollar						
(Note 3-d) (*)	557,795	304,907	47,284	533,774	309,080	3,433
Pound sterling	91,805	35,972	55,833	84,931	41,212	43,719
Algerian dinar	4,540	2,641	1,899	4,852	3,105	1,747
Turkish lira	4,139	2,578	1,561	3,780	2,937	843
Venezuelan bolivar	59	59	-	53	50	3
Indian rupee	8,509	83	8,426	8,880	88	8,792
Australian dollar	1,091	964	127	965	593	372
Colombian peso	2,126	1,589	537	2,263	1,729	534
Saudi riyal	12,134	8,388	3,746	20,613	20,139	474
New Zealand dollar	5,675	3,896	1,779	5,960	4,844	1,116
Romanian leu	307	187	120	239	125	114
New Taiwan dollar	13,224	7,409	5,815	27,330	21,302	6,028
Hungarian forint	625	380	245	866	715	151
Japanese yen	1,141	1,056	85	610	538	72
Mauritian rupee	1,491	1,476	15	-	-	-
Polish zloty	659,046	419,945	239,101	-	-	-
Swiss franc	4,275	1,689	2,586	-	-	-
Norwegian krone	5,545	8,606	(3,061)	-	-	-
Swedish krona	7,047	6,070	977	-	-	-
Total	2,006,130	1,222,756	577,770	1,466,684	907,891	337,532

(*) At 31 December 2018, there were hedges of net investments in foreign operations (Note 17) amounting to EUR 205,604 thousand, applying the year-end exchange rate (31 December 2017: EUR 221,261 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 57,777 thousand at 31 December 2018 (31 December 2017: EUR 33,753 thousand).

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

Nature of the balances	Equivalent value in thousands of euros			
	31/12/18		31/12/17	
	Assets	Liabilities	Assets	Liabilities
Goodwill	101,620	-	19,831	-
Other intangible assets	156,466	-	236	-
Property, plant and equipment	184,733	-	66,778	-
Non-current financial assets and deferred tax assets	513,249	-	565,308	-
Other non-current assets	2,684	-	-	-
Inventories	314,042	-	146,361	-
Trade and other receivables	544,254	-	505,698	-
Other current financial assets	20,703	-	38,825	-
Cash and cash equivalents	138,379	-	123,647	-
Non-current liabilities	-	503,645	-	400,818
Current liabilities	-	719,111	-	507,073
Total	2,006,130	1,222,756	1,466,684	907,891

a.3) Commodity price risk

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

b) Credit risk

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

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

At 31 December 2018 and 2017, the Group had insured a portion of its accounts receivable from customers in certain countries abroad, taking into account the risk of each of them, through credit insurance policies (Note 12).

c) Liquidity and financing risk

Prudent liquidity and financing risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations fully and effectively (Notes 14-h and 16).

The CAF Group manages liquidity and financing risk using the following mechanisms:

- Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not be in the same timeframe, which results in financial resources being consumed.
- Implementing and maintaining an active working capital management policy through ongoing monitoring of compliance with billing milestones for each project commissioned.
- Maintaining a strong short-term liquidity position.
- Maintaining surplus undrawn credit balances.

6. Segment reporting

a) Basis of segmentation

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

- By business unit, distinguishing between the "Rolling Stock" and the "Buses" operating activities. The latter is the result of the acquisition of Solaris (Note 2-f).
- Information based on the Group's geographical location and products and services group is also included.

b) Basis and methodology for segment reporting

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

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

Therefore, 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
- Buses

Segment information about the businesses is as follows:

Segmentation by business unit	2018 (Thousands of euros)				
	Rolling stock	Buses	General	Inter-segment	Total
External sales	1,887,731	160,688	-	-	2,048,419
Inter-segment sales	-	-	-	-	-
Total sales	1,887,731	160,688	-	-	2,048,419
EBITDA	192,916	8,562	-	-	201,478
Depreciation and amortisation charge (Notes 7 and 8)	(38,583)	(8,155)	-	-	(46,738)
Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9)	(10,703)	131	-	-	(10,572)
EBIT	143,630	538	-	-	144,168
Financial loss	(47,184)	(4,551)	(11,455)	-	(63,190)
Share of net results of associates	(488)	85	-	-	(403)
Profit (Loss) before tax	95,958	(3,928)	(11,455)	-	80,575
Income tax					(40,955)
Profit (Loss) for the year from continuing operations					39,620
Profit (Loss) attributable to non-controlling interests					(3,842)
Profit (Loss) attributable to the Parent					43,462
ASSETS	2,734,913	674,343	596,694	11	4,005,961
LIABILITIES	2,033,208	421,995	793,486	5	3,248,694
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	78,220	2,771	-	-	80,991

Segmentation by business unit (*)	2017 (Thousands of euros)		
	Rolling stock	General	Total
External sales	1,477,039	-	1,477,039
Inter-segment sales	-	-	-
Total sales	1,477,039	-	1,477,039
EBITDA	180,252	-	180,252
Depreciation and amortisation charge (Notes 7 and 8)	(34,690)	-	(34,690)
Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9)	148	-	148
EBIT	145,710	-	145,710
Financial loss	(69,126)	(9,668)	(78,794)
Share of net results of associates	594	-	594
Profit (Loss) before tax	77,178	(9,668)	67,510
Income tax			(24,993)
Profit (Loss) for the year from continuing operations			42,517
Profit (Loss) attributable to non-controlling interests			111
Profit (Loss) attributable to the Parent			42,406
ASSETS	2,735,957	379,297	3,115,254
LIABILITIES	1,825,628	529,426	2,355,054
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	63,454	-	63,454

(*) Following the basis of segmentation of 2018.

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

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

	2018	2017
High-speed	33,121	40,890
Regional and commuter	738,456	524,737
Metros	317,307	184,273
Tram and light rail	174,743	142,473
Bogies, refitting and other	51,541	40,195
Trains	1,315,168	932,568
Services	362,096	376,792
Buses	160,688	-
Wheel sets and components	83,821	72,218
Other (*)	126,646	95,461
Total	2,048,419	1,477,039

(*) Mainly civil construction, signalling and engineering contract revenue.

The information based on geographical location is as follows:

- a) The breakdown of sales by geographical area at 31 December 2018 and 2017, including the most significant countries (those accounting for more than 5% of total sales), is as follows (in thousands of euros):

	2018	2017
Spain	236,646	196,672
The Netherlands	249,780	86,370
Other	281,124	93,871
EU – Euro Area	530,904	180,241
United Kingdom	480,198	333,481
Other	26,744	3,669
EU – No Euro Area	506,942	337,150
European Union	1,037,846	517,391
Mexico	239,690	276,466
Brazil	86,172	139,294
Other	448,065	347,216
Rest of the world	773,927	762,976
TOTAL	2,048,419	1,477,039

In 2018 two customers represented 11% and 10%, respectively, of the Group's revenue. In 2017 one customer represented 12% of the Group's revenue.

- b) The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2018 and 2017 is as follows (in thousands of euros):

Geographical area	2018	2017
Spain	171,378	175,647
Poland (*)	101,389	-
Rest of the world	92,317	68,866
Total	365,084	244,513

(*) Including buses leased under the operating lease model not in operation in that country.

7. Intangible assets

a) Goodwill

The changes in goodwill the years ended 31 December 2018 and 2017 were as follows:

2018

	Thousands of euros						
	Balance at 31/12/17	Adjustments to preliminary goodwill - Transfers (Note 2-f)	Adjusted balance at 01/01/18	Changes in the scope of consolidation (Note 2-f)	Impairment	Translation differences	Balance at 31/12/18
Rifer, S.R.L.	4,265	(2,887)	1,378	-	(1,186)	-	192
BWB Holdings,	19,844	(11,497)	8,347	-	-	(309)	8,038
Solaris	-	-	-	93,622	-	(40)	93,582
Other	15	-	15	-	-	-	15
Total	24,124	(14,384)	9,740	93,622	(1,186)	(349)	101,827

2017

	Thousands of euros				
	Balance at 31/12/16	Changes in the scope of consolidation	Impairment	Translation differences	Balance at 31/12/17
Rifer, S.R.L.	-	4,265	-	-	4,264
BWB Holdings, Ltd.	-	19,831	-	13	19,844
Other	15	-	-	-	15
Total	15	24,096	-	13	24,124

The goodwill of Solaris was allocated in full to the buses segment (Notes 2-f and 6).

In 2018, the Parent tested the recoverability of the goodwill of Rifer, S.R.L. and BWB Holding Ltd. The main parameters used in the recoverability test were as follows:

	Rifer S.R.L.	BWB Holdings, Ltd.
Adjusted carrying amount at 01/01/18 (thousands of euros)	1,378	8,347
Value considered representative to determine the recoverable amount	Value in use	Value in use
Estimated number of years covered by cash flow projections	5	2
Long-term growth rate used	2%	2%
Discount rate used (*)	12.8%	10.4%

(*) Discount rate after tax.

The projections are prepared for each cash-generating unit on the basis of past experience and of the best estimates available, which are consistent with the Company's business plans. The main components are:

- Earnings projections
- Investment and working capital projections

Following this analysis, an impairment loss of EUR 1,186 thousand was recognised in relation to the goodwill of Rifer, S.R.L. with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The estimated enterprise value of BWB Holdings, Ltd. is EUR 1,023 thousand higher than its carrying amount.

