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## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

#### ISSUER'S PARTICULARS

**END OF FISCAL YEAR DATE**

31/12/2016

**TAX ID NO. (CIF):**

A20001020

**COMPANY NAME**

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A

**REGISTERED OFFICE**

JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA

# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

## A OWNERSHIP STRUCTURE

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

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

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

Yes

No

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
INVESCO LIMITED	0	350,070	1.02%
CARTERA SOCIAL, S.A	8,770,270	0	25.58%
BESTINVER GESTIÓN S.A., S.G.I.I.C.	0	1,057,590	3.09%
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0	4,818,523	14.06%
INDUMENTA PUERI, S.L.	1,612,422	108,950	5.02%

Name or company name of indirect holder of ownership interest	Via: Name or company name of direct holder of ownership interest	Number of voting rights
INVESCO LIMITED	GROUP COMPANIES	350,070
BESTINVER GESTIÓN S.A., S.G.I.I.C.	BESTINVER PENSIONES EGFP, S.A.	1,057,590
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	4,818,523
INDUMENTA PUERI, S.L.	WILMINGTON CAPITAL, S.L.	108,950

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
TEMPLETON INVESTMENT COUNSEL, LLC	11/03/2016	Ownership interest has fallen below 3% of share capital
KUTXABANK, S.A.	20/12/2016	Ownership interest has fallen below 15% of share capital
INDUMENTA PUERI, S.L.	28/12/2016	Ownership interest has risen above 5% of share capital

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

Name or company name of director	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
XABIER GARAIALDE MAIZTEGI	750	0	0.00%
JUAN JOSE ARRIETA SUDUPE	1,000	0	0.00%

% of total voting rights held by the Board of Directors	0.00%
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Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company

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

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

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

**Type of relationship:** Contractual

**Brief description:**

Workers' share instrument in CAF.

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

**Type of relationship:** Corporate

**Brief description:**

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

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

Yes

No

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

Yes

No

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

Not applicable

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Act. If so, identify.

Yes

No

<b>Comments</b>
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A.8 Complete the following tables on the company's treasury stock.

**At year-end:**

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

**(\*) Through:**

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

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

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

A.9.bis Estimated floating capital:

	%
<b>Estimated floating capital</b>	51.23

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

Yes

No

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

Yes

No

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

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

Yes

No

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

## **B ANNUAL GENERAL MEETING**

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

Yes

No

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

Yes

No

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

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

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

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

Date of Annual General Meeting	Attendance data				Total
	% attendance in person	% attendance by proxy	% remote voting		
			Electronic vote	Other	
13/06/2015	45.63%	24.77%	0.00%	0.00%	70.40%
11/06/2016	45.10%	27.92%	0.00%	0.00%	73.02%

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

Yes No 

Number of shares required to attend an Annual General Meeting

1,000

**B.6 Section repealed.****B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.**

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

This link includes, in a structured format, the information required by Royal Decree-Law 1/2010, of 2 July, which approved the Consolidated Companies Law, the Consolidated Securities Market Law, approved by Royal Decree-Law 4/2015, of 23 October, the Circular 3/2015, of 13 June, on technical and legal specifications and information to be contained in the websites of listed companies and savings banks issuing securities admitted for trading in official secondary stock markets.

Apart from current bylaws, specifically subsection "Corporate Governance" contains the most important information on this matter (General Shareholders' Meeting and Board of Directors Regulations; the Company's Internal Rules of Conduct within the sphere of Stock Markets; structure of the Board of Directors and its committees; Corporate Governance Annual Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, and other Regulations and Codes).

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

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

**C MANAGEMENT STRUCTURE OF THE COMPANY****C.1 Board of Directors****C.1.1 List the maximum and minimum number of directors included in the Bylaws.**

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	7

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

Name or corporate name of director	Representative	Director's condition	Board office	Date of first appointment	Date of last appointment	Procedure for election
ANDRES ARIZKORRETA GARCIA		Executive	CHAIRMAN AND CEO	26/12/1991	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
JUAN JOSE ARRIETA SUDUPE		Independent	COORDINATOR DIRECTOR	07/06/2008	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING

Name or corporate name of director	Representative	Director's condition	Board office	Date of first appointment	Date of last appointment	Procedure for election
LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
XABIER GARAIALDE MAIZTEGI		Other External	DIRECTOR	18/11/2004	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
JAVIER MARTINEZ OJINAGA		Independent	DIRECTOR	13/06/2015	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	28/10/2015	COOPTION
MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR-SECRETARY OF THE BOARD	22/01/2016	22/01/2016	COOPTION
CARMEN ALLO PÉREZ		Independent	DIRECTOR	11/06/2016	11/06/2016	APPOINTED AT THE ANNUAL GENERAL MEETING

<b>Total number of directors</b>	9
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Indicate any removals of directors during the reporting period:

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

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

### **EXECUTIVE DIRECTORS**

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

<b>Total number of executive directors</b>	2
<b>% of the board</b>	22.22%

### **EXTERNAL PROPRIETARY DIRECTORS**

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

<b>Total number of proprietary directors</b>	1
<b>% of the board</b>	11.11%

### **INDEPENDENT EXTERNAL DIRECTORS**

**Name or corporate name of director:**

JUAN JOSE ARRIETA SUDUPE

**Profile:**

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

**Name or corporate name of director:**

JAVIER MARTINEZ OJINAGA

**Profile:**

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

**Name or corporate name of director:**

CARMEN ALLO PÉREZ

**Profile:**

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

<b>Total number of independent directors</b>	3
<b>Total % of the Board</b>	33.33%

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

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

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

### **OTHER EXTERNAL DIRECTORS**

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

**Name or corporate name of director:**

LUIS MIGUEL ARCONADA ECHARRI

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

LUIS MIGUEL ARCONADA ECHARRI

**Reasons:**

Director Luis Miguel Arconada 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.

