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**PROPOSALS AND SUPPORTING REPORTS FROM THE BOARD OF  
DIRECTORS REGARDING THE RE-ELECTION OF MR. ANDRÉS  
ARIZKORRETA GARCÍA AND MR. LUIS MIGUEL ARCONADA ECHARRI AS  
COMPANY DIRECTORS, INCLUDED IN AGENDA ITEMS 4.1 AND 4.2,  
RESPECTIVELY, OF THE GENERAL SHAREHOLDERS MEETING**

**1.- INTRODUCTION**

In accordance with the provisions of Article 529 decies of the Consolidated Text of the Spanish Corporate Enterprise Act (the "LSC") and Article 15 of the Board of Directors Regulations, the proposal for the appointment or re-election of non-independent Board of Director members corresponds to the Board itself. This proposal must be accompanied by a supporting report from the Board of Directors assessing the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or the meeting of the Board itself. The proposed appointment or re-election of any non-independent Director shall also be preceded by a report from the Nomination and Remuneration Committee.

The Board of Directors of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, SA ("CAF" or the "Company") has agreed to hold a General Shareholders' Meeting on 2 June 2018, on first call, or the following day on second call, with the following proposals being included in Item 4 of the Agenda:

***"Fourth:***

*4.1 Re-elect Mr. Andrés Arizkorreta García as Chief Executive Director for a term of four years.*

*4.2 Re-elect Mr. Luis Miguel Arconada Echarri as a Director under the category of "Other External Directors" for a term of four years.*

*(...). "*

The purpose of these reports is to (i) support the proposal for the re-election of Mr. Andrés Arizkorreta García as Chief Executive Director for a term of four years; (ii) support the proposal for the re-election of Mr. Luis Miguel Arconada Echarri as a Director of the Company under the category of "Other External Directors" for a term of four years; and (iii) assess the competence, experience and merits of the two proposed candidates. The previous reports in relation to these re-election proposals were issued by the Nominations and Remunerations Committee in a meeting held prior to this Board.

The aforementioned preliminary reports of the Committee are made available to the shareholders together with this report from the Board.

It is also stated that these reports contain complete information on the identity, CVs and type of

position for which the proposed candidates are being re-elected, for the purposes of Article 518 (e) of the LSC.

## **2. JUSTIFICATION OF THE PROPOSALS TO RE-ELECT MR. ANDRÉS ARIZKORRETA GARCÍA AND MR. LUIS MIGUEL ARCONADA ECHARRI**

As regards the proposals related to the re-election of the aforementioned Directors, the Board informs as follows:

### **2.1. Reports from the Nominations and Remunerations Committee**

Due to the upcoming expiry of the five year term of office of Mr. Andrés Arizkorreta García and Mr. Luis Miguel Arconada Echarri, by virtue of the resolution of the Annual General Meeting of 8 June 2013, the Nominations and Remunerations Committee has issued the appropriate prior reports, favourably assessing the re-election of both Directors. To this end, the following factors were taken into consideration, among others:

- a) Re-election of Mr. Andrés Arizkorreta García as Executive Director, for the statutory term of four years :

Mr. Andrés Arizkorreta García has a degree in Economics and Business Administration from Deusto University. He was appointed as CAF's Director for the first time in 1991, and has been re-elected to the office since then. He was appointed Chief Executive Officer of CAF on 26 July 2006 and Chairman of its Board of Directors, on 29 December 2015. He is a member of the Board of the Circle of Basque Entrepreneurs ("*Círculo de Empresarios Vascos*"). He is an "Executive Director".

The Nominations and Remunerations Committee has verified that Mr. Arizkorreta:

- (i) Complies with the requirements stipulated by law, as well as in the Board of Directors Regulations and the Company Directors Selection Policy, to be appointed as a Director.
- (i) He is not subject to any legal prohibition or incompatibility or any of the cases for reconsideration of his position by the Board, according to article 18 of the Company Board of Directors Regulations.
- (ii) Has held the position of Chairman and Chief Executive Officer of the Company with appropriate dedication and commitment to his role, and has the time required for the proper performance of his duties, and
- (iii) The legal and statutory conditions stipulated for being an Executive Director continue to be met.

Consequently, the Committee has favourably reported on the re-election of Mr. Andrés Arizkorreta as executive director for the statutory term of four years.

The re-election of Mr. Andrés Arizkorreta as a director shall lead to his continuity as Chairman of the Board of Directors, in accordance with the provisions of article 146 of the Mercantile Registry Regulations.

- b) Re-election of Mr. Luis Miguel Arconada Echarri as a member of the Board under the category of “Other External Directors” for the statutory term of four years :

Mr. Luis Miguel Arconada has extensive experience and knowledge in the field of business, through various business initiatives he has promoted or in which he has participated. He also prestigiously recognized in different areas of social and economic life since his successful period in the sports world. He was appointed as a Director of CAF for the first time in 1992, and has been re-elected for office since then. His appointment falls under the category of “Other External Directors”.

The Nominations and Remuneration Committee has verified that Mr. Arconada:

- (ii) Complies with the requirements stipulated by law, as well as in the Board of Directors Regulations and the Company Directors Selection Policy, to be appointed as a Director.
- (iii) He is not subject to any legal prohibition or incompatibility or any of the cases for reconsideration of his position by the Board, according to article 18 of the Company Board of Directors Regulations.
- (iv) Has held the position of Director of the Company with appropriate dedication and commitment to his role, and has the time required for the proper performance of his duties, and
- (v) The legal and statutory conditions which permit him to be included under the category of “Other External Directors” continue to be met.

Consequently, the Committee has favourably reported on the re-election of Mr. Luis Miguel Arconada Echarri as a Company Director under the category of “Other External Directors” for the statutory term of four years.

## **2.2. Supporting facts for the Proposals**

Within the context of the foregoing, in accordance with the provisions of the Board of Directors Regulations, and the Company Directors Selection Policy, and taking into account the reasons indicated by the Nominations and Remunerations Committee (which the Board supports), the Board of Directors considers that:

- a) The accredited experience and extensive professional career of Andrés Arizkorreta support his competence and merits to occupy the position of Director. The Board highly values his extensive knowledge of the CAF Group and the market and sector in which the Company operates, his excellent performance in his functions as Chairman and Chief Executive Officer of the Company, as well as his outstanding contribution to the Board of Directors throughout his term; thus his re-election to the post is considered justified and appropriate.
- b) Mr. Luis Arconada has the competence, experience and merits that add value to the Company, and meets the conditions to be re-elected as a member of the Board of Directors. The Board highly values his extensive knowledge of the Company, as well as the outstanding work he has performed on the Board since his initial appointment and, consequently, proposes his re-election to the Board for the statutory period of four years.

### **3. CONCLUSION AND PROPOSALS FOR AGREEMENTS**

For all the above reasons, the Board considers the following proposed resolutions justified and shall submit them to the General Shareholders' Meeting for decision by separate votes under Items 4.1 and 4.2 of the agenda:

*“4.1 Re-elect Mr. Andrés Arizkorreta García as Executive Director for a term of four years.”*

*“4.2 Re-elect Mr. Luis Miguel Arconada Echarri as a Director under the category of “Other External Directors”, for a term of four years.”*

Beasain, 24 April 2018