Following is a sensitivity analysis of the main assumptions used in the model:

Amounts in thousands of euros	Rifer S.R.L.		BWB Holdings, Ltd.	
	-100 p.b.	+100 p.b.	-100 p.b.	+100 p.b.
Growth rate:	-239	+287	- 2,028	+ 2,577
Discount rate:	+510	-423	+ 3,027	- 2,383

b) Other intangible assets

The changes in the years ended 31 December 2018 and 2017 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

	Thousands of euros				
	Commercial relationships and customer portfolio	Patents, licenses and trademarks	Development expenditure	Computer software and other	Total
Cost -					
Cost at 31/12/16	-	63	118,434	21,512	140,009
Changes in the scope of consolidation	-	5	6	594	605
Additions or charge for the year	-	-	16,330	2,861	19,191
Transfers	-	-	-	142	142
Transfers to inventories	-	-	(1,384)	-	(1,384)
Disposals or reductions	-	-	-	(8)	(8)
Translation differences	-	-	1	(71)	(70)
Cost at 31/12/17	-	68	133,387	25,030	158,485
Changes in the scope of consolidation	9,537	111,215	13,931	7,385	142,068
Additions or charge for the year	-	-	23,655	4,513	28,168
Transfers	16,962	1,821	80	(12)	18,851
Transfers to inventories	-	-	(497)	-	(497)
Disposals or reductions	-	-	-	(13)	(13)
Translation differences	(143)	(62)	(7)	(42)	(254)
Cost at 31/12/18	26,356	113,042	170,549	36,861	346,808
Accumulated amortisation-					
Accumulated amortisation at 31/12/16	-	(52)	(67,076)	(16,131)	(83,259)
Changes in the scope of consolidation	-	-	(2)	(352)	(354)
Additions or charge for the year	-	(7)	(10,170)	(1,599)	(11,776)
Transfers	-	-	-	(85)	(85)
Disposals or reductions	-	-	-	6	6
Translation differences	-	-	(1)	46	45
Accumulated amortisation at 31/12/17	-	(59)	(77,249)	(18,115)	(95,423)
Changes in the scope of consolidation	(698)	-	-	-	(698)
Additions or charge for the year	(1,962)	(1,868)	(12,585)	(2,427)	(18,842)
Transfers	-	-	589	2	591
Disposals or reductions	-	-	-	-	-
Translation differences	18	1	1	24	44
Accumulated amortisation at 31/12/18	(2,642)	(1,926)	(89,244)	(20,516)	(114,328)
Impairment-					
Impairment at 31/12/17	-	-	(16,621)	(20)	(16,641)
Recognised in 2018	-	-	(9,311)	-	(9,311)
Transfers in 2018	-	-	-	7	7
Impairment at 31/12/18	-	-	(25,932)	(13)	(25,945)
Net balance at 31/12/17	-	9	39,517	6,895	46,421
Net balance at 31/12/18	23,714	111,116	55,373	16,332	206,535

Research and development expenditure incurred in 2018 amounted to EUR 40,983 thousand (EUR 17,328 thousand were recognised in the consolidated statement of profit or loss and EUR 23,655 thousand were capitalised). Research and development expenditure incurred in 2017 amounted to EUR 28,054 thousand (EUR 11,724 thousand were recognised in the consolidated statement of profit or loss

and EUR 16,330 thousand were capitalised). These amounts do not include basic engineering costs associated with contracts.

The additions to "Development Expenditure" in 2018 and 2017 correspond to the costs incurred in the development of new products, including most notably the development of highly automated signalling, the development of the digital train and the development of critical safety platforms.

As discussed in Note 3-a, in 2018 the Group transferred approximately EUR 497 thousand of development expenditure to various contracts it had won that incorporated the technology developed (2017: EUR 1,384 thousand).

Subsequent to the review of the fair value of the assets acquired and liabilities assumed of Rifer, S.R.L. and BWB Holdings, Ltd. (Note 2-f), a transfer was performed mainly between the provisional goodwill recognised at 2017 year-end and the "Commercial Relationships and Customer Portfolio" and "Patents, Licenses and Trademarks" items. The net transfer relates to the deferred tax liability arising on allocation of the fair value. Also, the amount relating to the amortisation charge in 2017 (EUR 479 thousand) was adjusted against reserves, net of tax.

Lastly, in 2018, as a result of the acquisition of Solaris, an impairment loss of EUR 9,311 thousand was recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss in relation to the development expenditure recognised in prior years in which the recoverability and economic and financial feasibility of the projects were not guaranteed.

8. Property, plant and equipment

The changes in the years ended 31 December 2018 and 2017 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Thousands of euros						
	Land and buildings	Plant and machinery	Transport equipment (leasing) (Nota 3.m)	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Cost at 31/12/16	260,874	285,040	-	22,448	42,115	2,760	613,237
Cost-							
Changes in the scope of consolidation (Note 2-f)	30	1,297	-	296	690	1	2,314
Additions	17,713	10,252	-	3,342	2,021	10,935	44,263
Transfers	631	1,714	-	294	(100)	(2,811)	(272)
Disposals or reductions	(197)	(2,145)	-	(56)	(17)	(1)	(2,416)
Translation differences	(6,645)	(4,642)	-	(247)	(181)	(189)	(11,904)
Cost at 31/12/17	272,406	291,516	-	26,077	44,528	10,695	645,222
Changes in the scope of consolidation (Note 2-f)	46,347	13,507	39,914	3,092	2,349	998	106,207
Additions	25,855	17,120	-	5,190	2,432	2,226	52,823
Transfers	10,521	(443)	-	595	(9,641)	(12,584)	(11,552)
Disposals or reductions	(681)	(10,914)	-	(792)	(117)	-	(12,504)
Translation differences	(1,821)	(1,049)	(17)	(57)	(28)	(5)	(2,977)
Cost at 31/12/18	352,627	309,737	39,897	34,105	39,523	1,330	777,219
Accumulated depreciation at 31/12/16	(97,799)	(234,489)	-	(15,851)	(25,046)	-	(373,185)
Changes in the scope of consolidation (Note 2-f)	(3)	(745)	-	(69)	(462)	-	(1,279)
Additions	(6,492)	(12,770)	-	(1,202)	(2,450)	-	(22,914)
Transfers	-	(4)	-	44	41	-	81
Disposals or reductions	19	2,074	-	20	15	-	2,128
Translation differences	1,652	3,022	-	135	167	-	4,976
Accumulated depreciation at 31/12/17	(102,623)	(242,912)	-	(16,923)	(27,735)	-	(390,193)
Additions	(7,837)	(11,332)	(2,508)	(3,390)	(2,829)	-	(27,896)
Transfers	363	167	-	(23)	3,025	-	3,532
Disposals or reductions	647	10,896	-	99	116	-	11,758
Translation differences	474	897	-	51	25	-	1,447
Accumulated depreciation at 31/12/18	(108,976)	(242,284)	(2,508)	(20,186)	(27,398)	-	(401,352)
Impairment at 31/12/16	(6,459)	(4,140)	-	(131)	(13)	-	(10,743)
Recognised in 2017	182	-	-	-	-	-	182
Disposals or reductions	-	-	-	-	-	-	-
Translation differences	46	(1)	-	-	-	-	45
Impairment at 31/12/17	(6,231)	(4,141)	-	(131)	(13)	-	(10,516)
Recognised in 2018	-	-	-	(292)	-	-	(292)
Translation differences	26	(1)	-	-	-	-	25
Impairment at 31/12/18	(6,205)	(4,142)	-	(423)	(13)	-	(10,783)
Net balance at 31/12/17	163,552	44,463	-	9,023	16,780	10,695	244,513
Net balance at 31/12/18	237,446	63,311	37,389	13,496	12,112	1,330	365,084

The most significant investments in 2018 were aimed at improving the Group's production capacity, including investments in the UK production plant, the robotised bogie facility and the fit-out of the finishing warehouses using the lean methodology at the Parent's facilities.

In 2017 the Group invested in its plants in order to improve their production capacity. These investments were focused mainly on the construction of a new production plant in the UK, the new buildings for a technical office and MiiRA, and certain facilities and machinery for the improvement and automation of the machining processes.

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. The locomotives were leased to third parties in 2018. At the end of 2018, ownership of 8 of the 9 locomotives was transferred and a carrying amount of EUR 7,154 thousand was transferred to "Inventories"; the sale of the final unit is expected to take place in the coming year. At 31 December 2018, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand.

At 2018 year-end, "Transport Equipment (Leasing)" included buses leased under operating leases (as indicated in Note 3-f) for a carrying amount of EUR 37,389 thousand. Note 21 to the consolidated financial statements details the deferred income that will be recognised on a straight-line basis until the established repurchase date.

At 31 December 2018, the Group had firm capital expenditure commitments amounting to approximately EUR 10,376 thousand mainly in Spain (31 December 2017: EUR 23,768 thousand mainly in the UK).

At 31 December 2018, the Group had payables to property, plant and equipment suppliers amounting to EUR 9,572 thousand (31 December 2017: EUR 18,979 thousand) under "Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated balance sheet.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2018 and 2017, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2018, the gross cost of fully depreciated assets in use amounted to approximately EUR 283,271 thousand (31 December 2017: EUR 274,410 thousand).