**Name or corporate name of director:**

ALEJANDRO LEGARDA ZARAGÜETA

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

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

**Reasons:**

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

**Name or corporate name of director:**

XABIER GARAIALDE MAIZTEGI

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

XABIER GARAIALDE MAIZTEGI

**Reasons:**

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

<b>Total number of Other External directors</b>	3
<b>Total % of the Board</b>	33.33%

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

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

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

	Number of female directors				% of total directors of each type			
	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013
<b>Executive</b>	1	0	0	0	50.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	1	0	0	0	33.33%	0.00%	0.00%	0.00%
<b>Other External</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total</b>	2	0	0	0	22.22%	0.00%	0.00%	0.00%

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

**Explanation of measures**

The company attempts to include a number of women in the Board of Directors so as to reach a balanced number of men and women.

In turn, CAF has a Directors' Selection Policy aimed at, among others, favouring gender diversity in appointing the members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quincecies of Companies Law. Particularly, the express purpose of the Directors' Selection Policy is that the number of female directors represent at least thirty percent of all Board of Directors' members by year 2020.

According to the action plan established in the Board of Directors' annual assessment report for the fiscal year 2015, during the first Board of Directors' meeting held in fiscal year 2016, with the prior favourable report from the Nomination and Remuneration Committee, a new female director was appointed by cooption and this appointment was ratified in the General Shareholders Meeting held in 2016. In turn, a second female director was appointed as well during said Annual General Meeting.

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

**Explanation of measures**

CAF's Nomination and Remuneration Committee ensures that, in covering new vacancies, the selection processes used are not implicitly impartial and do not hinder the selection of female directors, thus including women with the expected profile among potential candidates under the same conditions. Such role appears in point 3 of the Company's Nomination and Remuneration Committee, as approved by the Board of Directors.

The Nomination and Remuneration Committee selected and issued the favourable reports for the appointment of the two female directors mentioned in section C.1.5 above during the fiscal year 2016.

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

**Description of the reasons**

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

**Explanation of conclusions**

Directors' nominations and ratifications approved since the entry into force of CAF's Directors Selection Policy have taken place in strict compliance with its provisions, and in particular with regard to the specific purpose that, in 2020, women Directors represent at least thirty per cent of the Board of Directors' members.

In particular, the Directors Selection Policy was followed, both in the candidates' selection process and in the final decision in terms of competence, experience, qualification, professional profile and availability of time necessary to fulfil the commitments and dedication required by the director's position.

Likewise, in the event that two women Directors are appointed as described in sections C.1.5 and C.1.6 above, their contribution to the diversity of experiences, knowledge and gender was taken into account within the Board.

Additionally, it should be noted that with the appointment of the two women Directors, the Action Plans established in the Annual Evaluation Reports from the Nomination and Remuneration Committee and from the Board of Directors prepared in 2015 have been fulfilled.

In view of the foregoing, CAF's Nomination and Remuneration Committee considers that the Directors Selection Policy approved by the Company has been satisfactorily fulfilled.

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

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

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

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

Yes

No

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

**Name of board member:**

JOSE IGNACIO BERROETA ECHEVARRIA

**Reasons for resignation:**

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

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

**Name or corporate name of director:**

ANDRES ARIZKORRETA GARCIA

**Brief description:**

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

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

Name or corporate name of director	Corporate name of the group entity	Position	Does he hold any executive positions?
ANDRES ARIZKORRETA GARCIA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
ANDRES ARIZKORRETA GARCIA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Natural person representing the Sole Director CAF, S.A.	YES
ANDRES ARIZKORRETA GARCIA	CAF DEUTSCHLAND GMBH	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF SISTEME FERROVIARE, S.R.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF NEW ZEALAND LIMITED	Director	YES
ANDRES ARIZKORRETA GARCIA	CAF CHILE, S.A.	Chairman	NO
ANDRES ARIZKORRETA GARCIA	CAF ARGELIA EURL	Sole Director	YES

Name or corporate name of director	Corporate name of the group entity	Position	Does he hold any executive positions?
ANDRES ARIZKORRETA GARCIA	CAF FRANCE SAS	Chairman	YES
ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF HUNGARY Korlátolt Felelősségű Társaság	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.U.	Joint and Several Director	YES
ANDRES ARIZKORRETA GARCIA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF TURNKEY & ENGINEERING, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF INDIA PRIVATE LTD	Managing Director	YES
ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS S.A.P.I. DE C.V.	Chairman and Non-Executive	NO
MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇÃO, S.A.	Director	NO
MARTA BAZTARRICA LIZARBE	PROVETREN, S.A. de C.V.	Director	NO

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

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

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

Yes

No

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

C.1.14 Section repealed.

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

<b>Board remuneration (thousands of euros)</b>	1,495
<b>Amount of the pension rights accumulated by current directors (in thousands of euros)</b>	90
<b>Amount of the pension rights accumulated by former directors (in thousands of euros)</b>	0

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

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

<b>Total remuneration received by senior management (thousands of euros)</b>	2,041
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C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

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

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

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

Yes

No

<b>Description of changes</b>
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At its meeting held on 25 February 2016, the Company's Board of Directors unanimously adopted the agreement to amend certain articles of its Regulations in order to comply with several Corporate Governance recommendations of the Listed Companies.

The amended articles are:

Article 8 (As regards the incorporation of additional functions to the Coordinating Director).

Article 10 (As regards the possibility of creating a Supervision and Control Committee and establishing certain composition and operation rules for the same).

Article 23 (As regards setting a simultaneous membership limit of the Directors to several Listed Companies' Boards of Directors outside the CAF group).

The amended Board of Directors' Regulations were communicated as a Material Event to the National Securities Market Commission (CNMV) and has been available since then in CAF's corporate website, [www.caf.net](http://www.caf.net).