The gains recognised on property, plant and equipment disposals in 2018 amounted to approximately EUR 175 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 (2017: losses of EUR 106 thousand). In 2018 the Group sold items of property, plant and equipment amounting to EUR 921 thousand (2017: EUR 182 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 2018, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,055 thousand (31 December 2017: EUR 1,267 thousand). EUR 212 thousand were allocated to profit or loss in this connection in 2018 (2017: EUR 423 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 2018 other than those described in this Note.

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

a) Investments accounted for using the equity method

The changes in the years ended 31 December 2018 and 2017 in "Investments Accounted for Using the Equity Method" in the accompanying consolidated balance sheet were as follows:

	Thousands of euros	
	31/12/18	31/12/17
Beginning balance	19,752	18,572
Amounts charged to profit or loss	(403)	594
Hedges	351	806
Changes in the scope of consolidation	1,586	-
Additions (Note 2-f)	5,500	-
Disposals	(8,689)	(70)
Exchange differences	91	(150)
Ending balance	18,188	19,752

In 2018 the investee Consorcio Traza, S.A. distributed dividends amounting to EUR 7,524 thousand.

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

2018

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L. (2)	5,862	5,338	725	1,448	9,027	-	4,875	85	-
Plan Metro, S.A. (3)	306,043	10,303	339,305	33,288	(56,247)	-	55,676	(3,020)	-
Consorcio Traza, S.A. (4)	218,595	36,014	225,964	5,353	21,355	1,937	24,678	(3,882)	1,406
Ferrocarriles Suburbanos, S.A. de C.V.	94,955	60,098	112,327	42,726	-	-	42,998	58,606	159
Arabia One for Clean Energy Invest. PSC.	20,026	2,395	17,890	843	3,688	-	3,050	339	167
Orbital Sistemas Aeroespaciales, S.L.	18,894	3,867	3,018	610	19,133	-	3,376	800	-

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L. (2)	9,027	50	4,513	4,513	43
Plan Metro, S.A. (3)	(56,247)	40	(22,499)	-	-
Consorcio Traza, S.A. (4)	21,355	25	5,339	5,339	(970)
Ferrocarriles Suburbanos, S.A. de C.V.	-	43.35	-	-	-
Arabia One for Clean Energy Investments PSC.	3,688	40	1,475	1,475	136
Orbital Sistemas Aeroespaciales, S.L.	19,133	30	5,740	5,740	240
Other investments (5)	-	-	1,121	1,121	148
			(4,311)	18,188	(403)

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).

(2) Nuevas Estrategias de Mantenimiento, S.L. holds an 100% ownership interest in Nem Solutions USA, Inc.

(3) This company's shares are pledged to certain banks.

(4) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

(5) Dormant companies or companies with no significant activity.

2017

Name	Basic financial data (6)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L. (7)	5,412	5,474	563	1,381	8,942	-	5,021	122	3
Plan Metro, S.A. (8)	352,130	10,232	384,860	30,729	(53,227)	-	54,427	(2,872)	-
Consortio Traza, S.A. (9)	245,001	54,607	228,365	14,487	53,926	2,830	23,910	22	3,224
Ferrocarriles Suburbanos, S.A. de C.V.	243,383	66,651	319,601	49,198	(58,765)	-	39,552	(7,398)	2,198
Arabia One for Clean Energy Invest. PSC.	20,091	2,730	18,806	831	3,184	-	3,280	1,605	(237)

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. (7)	8,942	50	4,471	4,471	(210)
Plan Metro, S.A. (8)	(53,227)	40	(21,291)	-	-
Consortio Traza, S.A. (9)	53,926	25	13,481	13,481	5
Ferrocarriles Suburbanos, S.A. de C.V.	(58,765)	43.35	(25,475)	-	-
Arabia One for Clean Energy Investments PSC.	3,184	40	1,273	1,172	642
Other investments (10)	-	-	628	628	157
			(26,913)	19,752	594

(6) After adjustments and unifying entries for consolidation purposes (in thousands of euros).

(7) Nuevas Estrategias de Mantenimiento, S.L. holds an 100% ownership interest in Nem Solutions USA, Inc.

(8) This company's shares are pledged to certain banks.

(9) Consortio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

(10) Dormant companies or companies with no significant activity.

In consolidating the ownership interests, the Group took the necessary fair value adjustments into account and eliminated the sales margins on rolling stock material in proportion to its ownership interest. Since the CAF Group has not incurred any legal or explicit obligations or made payments on behalf of the associates it is not necessary to consolidate the additional losses incurred by these associates valued at zero. At 31 December 2018, the unrecognised losses exceeding the cost of the investment amounted to EUR 22,499 thousand (31 December 2017: EUR 46,766 thousand).

b) Non-current financial assets

The detail of "Non-Current Financial Assets" in the accompanying consolidated balance sheet is as follows:

	Thousands of euros			
	31/12/18		31/12/17	
	% of ownership	Amount	% of ownership	Amount
Equity instruments-				
Alquiler de Trenes, A.I.E	5%	3,587	5%	1,202
Ferromovil 3000, S.L.	10%	9,660	10%	3,181
Alquiler de Metros, A.I.E.	5%	107	5%	105
Plan Azul 07, S.L.	5.20%	3,158	5.20%	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	4,542	15%	1,908
Iniciativa FIK, A.I.E.	14.18%	838	14.18%	1,040
Albali Señalización, S.A.	3%	641	3%	398
Other		301		291
Total equity instruments-		22,834		9,506
Other financial assets -				
Amortised cost-				
Guarantees and other financial assets		16,250		15,624
Loans to employees		4,238		4,605
Non-current tax receivables (Note 19)		42,231		48,357
Non-current trade and other receivables		439,761		471,062
Loans to associates (Note 10)		26,823		25,172
		529,303		564,820
Provisions-				
Provision for tax payables (Note 19)		(12,176)		(13,666)
Impairment losses		(2,900)		-
		(15,076)		(13,666)
Total Other financial assets		514,227		551,154
Total		537,061		560,660

The changes in the non-current financial assets in 2018 and 2017 were as follows:

	Thousands of euros			
	Equity instruments	Other financial assets		
		Amortised cost	Provisions	Total
Balance at 31/12/16	9,437	660,038	(15,917)	653,558
Changes in the scope of consolidation	-	12	-	12
Translation differences	(4)	(79,746)	2,164	(77,586)
Additions or charge for the year	73	124,251	87	124,411
Disposals or reductions	-	(2,556)	-	(2,556)
Transfers (Note 3-n)	-	(137,179)	-	(137,179)
Balance at 31/12/17	9,506	564,820	(13,666)	560,660
Initial adjustment due to IFRS 9 (Notes 2-b and 2-e)	-	-	(3,054)	(3,054)
Adjusted balance 01/01/18	9,506	564,820	(16,720)	557,606
Changes in the scope of consolidation	-	84	-	84
Changes in fair value with a charge to reserves	13,320	-	-	13,320
Translation differences	2	(24,745)	1,522	(23,221)
Additions	6	105,020	-	105,026
Charges to profit or loss for the year	-	-	(62)	(62)
Transfers (Note 3-n)	-	(114,647)	-	(114,647)
Disposals or reductions	-	(1,229)	184	(1,045)
Balance at 31/12/18	22,834	529,303	(15,076)	537,061

c) Other financial assets

The detail, by maturity, of "Other Financial Assets" is as follows (in thousands of euros):

2018

	2020	2021	2022	2023 and subsequent years	Total
Assets at amortised cost (*)	105,533	136,587	117,410	154,697	514,227
Total	105,533	136,587	117,410	154,697	514,227

(*) This heading included mainly the items called "Loans and Receivables" and "Held-to-Maturity Investments" in 2017. The amounts are presented net of the related impairment losses.

2017

	2019	2020	2021	2022 and subsequent years	Total
Loans and receivables (*)	121,655	135,074	109,410	169,391	535,530
Held-to-maturity investments	1,476	25	13	14,110	15,624
Total	123,131	135,099	109,423	183,501	551,154

(*) The amounts are presented net of the related impairment losses.

Guarantees and other financial assets

These guarantees are related mainly to the increase in borrowings taken by the subsidiary Ctrens Companhia Manutenção (Note 16) amounting to EUR 13,194 thousand (31 December 2017: EUR 13,666 thousand). This guarantee, which bears interest at market rates and relates to six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

Loans to employees

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

Non-current tax receivables

At 31 December 2018, the Group recognised EUR 42,231 thousand under "Non-Current Financial Assets – Other Financial Assets" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2017: EUR 48,357 thousand). This amount decreased by EUR 5,097 thousand in 2018 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 2018, the Group had recognised impairment losses of EUR 12,176 thousand (31 December 2017: EUR 13,666 thousand) to adjust the face value of these receivables to their recoverable amount, with a reversal of EUR 42 thousand in 2018 (2017: a charge of EUR 87 thousand) recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was a reduction in the impairment losses of EUR 1,448 thousand in 2018.

Non-current trade and other receivables

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 3,765 thousand at long term (31 December 2017: EUR 4,932 thousand) and EUR 1,324 thousand at short term (31 December 2017: EUR 1,245 thousand) relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2018 EUR 1,500 thousand (2017: EUR 1,500 thousand) were received and EUR 411 thousand (2017: EUR 490 thousand) were 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 Ctrains-Companhía de Manutenção, S.A. and Companhia Paulista de Trens Metropolitanos (CPTM) entered into a 20-year concession arrangement for the manufacture of 36 trains and the provision of lease, preventative and corrective maintenance and general overhaul services and services to modernise the trains on Diamante line 8 in Sao Paulo (Brazil).

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

- The payments are guaranteed by CPTM through monthly bank deposits of BRL 11.6 million made to a bank account (in 2009 real terms, amounting to BRL 18.7 million at 31 December 2018 following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Security Agent and can be used to pay the concession operator in the event of default by CPTM on its payment obligations.
- The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.
- The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (Note 26-a). At 31 December 2018, this guarantee amounted to BRL 38,320 thousand (EUR 8,622 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 2018 this guarantee comfortably fulfilled STC's payment obligations in the year.
- The concession operator must secure the correct performance of its obligations to STC with a bank guarantee of 10% of the payments expected to be received by it in the current year (Note 26-a).
- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to STC at the end of the concession term for no consideration.

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

Consequently, at 31 December 2018 the Group recognised balances of EUR 433,642 thousand under "Non-Current Financial Assets – Other financial assets" (31 December 2017: EUR 466,042 thousand) and EUR 110,211 thousand under "Trade and Other Receivables – Other Receivables" (31 December 2017: EUR 115,213 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2018 or 2017.

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 (Note 2-f) is as follows:

Company	Thousands of euros					
	2018			2017		
	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	2,382	-	4	1,734	-
Plan Metro, S.A.	13,611	3	1,848	13,043	-	1,716
Ferrocarriles Suburbanos, S.A. de C.V.	11,363	127	-	13,673	97	-
Ferrocarril Interurbano, S.A. de C.V.	88,747	-	-	177,454	-	-
Other	247	2,083	38	-	3	82
Total	113,985	4,595	1,886	204,174	1,834	1,798

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

As a result of the transactions performed in 2018, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2018 and 2017 were as follows:

Company	Thousands of euros							
	31/12/18				31/12/17			
	Accounts receivable / Short-term loans	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-c)	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-c)
Nuevas Estrategias de Mantenimiento, S.L.	23	337	-	-	100	244	-	-
Plan Metro, S.A.	1,294	-	(1,054)	25,860	1,273	-	(167)	24,012
Ferrocarriles Suburbanos, S.A. de C.V.	2,043	21	(800)	-	2,052	23	-	-
Ferrocarril Interurbano, S.A. de C.V.	26,272	856	(42,362)	-	25,442	50	(84,723)	-
Other	525	159	-	963	1	1	-	1,160
Total	30,157	1,373	(44,216)	26,823	28,868	318	(84,890)	25,172

In 2011 the subsidiary CAF Investment Projects, S.A.U. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently guaranteed. Plan Metro, S.A.'s current economic and financial model supports the recovery of the loaned amounts and the interest accrued thereon by the CAF Group. Also, the Group recognised finance income of EUR 1,848 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 (2017: EUR 1,716 thousand).

11. Inventories

The detail of "Inventories" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 22)	339,093	33,529
Advances to suppliers	36,333	38,125
Total	375,426	71,654

At 2018 year-end the Group had recognised write-downs totalling EUR 31,184 thousand (31 December 2017: EUR 8,788 thousand). This increase was due to the inclusion of Solaris in the scope of consolidation.

At 31 December 2018, the Group had firm raw materials purchase commitments amounting to approximately EUR 792,375 thousand (31 December 2017: EUR 721,823 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2018 and 2017, the insurance policies taken out covered the carrying amount of the inventories at those dates.

12. Trade and other receivables

The detail of "Trade Receivables for Sales and Services" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Trade receivables - in euros	793,698	519,622
Trade receivables - in foreign currency	534,509	766,205
Write-downs	(16,372)	(8,584)
Total	1,311,835	1,277,243

The detail of this heading, by trade receivables and contract assets, is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Contract assets (Note 3-f)	856,258	739,306
Customers billed	471,949	546,521
Write-downs	(16,372)	(8,584)
Total	1,311,835	1,277,243

Contract assets and liabilities

The detail of contract assets and liabilities is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Current contract assets (Note 3-f)	856,258	739,306
Current contract liabilities (Note 3-f)	(763,104)	(537,584)
Non-current contract liabilities (Note 21)	(41,228)	(55,821)
Net balance	51,926	145,901

EUR 425,248 thousand of "Current Contract Liabilities" at 31 December 2017 were recognised as revenue in 2018. Moreover, no significant revenue was recognised for performance obligations satisfied in prior periods.

The unrecognised revenue for performance obligations not satisfied at year-end relates to what is usually referred to as backlog (see definition in the Alternative Performance Measures section of the Directors' Report) (Note 27). 30% of that amount is expected to be recognised under "Revenue" in 2019, 21% in 2020 and the remainder in 2021 and subsequent years.

The most significant changes in contract assets arose as a result of the entry into force of IFRSs 9 and 15. As a result of the entry into force of IFRS 15 (Notes 2-b and 2-e) the possible penalties that would change the probable transaction price are recognised as a reduction of revenue rather than as an expense. Therefore, the provisions for third-party liabilities reducing "Contract Assets" amounted to EUR 30,342 thousand at 31 December 2018. At 31 December 2017, EUR 12,348 thousand had been recognised in this connection under "Short-Term Provisions" on the liability side of the consolidated balance sheet, the total balance of which was EUR 83,612 thousand (Note 20). The remaining EUR 71,264 thousand were reclassified to "Customers Billed".

Customers billed

"Customers Billed" at the end of 2018 is presented net of provisions for third-party liability as a result of the entry into force of IFRS 15.

EUR 71,264 thousand, which in 2017 were presented under "Short-Term Provisions" in the accompanying consolidated balance sheet, were thus reclassified. The figure at 31 December 2018 reducing the balance of "Customers Billed" amounted to EUR 86,193 thousand. The inclusion of Solaris in the scope of consolidation is the main reason for this increase.

At 31 December 2018, the balances billed included EUR 58,601 thousand in relation to the agreement signed in prior years with Metro de Caracas, the balance of which is past due and relates to work performed, net of contractual provisions, and billed to the customer and the collection of which is considered to be covered by the insurance policy in force.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, keeps arranged a supplier credit policy with credit risk coverage for the Metro de Caracas Line 1 refurbishment project. The insureds under this policy are the venturers in the aforementioned unincorporated temporary joint venture, including CAF. At 31 December 2018, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filling a claim under the aforementioned insurance policy had been met, but no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

In relation to the contract with Metro de Caracas, the Group's accounting policy was to recognise only 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 2018 and 2017, the CAF Group had balances billed to Metro de Caracas amounting to EUR 37 million (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty in relation to their collectability.

At 31 December 2018, 39% of the billed receivables related to the top five customers (31 December 2017: 55%). "Trade Receivables" includes retentions at 31 December 2018 amounting to EUR 7,734 thousand (31 December 2017: EUR 5,043 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2018 and 2017 in addition to the past-due balances with Metro de Caracas are as follows:

	Thousands of euros	
	31/12/18	31/12/17
Past due > 90 days	12,445	41,193
Past due > 180 days	161,448	121,017
Total	173,893	162,210

Approximately 62% of this balance is concentrated in two countries and ten agreements in relation to which the Group is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

The CAF Group is part of a Consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date CAF's legal advisers consider that the Consortium has solid arguments to justify its

defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could be able to claim the potential losses from such members. At 31 December 2018, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to this contract, net of advances received, amounted to EUR 13,3 million, and no amount had been recognised for additional claims on the original contract.

Write-downs

The changes in write-downs were as follows:

	Thousands of euros
Balance at 31/12/17	8,584
Initial adjustment due to IFRS 9 (Notes 2-b and 2-e)	3,626
Adjusted balance at 01/01/18	12,210
Changes in the scope of consolidation	5,961
Translation differences	(309)
Amount used	(758)
Provisions reversed with a credit to "Other Operating Expenses"	(732)
Balance at 31/12/18	16,372

The increase in provisions is due to the changes in the scope of consolidation, mainly the inclusion of Solaris Bus & Coach, S.A.

13. Other current financial assets

The detail of "Other Current Financial Assets" at 31 December 2018 and 2017 is as follows:

2018

Financial assets: Type/Category	Thousands of euros		
	At Amortised Cost (*)	at Fair Value through Profit or Loss (**)	Total
Other financial assets	35,012	59,281	94,293
Short-term/current	35,012	59,281	94,293

(*) This heading included mainly the items called "Loans and Receivables" and "Held-to-Maturity Investments" in 2017.

(**) This heading included mainly the item called "Held-for-Trading Financial Assets" in 2017

2017

Financial assets: Type/Category	Thousands of euros			
	Loans and receivables	Held-to-Maturity Investments	Held-for-Trading Financial Assets	Total
Other financial assets	115	29,603	55,120	84,838
Short-term/current	115	29,603	55,120	84,838

"Financial Assets at Amortised Cost" include the cash surpluses invested in government debt securities, repos, short-term deposits and term deposits. "Financial Assets at Fair Value through Profit or Loss" includes the fixed-income investment funds. In both cases, these are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss. In 2018 and 2017 the Group recognised income in this connection and in relation to the cash surpluses amounting to EUR 5,077 thousand (2017: EUR 5,156 thousand).