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

**APPOINTMENT** The Board of Directors shall be composed of no less than seven and no more than fifteen members freely appointed by the General Annual Meeting or, in case of early vacancy, by the same Board through cooption. The director does not need to be a shareholder. Disqualification on the grounds of conflict of interest or any other legal grounds shall apply. Should a vacancy occur during the Directors were appointed, the Board of Directors may cover them until the first General Meeting is held. Should the vacancy take place once the General Meeting has been called but before it is held, the Board of Directors may appoint a director until the following General Meeting is held. Should the vacancy be for the position of Chairman or Executive Director, the Board of Directors may cover the vacancies and temporarily appoint a Chairman. The Board may also appoint a Chief Executive Officer with the favourable vote of two thirds of its members. Such appointments shall be fully effective until the first General Shareholders' Meeting. Additionally, in exercising its powers of proposal to the General Meeting and of cooption in case of vacancies, the Board shall ensure that in the Board structure non-executive directors represent the majority over executive directors, that among independent directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital. However, this last condition may be relaxed by recognising more significance to proprietary directors, upon existence of a plurality of shareholders represented in the Board with no links between them. Additionally, Board Regulations establishes the following rules related to appointment of Directors: Any appointment or re-election proposal submitted by the Board of Directors to the General Meeting for approval and any appointments made by the Board by its legally stipulated powers of cooption shall be preceded by the corresponding proposal by the Nomination and Remuneration Committee, in the case of Independent Directors and by the Board for the rest of the cases. The proposal shall be accompanied with an explanatory report issued by the Board of Directors, assessing the competence, experience and merits of the proposed candidate, to be attached to the General Meeting or Board of Directors' Meeting minutes. The proposed appointment or re-election of any non-independent director shall also be preceded by a report from the Nomination and Remuneration Committee. The abovementioned shall also apply to natural persons appointed representatives of an artificial person acting as director. The natural person proposed to be a representative shall be subject to the report from the Nomination and Remuneration Committee. Should the Board decide not to follow the proposals of the Nomination and Remuneration Committee, it shall submit and minute its reasons for such decision. The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Likewise, Directors should also be offered refresher programmes when circumstances so advise. With regard to the appointment of Non-Executive Directors, the Board of Directors shall ensure that candidates be individuals of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. The Board of Directors may not propose or appoint as Independent Directors any individuals who are or have been related to the Company or Group companies' management, or to a significant shareholder, or with family ties up to the second degree of kinship and blood relatives up to the third degree, professional or commercial relations with Executive Directors or any other senior executive, or significant shareholders of the Company or Group companies. Specifically, individuals matching the descriptions below shall not be proposed or appointed as Independent Directors: a) If they have been employed or acted as executive directors in Group companies, unless 3 or 5 years have elapsed since the termination of such a relationship, respectively. b) Individuals who are paid by the Company or the Group itself any amount or benefits other than the director compensation, unless they are not significant. Dividends or pension supplements received by the Director for his/her former professional or labour relationship shall not be taken into account, for the purposes of the paragraph above, insofar as such supplements be unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company. c) Individuals who are or have been in the last 3 years partners to the external auditor or person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company. d) Executive Directors or senior management of a different company where a Company Executive Director or Senior Manager.

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

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

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

In order to evaluate the structure and competence diversity, the performance and structure of its committees, the performance of its Chairman and Managing Director, and the performance and contribution of each director, the Board of Directors based on the report issued by the Audit Committee and, especially, the reports issued by the Nomination and Remuneration Committee.

The areas subject to evaluation have been as follows:

- i. The quality and efficiency of the Board of Directors' operation.
- ii. The performance and structure of its committees.
- iii. The structure and competence diversity of the Board of Directors.
- iv. The performance of the Board of Directors' Chairman and the CEO.
- v. The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

In view of this evaluation, the Board of Directors has issued its conclusions and set several action plans to be implemented during fiscal year 2017.

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

C.1.21. Indicate the cases in which directors must resign.

Directors must tender their resignation to the Board of Directors and, if the latter sees fit, resign in the following cases: a) The Proprietary Director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of Proprietary Directors. b) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement. Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.22 Section repealed.

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

Yes

No

If applicable, describe the differences.

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

Yes

No

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

Yes

No

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

Yes

No

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors:

Yes

No

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

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

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

<b>Number of board meetings</b>	8
<b>Number of board meetings held without the Chairman's attendance</b>	0

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

<b>Number of meetings</b>	0
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Indicate the number of meetings of the various board committees held during the year:

<b>Committee</b>	<b>Number of Meetings</b>
AUDIT COMMITTEE	5

Committee	Number of Meetings
NOMINATION AND REMUNERATION COMMITTEE	4

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

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

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

Yes  No

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

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

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

The Board of Directors delegates on the Audit Committee the monitoring of financial balances and auditing services in order to avoid any qualifications. Financial statements for the year ended 31 December 2015 and previous years were approved without qualifications.

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

Yes  No

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

C.1.34 Section repealed.

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

The Company has regulated the relationships with Markets and Auditors. CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for: (A) Regarding relations with Markets: (i) The Board shall guarantee the fulfilment of the obligation to deliver information to Markets pursuant to the legislation in force at each given time. (ii) The Board shall also guarantee that periodic financial information, other than Financial Statements and, in general, any other information disclosed to the Markets, is prepared pursuant to the same professional principles, criteria and practices applied to the Financial Statements and that such information is as reliable as the latter. (iii) The Board shall include information about the Company's rules of governance in its annual public report. B) Regarding relations with Auditors: i) Company relations with external auditors shall be channelled through the Audit Committee, pursuant to the Audit Committee Bylaws and Regulations. (ii) The Board shall inform in the Annual Report the remuneration paid to the audit firm in each period for services other than auditing. (iii) The board shall prepare the financial statements ensuring there will be no qualifications by the auditor. However, in case the Board considers its criteria should be maintained,

the content and scope of the discrepancy shall be explained. In addition, according to the Company's Bylaws, the Audit and Compliance Committee is responsible for gathering information on matters that may call the auditor's independence into question, for the analysis by the Committee, as well as any other matters related to the auditing process and any further notifications foreseen in the audit laws and in the audit technical standards. In any case, every year it will be required to receive from external auditors their statement of independence regarding the entity or entities related directly or indirectly thereto, as well as the information on any additional service rendered and the relevant fees paid by these entities to the external auditor or to the persons or entities related thereto, as established by legislation on auditing. Similarly, according to bylaws, every year the Audit Committee is required to issue, prior to the issuance of the audit report, an annual report containing an opinion on the auditor's independence. This report shall contain, as applicable, the assessment of the services provided, both individually and as a whole, other than those related to the statutory audit and pursuant to the independence regime or auditing regulations. Pursuant to the foregoing, the Company's Board of Directors Audit Committee has its own Regulations ruling its nature, composition, functions, operating standards and powers. Pursuant to such Regulations, the Audit Committee is responsible for the following functions linked to the external auditor and to preserve its independency (i) Submit before the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, pursuant to article 16, sections 2, 3, 5 and 17.5 of the Regulation (EU) 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. (ii) Establishing the appropriate relations with the external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. In any case, they must receive, on an annual basis from the external auditor, a statement affirming its independence in relation to the Company or companies directly or indirectly connected to such, as well as detailed information and a breakdown for any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. (iii) To issue, prior to the issuance of the audit report, a report expressing an opinion as to whether the independence of the external auditor is prejudiced. Such report must contain, in any case, an assessment on the provision of each and every additional services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. (iv) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same. iv. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.