14. Equity

a) Share capital of the Parent

At both 31 December 2018 and 2017, the Parent's share capital was represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities that had notified the Spanish National Securities Market Commission (CNMV) that they held voting rights representing over 3% of the Parent's share capital at 31 December 2018 and 2017 were as follows:

	%- 2018	%- 2017
Cartera Social, S.A. (i)	25.16%	25.46%
Kutxabank, S.A. (ii)	14.06%	14.06%
Indumentia Pueri S.L.(iii)	5.02%	5.02%
Templeton Investment Counsel, LLC. (iv)	3.01%	3.01%
EDM Gestión, S.A. S.G.I.I.C. (v)	3.02%	3.02%

i. The shareholders of this company are employees of the Parent.

ii. Kutxabank S.A. holds the direct ownership interest, although the indirect holder is Bilbao Bizkaia Kutxa Fundación Bancaria, which controls Kutxabank S.A.

iii. Indumentia Pueri, S.L. is the indirect holder. The direct holder is Global Portfolio Investments, S.L., a company controlled by Indumentia Pueri, S.L.

iv. Templeton Investment Counsel, LLC. is the indirect holder. As an investment management company it manages the assets of T Global Smaller Co Fd, and others.

v. EDM Gestión, S.A. S.G.I.I.C. is the indirect holder. It controls the voting rights of EDM Inversión FI and others.

On 2 June 2018, at the Annual General Meeting, the Board of Directors empowered to increase the share capital on one or more occasions, through the issuance of new shares against monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these consolidated financial statements, no capital increase had been performed since that resolution. This resolution renders null and void the powers granted by the General Meeting on 8 June 2013.

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

The Annual General Meeting held on 10 June 2017 resolved to empower the Parent's Board of Directors, with express powers of delegation, for a period of five (5) years from that date, to issue debt instruments and fixed-income or other securities (including warrants) convertible into shares of the Parent or other Group companies, including the power to disapply shareholders' pre-emption rights for a maximum of 20% of the share capital at the authorisation date. This decision rendered null and void the resolution adopted by the Parent's Annual General Meeting held on 7 June 2014. At the date of preparation of these consolidated financial statements no convertible securities had been issued since that resolution.

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 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
Total	39,119	39,119

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses, to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance was used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

d) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2018 and 2017 the balance of this reserve had reached the legally required minimum.

e) Restricted and unavailable reserves

The individual financial statements of the consolidated companies include reserves amounting to approximately EUR 89,943 thousand at 31 December 2018 (31 December 2017: approximately EUR 82,813 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Guipúzcoa Regulation 2/2014), reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (Note 16).

In addition, until the balance of "Development Expenditure" has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2018 year-end EUR 59,473 thousand of the reserves were restricted as to their use (2017 year-end: EUR 39,612 thousand).

f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
CAF México, S.A. de C.V.	(1,998)	(2,495)
CAF Brasil Industria e Comercio, S.A.	(45,800)	(34,567)
CAF Argentina, S.A.	(2,768)	(2,323)
CAF USA, Inc.	816	(106)
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(2,282)	(2,825)
CAF Turquía, L.S.	(1,510)	(1,186)
CAF Argelia, E.U.R.L.	(519)	(553)
CAF India Private Limited	(1,008)	(606)
Ctrens Companhia de Manutenção, S.A.	(85,565)	(73,010)
Trenes CAF Venezuela, C.A.	(650)	(647)
Provetren, S.A. de C.V.	1,480	1,532
Other companies	(978)	8
Total	(141,782)	(117,238)

g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes there in 2018 and 2017 is as follows:

	Thousands of euros
Balance at 31 December 2016	11,706
Profit attributable to non-controlling interests	111
Transactions with non-controlling shareholders	971
Dividends	(3,005)
Balance at 31 December 2017	9,783
Profit attributable to non-controlling interests	(3,842)
Business combination	97
Transactions with non-controlling shareholders	1,072
Dividends	(1,555)
Balance at 31 December 2018	5,555

h) Capital management

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

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 31 December 2018 and 2017, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (Notes 3-n and 9-c). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of euros	
	31/12/18	31/12/17
Net financial debt:		
Interest-bearing refundable advances (Note 15)	12,451	16,667
Bank borrowings - Non-current liabilities (Note 16)	766,464	625,645
Bank borrowings and debt instruments - Current liabilities (Note 16)	255,416	46,262
Financial assets - Non-current assets (Note 9-c)	(13,194)	(13,666)
Current financial assets (Note 13)	(94,230)	(84,723)
Cash and cash equivalents	(602,813)	(371,625)
	324,094	218,560
Equity:		
Attributable to the Parent	751,712	750,417
Non-controlling interests	5,555	9,783
	757,267	760,200

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

The detail of the Group's financial liabilities at 31 December 2018 and 2017, by type and category for measurement purposes, is as follows:

	Thousands of euros			
	31/12/18		31/12/17	
	Long-term	Short-term	Long-term	Short-term
Refundable advances	32,929	11,620	34,753	18,351
Employee benefit obligations (Notes 3-k and 23)	3,408	-	5,892	-
Share purchase liabilities (Note 2-f)	8,465	1,137	10,371	2,825
Payable to non-current asset suppliers	-	9,572	-	18,979
Other liabilities	2,972	1,027	1,023	570
Total	47,774	23,356	52,039	40,725

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

	2018		2017	
2020	19,726	2019	9,825	
2021	7,873	2020	17,614	
2022	6,553	2021	8,286	
2022	4,804	2022	5,877	
2024 and subsequent years	8,818	2023 and subsequent years	10,437	
Total	47,774	Total	52,039	

Refundable advances

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

- Grants to partially meet the expenses and costs of these projects.
- Refundable advances in the form of loans which are generally interest-free and which usually have an initial grace period of 3 years and are taken to income in a period of over 10 years.

The changes in 2018 and 2017 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/16	43,696
Additions	2,386
Adjustments and other	378
Transfers to short term	(11,707)
Balance at 31/12/17	34,753
Changes in the scope of consolidation	16
Additions	5,444
Adjustments and other	244
Transfers to short term	(7,528)
Balance at 31/12/18	32,929

Employee benefit obligations

The Group has recognised the future obligations to the employees who have entered into pre-retirement plans (Note 3-k). Short-term obligations of EUR 2,799 thousand were recognised under "Other Payables" in the accompanying consolidated balance sheet as at 31 December 2018 (31 December 2017: EUR 3,113 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 2018 and 2017, is as follows (Note 3-j):

	Thousands of euros	
	31/12/18	31/12/17
Present value of the obligations assumed	44,738	45,315
Less – Fair value of plan assets	(45,006)	(42,750)
Other current (assets) liabilities	(268)	2,565

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	2018	2017
Discount rate	1.75-2.47%	1.68-2.47%
Mortality tables	PERM/F/2000P	PERM/F 2000P
Annual salary or pension increase rate	1-2%	1-2%
Retirement age	65-67	65-67

The fair value of the plan assets was calculated at year-end using the projected unit credit method.

Share purchase liabilities

"Share Purchase Liabilities" includes the amounts foreseeably payable for the options to acquire the remaining share capital of Rifer, S.R.L. and BWB Holdings, Ltd.

16. Bank borrowings and debt instruments or other marketable securities

The detail of "Bank Borrowings" in the accompanying consolidated balance sheet is as follows:

	Nominal currency	Thousands of euros					
		31/12/18			31/12/17		
		Non-current	Current	Total	Non-current	Current	Total
Loans and credit accounts							
Ctrens - BNDES	BRL	124,343	14,689	139,032	154,411	15,095	169,506
Provetren - Banking syndicate	USD	76,539	22,298	98,837	93,729	18,285	112,014
Parent (CAF, S.A.)	EUR	463,618	76,259	539,877	356,779	9,000	365,779
CAF Investment Projects, S.A.U.	EUR	19,832	-	19,832	19,799	-	19,799
Solaris Group	PLN/EUR	81,319	63,847	145,166	-	-	-
Other Group companies	EUR	813	391	1,204	927	740	1,667
		766,464	177,484	943,948	625,645	43,120	668,765
Debt instruments or other marketable securities							
Commercial paper issue	EUR	-	75,000	75,000	-	-	-
Accrued interest payable		-	2,932	2,932	-	3,142	3,142
Total		766,464	255,416	1,021,880	625,645	46,262	671,907

In 2018 the changes in "Bank borrowings and debt instruments or other marketable securities" were as follows (in thousands of euros):

Balance at 31 December 2017	668,765
Cash flows	
New drawdowns	533,844
Maturity payments	(355,655)
	178,189
Other changes (without cash flows)	
Changes in the scope (Note 2-f)	184,822
Translation differences	(13,041)
Amortised cost adjustments and other	213
	171,994
Balance at 31 December 2018	1,018,948

The bank borrowings are presented in the consolidated balance sheet adjusted by the costs incurred in the arrangement of the loans.

Ctrens - BNDES

In relation to the CPTM train lease transaction described in Note 9-c, on 10 May 2011, the subsidiary Ctrens-Companhia de Manutenção, S.A. (Ctrens) arranged with Banco Nacional de Desenvolvimento Econômico e Social (BNDES) financing for a maximum amount of BRL 946,890 thousand. The loan bears interest at TJLP (Taxa de Juros de Longo Prazo) plus a spread. The loan principal will be repaid in 160 successive monthly instalments, the first of which was paid in January 2013.

The related agreement contains certain restrictive clauses limiting the ability of Ctrens-Companhia de Manutenção, S.A., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends, and establishing the obligation to achieve certain financial conditions from January 2013

onwards, including a debt service coverage ratio (which must be over 1.2) and minimum capital structure ratio (which must be over 0.24). These clauses were met in 2018 and 2017.

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.

Provetren - Banking syndicate

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

The loan principal will be repaid in 39 consecutive quarterly instalments, in line with the collection profile under the PPS, the first maturity date being October 2013.

The related agreement contains certain restrictive clauses limiting the ability of Provetren, S.A., de C.V., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends if certain ratios have not been achieved, and establishing the obligation to achieve certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15). These clauses were met in 2018 and 2017.

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

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

Loans of the Parent

In 2018 the Parent arranged five new loans with banks for a total of EUR 175 million. These loans had been drawn down in full at 31 December 2018.

Besides, in 2018 the Parent repaid EUR 6.5 million on maturity.

At 31 December 2018, total bank borrowings included EUR 410.2 million tied to a fixed interest rate (EUR 31.7 million through an interest rate swap, Note 17).

In 2017 the Parent arranged three new loans totalling EUR 65 million, which have been drawn down in full, and renegotiated certain loans for a total of EUR 75 million, increasing the amount drawn down by EUR 5 million. In 2017 EUR 12 million were repaid and a loan of EUR 14 million was repaid early. These loans were arranged on an arm's length basis. Of the amount drawn down, EUR 263 thousand are tied to a fixed interest rate (EUR 13.3 thousand through an interest-rate swap, Note 17).

Solaris

On 28 October 2016, Solaris Bus & Coach, S.A. (SBC) was granted financing by a consortium of banks. This financing has two tranches (A and B). Tranche A's financing is limited to PLN 400 million and Tranche B's is limited to PLN 100 million. Both tranches mature in October 2020 and at 31 December 2018 PLN 349 million (EUR 81 million at the closing exchange rate) had been drawn down against them. The financing is secured mainly by Solaris' assets and receivables (property, plant and equipment, trademarks, current accounts and accounts receivable, among others).

The loan accrues interest at market rates and is subject to fulfilment of certain financial conditions, which include maintaining a debt/equity ratio lower than 3.5, a debt service coverage ratio equal to or higher than 1.25, an equity-to-asset ratio equal to or higher than 20%, positive equity and a maximum investment amount.

On 21 December 2018, the agreement of 28 October 2016 was amended, whereby the banks released the company from fulfilling the financial conditions on the reporting date.

SBC also has a current payable amounting to PLN 240 million (EUR 56 million at the closing exchange rate) relating to discounted drafts, which accrue interest at market rates.

Lastly, there are current payables amounting to EUR 8 million drawn down by Solaris Norge AS, Solaris France SARL and Solaris Sverige AB mainly, which accrue interest at a market rate and are secured by Solaris Bus & Coach, S.A.

CAF Investment Projects, S.A.U. and others

In July 2016 the subsidiary CAF Investment Projects, S.A.U. drew down a loan for EUR 20,000 thousand. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by CAF Investment Projects, S.A.U. in foreign companies. At 31 December 2018 and 2017, this ratio was achieved.

The remaining financial debt relates to loans received by various subsidiaries that are tied to a market interest rate.

Commercial paper issue

On 21 December 2017, the Parent arranged a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million ("the Programme"), which was registered at the Irish Stock Exchange. In 2018 EUR 230 million were issued with a charge to this programme, which were repaid on maturity. This programme was renewed for a period of 12 months with the same aggregate maximum principal amount. Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF is able to issue ordinary fixed-income securities with a maturity of less than 364 days, which may be listed on the regulated market of the Irish Stock Exchange, or on any other stock exchange or trading system. At 31 December 2018, EUR 75 million had not yet matured. This amount is related to issues maturing in the first few months of 2019.

Undrawn credit facilities and maturities

In addition to the foregoing, the Group's companies have undrawn credit facilities amounting to EUR 246,525 thousand (31 December 2017: 149,775 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

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

	31/12/18		31/12/17
2020	142,152	2019	104,961
2021	173,723	2020	62,560
2022	138,249	2021	175,047
2023	77,149	2022	139,485
2024 and subsequent years	235,191	2023 and subsequent years	143,592
Total	766,464	Total	625,645

17. Derivative financial instruments

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

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

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

2018

Currency put options at 31/12/18	Maturity (in currency)		
	2019	2020	2021 and subsequent years
Fair value hedges			
USD currency forwards (*)	471,705,519	13,714,275	-
GBP currency forwards	244,987,890	183,117,700	249,852,362
EUR currency forwards	3,218,940	159,470	-
BRL currency forwards	158,048,888	-	-
SEK currency forwards	583,657,791	86,664,170	-
AUD currency forwards	50,561,761	10,516,460	106,827,784
TWD currency forwards	103,345,637	-	-
SAR currency forwards	100,632,687	-	-
MXN currency forwards	2,940,465,872	15,934,685	-
CAD currency forwards	47,047	-	-
TRY currency forwards	11,565,720	-	-
JPY currency forwards	13,589,382,335	4,081,705,774	-
ARS currency forwards	76,866,717	-	-
ZAR currency forwards	3,984,534	-	-

(*) Including the partial hedge of a net investment in CAF USA, Inc. amounting to USD 22,300 thousand and the hedge of a net investment in Provetren amounting to USD 213,106 thousand.

Currency call options at 31/12/18	Maturity (in currency)		
	2019	2020	2021 and subsequent years
Fair value hedges			
USD currency forwards	40,544,900	31,873,000	-
EUR currency forwards	77,998,398	-	-
BRL currency forwards	7,020,251	-	-
MXN currency forwards	59,767,000	1,382,694,596	-
JPY currency forwards	-	3,297,090,500	-
GBP currency forwards	1,389,063	76,400,000	-
Cash flow hedges			
COP currency forwards	-	48,000,000,000	-
GBP currency forwards	24,397,052	-	-

Interest rate derivatives	Loan maturity (in currency)		
	2019	2020	2021 and subsequent years
Euribor swap	6,666,667 EUR	-	EUR 25,000,000
LIBOR swap	20,494,634 USD	USD 16,150,923	USD 58,988,067

	Thousands of euros			
	Fair value		Cash flow	
	31/12/18	31/12/17	31/12/18	31/12/17
Hedges:				
USD currency forwards	(23,945)	14,419	31	-
GBP currency forwards	(19,552)	(581)	-	(38)
MXN currency forwards	(14,962)	(16,068)	-	(1,789)
BRL currency forwards	(2,766)	(6,409)	-	-
EUR currency forwards	(1,071)	1,900	-	-
SEK currency forwards	(2,331)	(1,066)	-	-
SAR currency forwards	1,218	(2,733)	-	-
TWD currency forwards	798	666	-	-
JPY currency forwards	4,295	(532)	-	(288)
Currency forwards in other currencies	35	(108)	(29)	-
Forward rate agreements	-	(23)	(525)	(88)
Measurement at year-end (*)	(58,281)	(10,535)	(523)	(2,203)

(*) Before considering the related tax effect

2017

Currency put options at 31/12/17	Maturity (in currency)		
	2018	2019	2020 and subsequent years
Fair value hedges			
USD currency forwards (*)	569,473,785	79,313,750	-
GBP currency forwards	184,930,953	112,649,300	95,037,543
EUR currency forwards	10,210,376	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	293,315,120	301,302,732	86,664,170
AUD currency forwards	65,935,494	13,524,295	517,767
TWD currency forwards	401,347,969	-	-
SAR currency forwards	287,127,754	-	-
MXN currency forwards	3,069,543,269	-	-
CAD currency forwards	1,212,495	-	-
TRY currency forwards	4,681,236	-	-
JPY currency forwards	13,642,169,888	3,694,606,739	4,081,705,774
ARS currency forwards	56,000,000	-	-

(*) Including the hedge of a net investment in CAF USA, Inc. amounting to USD 67,766 thousand and in Provetren amounting to USD 265,366 thousand.

Currency call options at 31/12/17	Maturity (in currency)		
	2018	2019	2020 and subsequent years
Fair value hedges			
USD currency forwards	7,019,282	11,598,823	24,289,000
EUR currency forwards	156,717,045	-	-
BRL currency forwards	628,825	-	-
MXN currency forwards	59,767,000	-	-
GBP currency forwards	2,675,136	-	-
Cash flow hedges			
JPY currency forwards	-	-	4,588,021,500
MXN currency forwards	-	-	591,486,246
GBP currency forwards	-	25,000,000	-

Interest rate derivatives	Loan maturity (in currency)		
	2018	2019	2020 and subsequent years
Euribor swap	EUR 6,666,666	EUR 6,666,667	-
LIBOR swap	USD 18,598,760	USD 20,494,634	USD 75,138,990

At 2018 and 2017 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (Note 9-a) had arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 4,643 thousand at 31 December 2018, net of the related tax effect (31 December 2017: EUR 4,994 thousand). This amount was recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated balance sheet as at 31 December 2018.

The hedging instruments expire in the same year in which the cash flows are expected to occur.

Following is a reconciliation of the remeasurement at each year-end to the carrying amounts recognised in the consolidated balance sheet (in thousands of euros):

	2018	2017
Non-current assets	10,720	15,842
Current assets	5,849	41,864
Non-current liabilities	(11,206)	(18,131)
Current liabilities	(64,167)	(52,313)
Balance sheet net total	(58,804)	(12,738)
Fair value	(58,281)	(10,535)
Cash flow	(523)	(2,203)
Total derivatives, remeasured	(58,804)	(12,738)

In 2018 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 3,618 thousand (2017: expense of EUR 1,933 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 4,861 thousand in 2018 (2017: expense of EUR 26,827 thousand), which is similar to the changes in value of the hedged items.