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

Yes

No

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

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

Yes

No

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

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

Yes  No

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

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

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

Yes  No

**Details of the procedure**

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

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

Yes  No

**Details of the procedure**

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

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the company’s name or reputation, tendering their resignation as the case may be:

Yes  No

**Explain the rules**

According to the Board's Regulations, Directors must place their position at the Board's disposal in certain cases, and particularly when they are prosecuted for an alleged criminal offense or subject to disciplinary proceedings for serious or very serious misconduct instructed by the supervisory authorities. In turn, Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any of the crimes stated in Article 213 of the Companies Law, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such determinations in the Annual Corporate Governance Report. Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Companies Law:

Yes  No

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

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

There are no such agreements.

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

**Number of beneficiaries: 1**

**Type of beneficiary:**

Managing Director

**Description of resolution:**

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

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

	<b>Board of Directors</b>	<b>Annual General Meeting</b>
<b>Body approving clauses</b>	<b>Yes</b>	<b>No</b>

	<b>Yes</b>	<b>No</b>
Is the General Shareholders' Meeting informed of such clauses?	<b>X</b>	

**C.2 Board Committees**

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

**AUDIT COMMITTEE**

Name	Position	Category
JAVIER MARTINEZ OJINAGA	CHAIRMAN	Independent
JUAN JOSE ARRIETA SUDUPE	MEMBER	Independent
ALEJANDRO LEGARDA ZARAGÜETA	MEMBER	Other External

<b>% of proprietary directors</b>	0.00%
<b>% of independent directors</b>	66.67%
<b>% of Other External directors</b>	33.33%

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

**Organization:**

The Audit Committee shall be made up of at least three directors, appointed by the Company's Board of Directors; At least two of them shall be independent directors and one of them shall be appointed considering their knowledge and experience on accounting, auditing or both. The Board of Directors shall also appoint the Chairman among members acting as independent directors of the Committee. The Chairman shall be replaced every four years and may be re-elected after stepping down for one year. The Audit Committee shall be adopted by majority vote of the Directors attending the meeting in person or by proxy.

**Functions:**

Its main functions are: a) Advising the General Shareholders' Meeting on any matter within the Committee's competence, namely on the audit's result, and explaining its contribution to the financial information's integrity and the function performed by the Committee within that process. b) Supervising the efficiency of the Company's internal control, the internal audit and the risk management systems, discussing with the auditor any significant shortcomings detected in the internal control system during performance of the audit without committing its autonomy. To this end, it may submit recommendations or proposals to the Board of Directors and the corresponding period for its monitoring. c) Supervising the process for preparation and filing of mandatory financial information and submitting proposals to the Board of Director in order to preserve its integrity. d) With regard to internal control and reporting systems: i. Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, verifying the fulfilment of legal requirements, the adequate definition of the consolidation scope, and the correct application of accounting policies. ii. Monitor the independence and efficacy of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic financial information on its activities; and check that senior management is considering its recommendations and conclusions. iii. Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm. e) Submit, before the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, in accordance with the provisions of the articles 16, sections 2,3, and 5 and 17.5 of UE Regulation 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. f) Establishing the appropriate relations with the external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. In any case, they must receive, on an annual basis from the external auditor, a statement affirming its independence in relation to the Company or companies directly or indirectly connected to such, as well as detailed information and a breakdown for any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. g) Issuing, prior to the issuance of the audit report, an annual report expressing an opinion as to whether the independence of the external auditor is prejudiced. Such report must contain, in any case, an assessment on the provision of each and every additional services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing.

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

<b>Name of the experienced director</b>	JAVIER MARTINEZ OJINAGA
<b>Number of years of chairman in office</b>	1

## **NOMINATION AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Category</b>
JUAN JOSE ARRIETA SUDUPE	CHAIRMAN	Independent
LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other External
CARMEN ALLO PÉREZ	MEMBER	Independent

<b>% of proprietary directors</b>	0.00%
<b>% of independent directors</b>	66.67%
<b>% of Other External directors</b>	33.33%

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

### Organization:

The Committee shall be composed of no less than three (3) and no more than five (5) Directors, as determined by the Board of Directors, who will be non-executive directors only, two of which shall be independent. The Chairman of the Committee shall be elected by the Board of Directors among Committee members who are Independent Directors. The Chairman is responsible for summoning the Committee, organising the agenda for the meeting and acting as moderator during the debates. Committee members shall be appointed for a four-year term, and shall be re-elected for equal periods while their appointments as Company Directors are effective.

### Functions:

The Nomination and Remuneration Committee has the following main functions: a) Evaluate the balance of skills, knowledge and experience on the Board. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. b) Set an objective for the representation of the gender that is underrepresented on the Board of Directors, drawing up guidelines on how to achieve this objective. c) Submit to the Board proposals for Independent Directors' appointment through cooption or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. d) Report the proposal for appointment of the remaining directors by cooption or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. e) Report the proposal for appointment and removal of high executives and the basic conditions of their contracts. f) Examine and organise, as applicable, the plan for the succession of the Board of Directors' chairman and the Company's Managing Director, so that such succession is performed in an orderly and planned manner. g) Propose to the Board of Directors the compensation policy based, among others, on internal equity criteria and external competitiveness, and safeguard its observance. Therefore, the Committee assumes the function and commitment to submit to the Board of Directors its compensation policy proposal, to be kept or, as applicable, amended in future fiscal years. In addition, the Committee is responsible for the following tasks: (i) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives. (ii) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee and (iii) Verifying the information on the compensation provided to directors and high executives, as contained in the different corporate documents, including the annual report on directors' compensation.