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

18. Current and deferred taxes

The Group calculated the provision for income tax at 31 December 2018 in accordance with the applicable tax legislation. On 10 May 2018, Guipúzcoa Income Tax Regulation 1/2018 was approved, which substantially changed the tax regime applicable to the Tax Group headed by the Parent. Therefore, as a result of the reduction in the tax rate from 28% to 26% in 2018 and to 24% in 2019, and of changes in the limit on the use of tax credits and the offset of prior years' tax losses, the amount of the deferred tax assets and liabilities was adjusted, which gave rise to an income tax expense of EUR 13,753 thousand. However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof.

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

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

	Thousands of euros	
	2018	2017
Accounting profit before tax	80,575	67,510
Tax rate of the Parent	26%	28%
Income tax calculated at the tax rate of the Parent	20,950	18,903
Effect of the different tax rate of subsidiaries	3,168	1,912
Effect of exempt income and non-deductible expenses for tax purposes	4,069	5,008
Effect of tax credits and other tax relief recognised in the year	(2,269)	(3,579)
Effect of tax assets and deferred taxes not recognised in previous years	1,027	3,163
Adjustments recognised in the year relating to prior years' income tax	257	(15)
Change in tax rate	13,753	(399)
Total income tax expense recognised in the consolidated statement of profit or loss	40,955	24,993
Current tax expense (*)	36,130	17,160
Deferred tax expense	4,825	7,833

(*) 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 2018, the Parent had fulfilled all the investment commitments related to this incentive (Note 14).

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

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

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

	Thousands of euros								
	31/12/17	Initial adjustments (Notes 2-b, 2-f and 7)	Adjusted opening balance at 01/01/18	Inclusions in the scope of consolidation	Additions	Disposals	Translation differences	Regularisations and changes in rates	31/12/18
Deferred tax assets:									
Tax credit and tax loss carryforwards (Note 3-l)	86,560	-	86,560	2,366	22,046	(27,157)	(1,060)	(12,671)	70,084
Provisions temporarily not deductible	50,486	2,795	53,281	12,728	23,510	(12,801)	(1,399)	(4,523)	70,796
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,109	-	3,109	-	-	(215)	-	(443)	2,451
Elimination of profits on consolidation and other	4,834	-	4,834	222	885	(29)	(348)	(347)	5,217
	144,989	2,795	147,784	15,316	46,441	(40,202)	(2,807)	(17,984)	148,548
Deferred tax liabilities:									
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	115,050	-	115,050	363	5,153	(6,380)	(842)	(4)	113,340
Investment valuation provisions	25,110	-	25,110	-	-	-	-	(2,511)	22,599
Cash flow hedges (Note 17)	-	-	-	-	-	-	-	-	-
Revaluation of intangible and material assets (Notes 2-f and 14)	11,829	3,684	15,513	26,515	-	(1,167)	(37)	(1,690)	39,134
Exchange differences	58	-	58	138	12	(135)	1	-	74
Goodwill	28	-	28	-	-	(2)	-	(10)	16
Elimination of profits on consolidation and other	1,730	-	1,730	-	324	-	(10)	(16)	2,028
	153,805	3,684	157,489	27,016	5,489	(7,684)	(888)	(4,231)	177,191

	Thousands of euros				
	31/12/16	Additions (*)	Disposals	Translation differences	31/12/17
Deferred tax assets:					
Tax credit and tax loss carryforwards (Notes 3-l)	103,623	4,270	(18,642)	(2,691)	86,560
Provisions temporarily not deductible (*)	45,105	15,638	(7,605)	(2,652)	50,486
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,525	11	(427)	-	3,109
Elimination of profits on consolidation and other	6,923	3	(1,584)	(508)	4,834
	159,176	19,922	(28,258)	(5,851)	144,989
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	133,464	6,200	(8,100)	(16,514)	115,050
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	(55)	55	-	-	-
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Exchange differences	127	-	(64)	(5)	58
Goodwill	19	9	-	-	28
Elimination of profits on consolidation and other	1,643	857	(794)	24	1,730
	172,137	7,121	(8,958)	(16,495)	153,805

(*) Including EUR 10 thousand for changes in the scope of consolidation, Note 2-f.

In 2018 the Group expects to take tax credits amounting to EUR 13,279 thousand (2017: EUR 15,036 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 2018 amounted to EUR 113,250 thousand (2017: EUR 101,650 thousand), of which EUR 32,293 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2017 EUR 28,909 thousand). The tax loss carryforwards recognised amounted to EUR 37,791 thousand at 31 December 2018 (31 December 2017: EUR 57,651 thousand). The tax loss carryforwards relate mainly to the Parent's tax group EUR 36,708 thousand (31 December 2017: EUR 41,742 thousand). At 31 December 2018, Provetren, S.A. de C.V. also recognised deferred tax liabilities of EUR 72,148 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation (31 December 2017: EUR 75,002 thousand).

Lastly, at 31 December 2018 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 38,820 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 2017: EUR 38,887 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 133,760 thousand (2017: EUR 103,754 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 11,182 thousand (2017: EUR 12,975 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	
	31/12/18	31/12/17
Expiring in 2020	7	15
Expiring in 2021	1,994	178
Expiring in 2022	8	101
Expiring in 2023	712	-
Expiring in 2024	788	788
Expiring in 2025	380	11,913
Expiring in 2026	352	9,441
Expiring in 2027	1,399	24,070
Expiring in 2028 and subsequent years	89,442	44,774
Unlimited	49,860	25,395
	144,942	116,675

The differences between the estimated income tax for 2017 and the tax return ultimately filed gave rise to income of EUR 257 thousand (2017: income of EUR 15 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 2018 year-end the Group had 2014 and subsequent years open for review by the tax authorities for income tax and 2015 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 (Trade tax and tax on erection and installation projects and construction work). 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. Also, in relation to the tax on business activity, on 15 January 2018 the Group received the decisions of the Beasain Municipal Council dismissing the appeals for reconsideration lodged. In May 2018 the Group submitted its pleadings to the Guipúzcoa Economic-Administrative Tribunal. No decision has been handed down to date. An appeal for judicial review was filed in relation to the tax on erection and installation projects and construction work, with no further developments taking place.

Also, on 20 June 2017, the Parent was notified by the provincial tax authorities of Guipúzcoa of the commencement of partial tax audits in relation to the income tax of the Parent and of Tax Group no. 03/07/G for 2012 to 2015. The Parent submitted the information required for those proceedings, but the tax inspectors have yet to make any statement in relation thereto. The Group's directors do not expect any liabilities to arise as a result of these audits.

19. Public Authorities

The detail of the receivables from and payables to public authorities at 31 December 2018 and 2017 is as follows:

	Thousands of euros							
	31/12/18				31/12/17			
	Assets		Liabilities		Assets		Liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Accrued social security taxes	-	3	-	15,260	-	6	-	9,662
Regular taxes								
VAT (Note 9-b)	30,055	80,802	-	45,785	34,691	65,206	-	32,647
Other	-	3,335	-	382	-	2,767	-	72
Personal income tax withholdings	-	-	-	11,358	-	-	-	8,954
Income Tax (Note 3-l)	-	13,633	-	6,447	-	10,030	-	5,009
Grants receivable	-	1,729	-	-	-	1,391	-	-
Total	30,055	99,502	-	79,232	34,691	79,400	-	56,344

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 2018 and 2017 were as follows (in thousands of euros):

	Long-term provisions	Short-term provisions					Total short-term provisions
		Contractual liability	Warranty and support services	Litigation	Other provisions		
Balance at 31/12/16	4,646	124,597	95,103	1,780	6,457	227,937	
Changes in the scope of consolidation	618	398	-	-	-	398	
Net charge for the year (Notes 3-j and 18)	2,678	8,016	44,792	646	(1,605)	51,849	
Amounts used charged to profit or loss	(945)	(3,930)	(43,831)	(409)	(137)	(48,307)	
Translation differences	(300)	(498)	(2,692)	(117)	(495)	(3,802)	
Transfers	374	(52)	(84)	-	-	(136)	
Balance at 31/12/17	7,071	128,531	93,288	1,900	4,220	227,939	
Adjustment due to IFRS 15 (Notes 2-b and 12)	-	(83,612)	-	-	-	(83,612)	
Adjusted balance at 01/01/18	7,071	44,919	93,288	1,900	4,220	144,327	
Changes in the scope of consolidation	206	478	42,018	284	1,776	44,556	
Net charge for the year (Notes 3-j and 18)	1,834	13,703	73,473	1,550	1,751	90,477	
Amounts used charged to profit or loss	(2,574)	(236)	(50,309)	(848)	(1,180)	(52,573)	
Translation differences	(1)	(258)	(552)	(88)	(300)	(1,198)	
Transfers	341	(294)	(279)	-	(46)	(619)	
Balance at 31/12/18	6,877	58,312	157,639	2,798	6,221	224,970	

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 provisions for onerous contracts. The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts. The expected period to settle the provisions varies on the basis of their nature, the average approximate period being:

- Contractual liability: 1-2 years
- Warranty: 1-4 years (varies on the basis of the contractual arrangement to which it relates)

The consolidated companies recognised an expense of EUR 37,733 thousand under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss for 2018 (2017: expense of EUR 3,542 thousand) relating to the difference between the provisions required in this connection at 2018 year-end and the provisions recognised at 2017 year-end.