### Operation:

The Committee shall meet periodically as required and in particular when asked by the Board of Directors. The call notice shall be issued at least three days prior to the meeting. The call notice shall include the meeting's agenda and the relevant information duly summarised and prepared. Prior call notice of Committee meetings shall not be necessary when 100% of its members are convened and accept holding the meeting by unanimous vote. The Committee shall be duly convened when, at least, the majority of its members attend the meeting in person or by proxy. The meeting shall be chaired by the Chairman of the Committee. In the absence or inability of the Chairman, the meeting shall be chaired by the most senior member. Should several Directors hold the same seniority, the meeting shall 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 meeting in person or by proxy. The Chairman of the Committee has the casting vote in the event of a tie. Adopted resolutions shall be minuted, reported by the Secretary and approved during such meeting or at the beginning of the next one immediately after.

During fiscal year 2016, the Nomination and Remuneration Committee held four meetings.

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

	Number of female directors							
	Fiscal year 2016		Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
NOMINATION AND REMUNERATION COMMITTEE	1	33.33%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section repealed

C.2.4 Section repealed.

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

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

C.2.6 Section repealed.

## **D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS**

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

### **Procedure to notify the approval of related-party transactions**

The Board of Directors formally reserves the right to maintain confidential any Company transaction with a significant shareholder, after first receiving a report from the Audit Committee. In addition, the Board of Directors has been attributed, and cannot delegate, the duty to approve –subject to the previous report from the Audit Committee– the transactions performed by the Company or group companies with the directors under the terms of Companies Law, or with shareholders –holding a significant equity interest– either individually or jointly, including shareholders represented at the Board of Directors of the Company or other companies forming part of the same group or with persons related thereto. This approval shall not be applied to the transactions meeting all of the three following conditions: 1.<sup>o</sup> they are governed by standard form agreements applied on an across-the board basis to a large number of clients, 2.<sup>o</sup> they are performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and 3.<sup>o</sup> they contain amounts not exceeding one percent of the Company's annual revenues.

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

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

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

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

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

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

89,633 (in thousands of euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

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

D.7. Is more than one group company listed in Spain?

Yes

No

Identify the listed subsidiaries in Spain:

### Listed Subsidiary

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

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

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

**Mechanisms to resolve possible conflicts of interest**

## **E RISK CONTROL AND MANAGEMENT SYSTEMS**

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

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

During 2016, CAF, S.A.'s Board of Directors have reviewed its Risk Control and Management System in the terms set forth in the current General Risk Control and Management Policy, which is part of the CAF Group's internal regulations and is available on the website [www.caf.net](http://www.caf.net) in the area of corporate policies.

The Policy is applicable to all the companies comprising the CAF Group, over which the Parent Company ("CAF") has effective control. In those non-CAF Group companies, the Company seeks to ensure that the principles, guidelines and risk limits are consistent with those established through this General Risk Control and Management Policy.

The object of the General Risk Control and Management Policy and the specific Policies that develop it are applied in accordance with CAF's mission, vision and values, setting the basic principles and guidelines to control and manage all kinds of risks faced by the Company and the Group, identifying the main risks and organizing the appropriate internal control and information systems, and also carrying out the periodic monitoring of these systems' operation.

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

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

- Defining maximum risk limits that can be assumed in each business/project according to its characteristics and expected profitability which are implemented from the very moment of submitting the tender.
- Establishing procedures for identification, analysis, measurement, control, authorization and information of the different risks for each business/project.
- Coordination and communication so that the procedures of the different businesses/projects are consistent with this Group's General Risk Control and Management Policy.

The Risk Control and Management System is suitable for the different business stages and the company's main departments participate in it. This model, which encompasses the most relevant activities carried out by the Group throughout the project life cycle, is subject to a continuous improvement process that allows it to be progressively strengthened.

More specifically, fiscal risk management is centralized in the tax area of CAF, S.A., where the main corporate tax risks of all businesses and geographies are controlled and monitored.

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

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

As established in article 5 of the Company's Board of Directors' Regulations, on the general supervision role, the determination of the risk control and management policy, including tax risks, as well as the supervision over information and internal control internal systems, are one of the exclusive matters subject to the consideration of the full Board.

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

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

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

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

During 2016, the Internal Risk Management Unit was created; and, under the Audit Committee's direct supervision, the following functions are expressly attributed to it:

- a) Ensure the good performance of risk management and control systems and, particularly, that all material risks affecting the Company are properly identified, managed and quantified,
- b) Participate actively in the risk strategy preparation and in the important decisions regarding its management and
- c) Ensure that risk management and control systems mitigate risks properly as part of the policy defined by the Board of Directors.

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

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

The main risks faced by CAF Group in conducting its business are described in the directors' report for the year. In accordance with the definitions established in the General Risk Control and Management Policy, risks are classified into two categories:

A) Corporate Risks. - Those affecting the Group as a whole and the listed Company in particular.

B) Business Risks. - Those that specifically affect each of the businesses/projects and that vary according to their singularity.

A) Corporate Risks include:

- Regulatory Risks (including legal and tax risks): arising from the reliability of the published Financial Information, Group's litigations, Securities Market regulations, data protection law, criminal liability of legal entities, possible changes in national and international tax regulations and civil liability, among others.

- Strategic risks: risks that may arise as a result of opting for a specific competitive and technological strategy, which could directly or indirectly influence, in a significant way, the Group's long-term objectives.

- Financial risks: including contingent liabilities and other off-balance-sheet risks. In general, the following risk subcategories are included:

- o Market risk, considering the following typologies:

- Interest rate risk: risk to changes in interest rates that may cause variations in both the results and the value of the Group's assets and liabilities.

- Foreign Currency risk: risk arising from changes in the exchange rates of currencies with an effect on future transactions and the valuation of assets and liabilities denominated in currency.

- Commodity risk: risk derived from changes in prices and market variables in relation to raw materials needed in the business supply chain.