The expenses incurred in 2018 and 2017 in connection with the provision of contractual warranty services (approximately EUR 50,309 thousand and EUR 43,831 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated statements of profit or loss for 2018 and 2017.

21. Other non-current/current assets and liabilities

The detail of the Group's "Other Assets" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Assets for the right to recover (Note 3-f)	2,684	-
Other non-current assets	2,684	-
Prepayments	6,203	3,229
Assets for the right to recover (Note 3-f)	140	-
Other current assets	6,343	3,229

The detail of the Group's "Other Liabilities" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Advances received on sales or services rendered (Note 12)	41,228	55,821
Advances received on operating leases (Note 8)	37,993	-
Refund liabilities	2,965	-
Other non-current liabilities	82,186	55,821
Advances received on operating leases (Note 8)	4,964	-
Unearned revenue	631	316
Refund liabilities	219	-
Other current liabilities	5,814	316

As detailed in Note 3-f, certain bus sale agreements grant a right to recover to the customers. If it is determined that the contract is an operating lease, the billings received in advance are recognised under "Advances Received on Operating Leases". If, on the other hand, it is concluded that the contract is a sale with a right of return, the value of the asset to be repurchased by the company is recognised under "Assets for the Right of Return" and the amount expected to be paid to recover the asset is recognised under "Refund Liabilities".

22. Income and expenses

a) Procurements

	Thousands of euros	
	2018	2017
Materials used (*)	948,354	445,676
Work performed by other companies	141,586	97,095
Total	1,089,940	542,771

(*) 78% in euros, and the remainder mainly in US dollars, pounds sterling and Polish zlotys (2017: 75% in euros).

b) Other operating expenses

	Thousands of euros	
	2018	2017
Outside services	305,499	233,144
Taxes other than income tax	4,739	3,273
Change in operating provisions and allowances and other (Notes 12 and 20)	35,279	8,552
Other current operating expenses	2,088	2,494
Total	347,605	247,463

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 1,112 thousand in 2018 (2017: EUR 838 thousand). Of this amount, EUR 726 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2017: EUR 568 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 230 thousand were billed in 2018 (2017: EUR 275 thousand), EUR 146 thousand for audit-related attest services including six-monthly reviews (2017: EUR 41 thousand), EUR 38 thousand for tax services (2017: EUR 2 thousand) and the remainder for other services.

c) Information on the environment

In 2018 and 2017 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

The Group did not receive any environmental grants in 2018.

At 31 December 2018 and 2017, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' Directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2018 the Group incurred environmental expenses amounting to EUR 436 thousand (2017: EUR 225 thousand).

d) Grants related to income

Most of the grants transferred to profit or loss in 2018 and 2017 related to grants awarded under various Spanish ministerial and European programme calls, in respect of which all the costs to be supported were incurred.

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

The grants related to income recognised in 2018 under "Other Operating Income" in the accompanying consolidated statement of profit or loss amounted to EUR 4,495 thousand (2017: EUR 5,351 thousand).

23. Average headcount and staff costs

The average headcount in 2018 and 2017 is as follows:

Professional category	Average number of employees	
	2018	2017
Board members	2	2
Senior executives	10	10
Employees	4,590	3,711
Manual workers	5,028	4,225
Total (*)	9,630	7,948

(*) At 31 December 2018, there were 11,433 employees (31 December 2017: 8,428 employees).

The breakdown, by gender, of the average headcount in 2018 and 2017 is as follows:

Professional category	2018		2017	
	Men	Women	Men	Women
Board members	1	1	1	1
Senior executives	9	1	9	1
Employees	3,364	1,226	2,718	993
Manual workers	4,852	176	4,081	144
Total	8,226	1,404	6,809	1,139

At 31 December 2018, the Parent's Board of Directors comprised 7 men and 3 women. At 31 December 2017, the Parent's Board of Directors comprised 7 men and 3 women.

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

	2018	2017
Wages and salaries (Note 3-k)	389,987	331,131
Social security costs	107,248	94,991
Other expenses (Note 3-j)	21,238	20,259
Total	518,473	446,381

24. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 2018 additional to the portion relating to the note 3-j description, the total remuneration of the Parent's Board of Directors amounted to approximately EUR 1,902 thousand (2017: EUR 1,721 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. During 2018 the Parent made contributions to long-term savings plans totalling EUR 1,000 thousand (2017: EUR 140 thousand). At 31 December 2018 and 2017, neither the Board of Directors of the Parent nor the boards of the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

In 2018 EUR 59 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2017: EUR 47 thousand).

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

In 2018 and 2017 neither the members of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the other members of the Board of any direct or indirect conflict of interest that they might have with the Parent.

25. Remuneration of senior executives

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, additional to the remuneration that may be payable to them as described in Note 3-j, amounted to EUR 2,613 thousand in 2018 (2017: EUR 2,075 thousand).

In 2018 and 2017 there were no other transactions with senior executives outside the ordinary course of business.

26. Other disclosures

a) Guarantees and other contingent assets and liabilities

At 31 December 2018, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 3,259,219 thousand (31 December 2017: EUR 2,512,263 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 12,973 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (Note 15) and other government agencies (31 December 2017: EUR 17,459 thousand).

At 31 December 2018, the Group was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and, therefore, it is difficult to assess its possible impact; however, the Parent's directors consider that the likelihood of this situation giving rise to losses for the Group is low, since there are causes that have given rise to delays that can in no case be attributed to the consortium, the amounts claimed are greater than the damage caused to the customer, and there are claims for cost overruns incurred by the consortium attributable to the customer.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. At present, following the issue of the report in

December 2018 by the Superintendence of the CADE, a decision has not yet been handed down by the Court of the CADE. 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 the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 203 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, 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 pleas in the first half of 2016. Subsequent to the ruling of the Court of Auditors which considered the existence of irregularities of any kind to be unproven, a request was made for these proceedings to be closed and dismissed. This request is awaiting a decision. Lastly, also as a result of CADE's investigations, an administrative proceeding was initiated by the São Paulo Court of Auditors in relation to which the subsidiary submitted its initial pleadings in the second half of 2018.

On 27 August 2018, the Spanish National Markets and Competition Commission ("CNMC") instituted penalty proceedings in connection with purported anti-competitive practices against various companies, which included CAF Signalling, S.A. and its parent Construcciones y Auxiliar de Ferrocarriles, S.A. as it is jointly and severally liable.

CAF is employing the legal actions to which it is entitled to defend its interests, and is at present unaware of the conduct and practices of which CAF Signalling, S.A. and Construcciones y Auxiliar de Ferrocarriles, S.A. are accused. The investigation is ongoing and the CNMC's period for handing down a decision has been interrupted and no decision by the CNMC is expected in 2019.

b) Disclosures on the average period of payment to suppliers

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2018	2017
	Days	Days
Average period of payment to suppliers	80.77	80.91
Ratio of transactions settled	84.41	85.40
Ratio of transactions not yet settled	69.95	67.00
	Thousands of euros	Thousands of euros
Total payments made	731,817	546,477
Total payments outstanding	246,651	176,709

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services included in "Payable to Suppliers" and "Other Payables" under current liabilities in the balance sheet.

The statutory maximum payment period applicable to the Parent in 2018 under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, was 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

27. Events after the reporting period

At 31 December 2018, the firm backlog, net of progress billings, amounted to approximately EUR 7,716,487 thousand (31 December 2017: EUR 6,264,780 thousand) (Note 11). At 31 January 2019, the total was EUR 8,071,641 thousand (31 January 2018: EUR 6,158,860 thousand).

Also, in February 2019 Transport for New South Wales awarded the consortium Momentum Trains Pty Ltd., formed by CAF, Pacific Partnership and DIF Infrastructure V, the project, under a public-private partnership, to supply and maintain the new fleet of regional trains for the Australian state of New South Wales over a period of 15 years.

CAF's work under this agreement exceeds EUR 500 million and its scope includes the supply of 29 regional diesel-electric units, two simulators, and the construction and equipment of a new maintenance depot in Dubbo, located to the northwest of Sydney. Also, CAF will invest in the share capital of the company that will operate the system, the first units of which are expected to enter into commercial service in 2022.

28. Explanation added for translation to English

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

APPROVAL BY THE BOARD OF DIRECTORS

ANDRÉS ARIZKORRETA GARCÍA
CHAIRMAN

JUAN JOSÉ ARRIETA SUDUPE
DIRECTOR

JAVIER MARTINEZ OJINAGA
DIRECTOR

LUIS MIGUEL ARCONADA ECHARRI
DIRECTOR

CARMEN ALLO PÉREZ
DIRECTOR

JOSÉ ANTONIO MUTILOA IZAGUIRRE
DIRECTOR

ALEJANDRO LEGARDA ZARAGÜETA
DIRECTOR

JULIÁN GRACIA PALACÍN
DIRECTOR

ANE AGIRRE ROMARATE
DIRECTOR

MARTA BAZTARRICA LIZARBE
DIRECTOR-SECRETARY

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ANE AGIRRE ROMARATE

ALEJANDRO LEGARDA ZARAGÜETA

JULIÁN GRACIA PALACÍN

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 2018 by the Board of Directors at its meeting on 27 February 2019, the directors have signed this document, consisting of 197 sheets numbered sequentially from 1 to 197, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2019.

Approved by

THE CHAIRMAN

ANDRÉS ARIZKORRETA GARCÍA

Signed

THE SECRETARY OF THE BOARD

MARTA BAZTARRICA LIZARBE