- o Credit and counterparty risk: it is the risk of insolvency or bankruptcy or possible non-payment of quantifiable monetary obligations by the counterparts to which the Group has effectively granted net credit and are pending liquidation or collection.

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

- Reputational Risks: risk arising from the perception, valuation or opinion about the Company by the main publics with which it is related, in such a way that they are severely impaired by actions carried out by the Company itself, for facts that are wrongly or unfairly imputed, or events of a similar nature that affect the sector as a whole and are projected in a more pronounced or harmful manner on the company due to its status as a leader in certain business segments.

- Operational risks: the risk related to human errors in the development of tasks associated with key business processes.

- Environmental risks: the Group is subject to environmental regulations and is exposed to environmental risks inherent to its business, which includes the risk of managing waste, discharges and emissions from plants.

- Cybersecurity Risks: is the cyber risk arising from the continuous threat on an industrial scale to digital assets, operations and corporate information by third parties, with a possible impact on the physical and logical security and integrity of information. It includes money fraud, information theft, service unavailability, infrastructures sabotage and reputation loss.

B) Business Risks in turn are grouped in:

- Operating risks: these include, among others, the risks related to project supply and execution, planning and control of the different project milestones from the beginning to the end, relationship with the clients –and, if applicable, with the other companies in the consortium–, product quality, homologation process, the client's material reception process, environmental risks in the development of works, purchasing process, and subcontracting process.

- Non-Operational Risks: these include, among others, risks related to prevention, safety and health at work, Human Resources and training to be able to approach the contracted project, and compliance with applicable local tax laws and regulations.

### E.4. Identify if the company has a risk tolerance level, including the tax risk.

The risk tolerance level established at the corporate level is understood at CAF as the willingness to assume a certain risk level, insofar as it allows value creation and business development, achieving an adequate balance between growth, performance and risk.

The CAF Group presents an overall prudent risk profile with a low tolerance level, in which the objective of guaranteeing the continuity over time of its activity, and therefore of its value contribution to its shareholders and to the company in general, prevails.

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

- A prudent policy in tender submission, applying predetermined Risk-Profitability thresholds in the decision-making process.

- An adequate risk management infrastructure in terms of governance and material and human resources availability.

- Search for positioning in high growth segments, in geographies that are classified as strategic and in products for which previous capacities and experiences that allow generating value to the company are verified, maintaining in any case the desired profitability and cash generation levels.

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

- Very low and low level risks may be accepted and no Action Plan may be necessary to manage them.
- Medium-level risks should be carefully analysed in order to determine whether or not they are acceptable and, if appropriate, to establish an Action Plan that mitigates the risk to a low level and, therefore, acceptable.

- High and very high level risks will require adequate administration and management as well as preparing a formal Action Plan, which will be monitored according to its criticality by the Risk Management Unit or directly by the Executive Committee and the Audit Committee.

Additionally, the risk assessment considers the different types of risks that could affect the Group. In general, although fundamentally applicable to Operational Business Risks, tolerance thresholds are defined by combining impact and probability, whose scales are updated periodically according to the evolution of the projects' key figures. The corresponding Action Plans are designed based on these risks.

Regarding Financial Risks, there is a tolerance level in terms of its economic impact at the corporate level. In the case of the other identified risks, fundamentally as regards those aspects related to reputation, environment, cybersecurity and regulation, there is a zero tolerance level.

The CAF Group's General Risk Control and Management Policy is aimed at achieving a prudent risk profile, diversified by geographic areas, product types and customers, with a low tolerance level, and seeking a sustainable growth over time, both in terms of income and results.

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

During 2016 no material or extraordinary risks materialized, beyond those included in the Directors Report and in the Notes to the Financial Statements. Although none has had a significant impact on the organization, results or equity, it is worth mentioning the materialization of a contingency linked to a contract and indicated in the Notes whose impact on results has been minimal since it was previously provisioned practically in its entirety.

The main risks that may affect the achievement of business goals are managed actively by the organisation, pursuing the mitigation of adverse risks for the Group. On an overall basis, the group's business and geographical diversification prevents the risks to which the Company is exposed from having a material impact on its equity.

The exchange rate risk to which the Company is exposed due to its international operation is managed in accordance with the Company's guidelines, which basically provide for the establishment of financial or natural hedges, constant monitoring of fluctuations in exchange rates and other measures to mitigate such risk. However, during this year, the appreciation of the Brazilian real has had a positive impact on the Company's equity.

Finally, it should be noted that although contracting in the United Kingdom during 2016 is not subject to exchange rate risk, mechanisms have been put in place to anticipate and adequately manage other potential consequences of Brexit, both in contracts in the portfolio and in future tenders.

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

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

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

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

- Mitigate: The risk is accepted but Action Plans are implemented to reduce it.
- Avoid: It is considered that the conditions are not acceptable by the CAF group, so the risk must be eliminated (Zero Tolerance).

- Transfer: It is considered that there are measures that allow transferring the risk to a third party.

- Assume: It is considered that there are no measures to help reduce the risk, so the risk is accepted in its entirety.

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

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

1. The First Line of Defence rests on the business's own operating units which are responsible for day-to-day risk management in CAF, identifying, measuring, monitoring, mitigating and reporting each exposure, in consideration of established policies, procedures and controls. Additionally, they are responsible for effectively maintaining internal control and implementing actions to address control deficiencies.

2. The Second Line of Defence complements the activities of the first one and is formed by the Risk Management Department, which carries out monitoring and reporting, and is responsible for the risk levels assumed by CAF in the projects, independently controlling business lines.

3. The Third Line of Defence includes an independent and effective Internal Audit Function reporting to the CAF's Audit Committee based on its overall reviews of the risk framework, internal control and the Internal Control System of the CAF Group's Financial Information. Additionally, it provides an independent review of the first two Lines of Defence. Assessing and verifying the effectiveness of the Risk Control and Management Policies is carried out periodically by the second and third line of defence. The alerts, recommendations and conclusions generated are communicated to both the Executive Committee and, where appropriate, the Audit Committee.
- For the development of its functions, the Internal Audit and Risk Management departments have qualified and experienced personnel that is independent of the business lines.

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

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

### **F.1 Company's control environment**

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

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

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

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

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

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

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

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

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

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

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

The Code of Conduct defines the ethical structural principles that serve as a basis to establish the behavioural criteria that

are mandatory for CAF professionals and the agents they interact with as part of their Company business. These ethical structural principles refer to strict compliance with lawfulness, quality, reputation, protection of human resources, the respect for and commitment to the community and environment and the duty of transparency.

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

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

The Code of Conduct is an essential and integral part of the Crime Prevention Manual, a document approved by the Board of Directors during its meeting held on 29 April 2015, identifying a policy and procedure system to prevent the commission of material crimes as much as possible. This Crime Prevention Handbook has been updated and revised by the Board of Directors on 27 July 2016. In 2016, a training plan has been initiated for this Crime Prevention Handbook aimed at raising awareness, dissemination and application by CAF personnel.

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

In order to channel general complaints and those relating to financial and accounting aspects, a single complaint channel is established which is supervised by the Compliance Committee or Unit. This body periodically analyses the complaints received and, if appropriate, adopts the corresponding actions in response to the specific circumstances of each complaint. In case the Compliance Committee or Unit understands that the complaint deserves more attention, it may send the documentation to the relevant department with the objective of jointly assessing the facts and determining the measures to be taken. Likewise, it reports relevant financial irregularities to the Audit Committee. An adequate record is kept for all complaints received which guarantees the confidentiality of both the sender and its content. Additionally, for situations such as discrimination, harassment, mobbing or safety at work, specific channels are established for the communication and treatment of any improper conduct that may occur in those areas.

- Training and update courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Group has a corporate training budget and a training plan designed biannually. Training needs are detected and activities for each department are scheduled as part of this plan. Staff performance assessments are held every year and an individual development and training plan is set out for every employee included in the Training Plan.

In addition, refresher courses taught by external specialist are held at least on an annual basis so as to ensure staff remains up-to-date on regulatory changes that can affect the preparation of the financial statements.

With regard to learning programmes for CAF S.A.'s economic and financial subjects, in order to support the different businesses in fiscal year 2016, the main reference indicators of this activity have been as follows:

- Number of participants in the training actions on this matter: 79
- Number of training hours received: 413 hours

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

## F.2 Financial information risk assessment.

Report at least:

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

- The process exists and is documented.

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

- Whether the process covers all financial information objectives (existence and occurrence, completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

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

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

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

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

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

- Governance body in charge of supervising the process.

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

### F.3. Control tasks

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

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

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

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

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

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

### F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

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

The Policy establishes the scope and the guidelines for the following matters:

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

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

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

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

The main activities identified as having been subcontracted to third parties include the preparation of the payroll and tax returns of certain subsidiaries (areas considered to be low-risk and in subsidiaries that cannot materially affect the Group's financial statements) and the subcontracting of services in the IT department (the effectiveness of which is regularly monitored). Assessments by independent experts have been specifically requested (impairment tests). In these cases, the Company's policy is to resort to firms of renowned background and independence.

## F.4 Information and communication

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

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

CAF, S.A. economic department is responsible for preparing the consolidated financial statements as well as Parent Company's financial statements. Some of their tasks are to resolve accounting questions for the rest of the Group companies with which the Company has a direct and constant relationship through the designated persons in charge of control at each subsidiary and to update the Manual of Accounting and Financial Procedures and Policies. The Manual is available on CAF's website.

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

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

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

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

## F.5 System operation supervision

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

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

CAF's Audit Committee oversees the financial information. The Audit Committee should ensure the Financial Information Internal Control System works effectively, obtaining sufficient evidence as to its adequate design and working order, which requires evaluations of the identification process of risks that can affect the fair presentation of the financial information, verifications that there are controls in place to mitigate them and making sure they work properly.

The role of CAF's Audit Committee of supervising the Financial Information Internal Control System has been delegated to the Internal Audit Department. In addition, as part of the external audit, meetings are held with the external auditors so that they may present the conclusions of their audit work performed (which include, where appropriate, material aspects detected in the internal control area).

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

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

Annually, the Internal Audit Manager submits the annual audit work plan for approval by the Audit Committee, which includes the tasks to be performed for ICFR supervision. The content of the Annual Work Plan is reviewed and updated on an ongoing basis.

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

In the 2016 reporting period the Annual Work Plan submitted and subsequently implemented by the Internal Audit Department covers the following matters:

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

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. Likewise, it will report on the availability (or not) of an action plan aimed at correcting or mitigating any weakness observed.

The Audit Committee meets prior to the issuance of financial information to the markets with the Internal Audit Manager and the Management responsible for preparing the financial information to comment on any relevant aspects and, if appropriate, discuss significant control weaknesses identified. During 2016, five Audit Committee meetings were held in which the Internal Audit Manager has reported on the Annual Work Plan's evolution and the existing action plans to implement recommendations for internal control improvement.

Likewise, in 2016 the external auditors have twice appeared before the Audit Committee to report on the results of the financial statements audit and the semi-annual financial statements limited review, and on regulatory developments.

During 2016, auditors have not revealed significant internal control weaknesses.

Additionally, the external auditors attended a Board of Directors meeting to report on the progress of the audit for 2016, the new accounting standards and Law 22/2015 on Audit.

## F.6 Other disclosures

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

## F.7 External auditor report

State whether:

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

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

## **G** DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

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

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

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

Complies

Explain

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

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

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

Complies

Partly complies

Explain

Not applicable

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

a) The changes occurred from the last general annual meeting.

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

Complies

Partly complies

Explain

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

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

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

Complies

Partly complies

Explain

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

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

Complies

Partly complies

Explain

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

for the maximum legal amount, and for a five-year term. The proposal was approved.

The Board of Directors issued this proposal within the limits and conditions established in applicable regulations. At the time the proposal was brought to the General Meeting, there were no specific prospects for the Board of Directors to exercise such authorisation. In fact, to date, the Board of Directors has not adopted any agreement to execute such power.

The Board of Directors intends to propose to the next Annual General Meeting a delegation of powers to issue securities convertible into shares of the Company, or other Group companies, replacing the previous agreement, setting the exclusion limit of the preferential subscription right at 20% of the capital at the time the delegation occurs.

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

a) Report on the auditor's independence.

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

c) Report from the Audit Committee on related transactions.

d) Report on corporate social responsibility policy.

Complies

Partly complies

Explain

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

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

Complies

Explain

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

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

Complies

Partly complies

Explain

9. The Company must publish in their websites, on a permanent basis, the requirements and procedures to prove the ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of voting rights.

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

Complies

Partly complies

Explain

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

a) Spread those supplementary items and new agreement proposals immediately.

- b) Publish the attendance card model or voting delegation or remote delegation form with the specific amendments to vote on the new items of the agenda and alternative proposals, under the same conditions as those proposed by the Board of Directors.
- c) Submit those items or alternative proposals to voting and apply the same voting rules as those proposed by the Board of Directors, including, in particular, the presumptions or deductions on the sense of voting.
- d) After the general shareholders' meeting, notify the particulars of voting with respect to those supplementary items or proposed alternatives.

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

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

Complies  Partly complies  Explain

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

Complies  Explain

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

- a) Is specific and verifiable;
- b) Ensures that appointment or re-election proposals are based on a previous analysis of the Board of Directors' needs; and
- c) Favours the diversity of knowledge, experience and gender.

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

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

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

Complies  Partly complies  Explain

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

Complies

Partly complies

Explain

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

This criterion can be relaxed:

a) In companies with high capitalisation where there are few shareholdings deemed material from the legal point of view.

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

Complies

Explain

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

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

Complies

Explain

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

a) Professional experience and background.

b) Other Board of Directors to which they belonged, regardless of whether listed companies were involved, as well as the other compensated activities, regardless of their nature.

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

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

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

Complies

Partly complies

Explain

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

Complies

Partly complies

Explain

Not applicable

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

Complies  Partly complies  Explain  Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. Particularly, it shall be understood that there is just cause, whenever the director occupied new positions or assumed new obligations preventing him/her from performing the functions applicable to directors, failed to comply with the duties inherent to his/her position or proceeded in a way that caused him/her to be no longer independent, as established by applicable legislation.

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

Complies  Explain

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

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

Complies  Partly complies  Explain

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

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

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

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

Complies  Partly complies  Explain

26. The board should meet with the necessary frequency to properly perform its functions, and at least 8 times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain

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

Complies  Explain  Not applicable

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

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Explain

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

- a) The quality and effective performance of the Board of Directors.
- b) The performance and structure of its committees.
- c) The structure and competence diversity of the Board of Directors.
- d) The performance of the Company's Board of Directors' Chairman and Managing Director.
- e) The performance and contributions of each director, paying special attention to those in charge of the different Board committees.

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

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

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

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain

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

Complies  Partly complies  Explain  Not applicable

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

1. With regard to information and internal control systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic information on its activities; and check that senior management is considering its recommendations and conclusions.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

- a) In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation.
- b) Ensuring that the external auditor's compensation does not compromise his/her quality or independence.
- c) Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same.
- d) Ensuring that the external auditor holds an annual meeting with the Board of Directors in full to advise them on the work done and the variations in the company's risk and accounting situation.
- e) Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.

Complies           Partly complies           Explain

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

Complies           Partly complies           Explain

44. The Audit Committee should be informed on the structural and corporate changes intended by the Company for reviewing and submitting the report to the Board of directors on the economic conditions and the accounting effects and, specifically, on the swap ratio proposed.

Complies           Partly complies           Explain           Not applicable

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

- a) The different types of financial and non financial risks affecting the Company (operational, technology, social, legal, environmental, reputational, political) with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the Company sees as acceptable.
- c) Measures in place to mitigate the impact of risk events should they occur.
- d) The information and internal control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies           Partly complies           Explain

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

- a) Ensure the good performance of risk management and control systems and, particularly, that all material risks affecting the Company are properly identified, managed and quantified.

- b) Participate actively in the risk strategy preparation and in the important decisions regarding its management.
- c) Ensure that risk management and control systems mitigate risks properly as part of the policy defined by the Board of Directors.

Complies       Partly complies       Explain

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

Complies       Partly complies       Explain

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

Complies       Explain       Not applicable

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

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

Complies       Partly complies       Explain

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

- a) Proposing to the Board of Directors the basic conditions governing high-executive contracts.
- b) Verifying the compliance with the remuneration policy established by the Company.
- c) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives.
- d) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee.
- e) Verifying the information on the compensation provided to directors and high executives, as contained in the different corporate documents, including the annual report on directors' compensation.

Complies       Partly complies       Explain

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

Complies       Partly complies       Explain

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

- a) They must be exclusively made up of non-executive directors, with a majority of independent directors.
- b) Committees should be chaired by an independent director.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each Committee, and it should discuss their proposals and reports and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting.
- d) The Committees may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of meeting proceedings should be drawn up and a made available to all Board members.

Complies       Partly complies       Explain       Not applicable

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

- a) Supervising the compliance with the Company's internal codes of conduct and corporate governance rules.
- b) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluating the adequacy of the Company's corporate governance system in order to ensure compliance with the goal of promoting social interest and, as applicable, the legitimate interests of the other groups of interest.
- d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value.
- e) Following-up the corporate social responsibility strategy and practice and evaluating the level of compliance.
- f) Supervising and evaluating the processes to create relationships with the different groups of interest.
- g) Evaluating the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks.
- h) Coordinating the non-financial reporting process and the report on diversity, pursuant to applicable regulations and reference international standards.

Complies       Partly complies       Explain

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

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

- a) The goals of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy related to sustainability, the environment and social issues.
- c) The specific practices related to shareholders, employees, clients, suppliers, social affairs, the environment, diversity, fiscal responsibility, related to human rights and the prevention of illegal behaviour.
- d) The methods or systems for the follow-up of results from the application of the specific practices mentioned in the previous item, related risks and their management.
- e) Mechanisms for the supervision of non-financial risks, ethics and business conduct.
- f) Channels for communication, participation and dialogue with groups of interest.
- g) Responsible communication practices preventing the manipulation of information and protecting integrity and honour.

Complies                       Partly complies                       Explain

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

Complies                       Partly complies                       Explain

56. Directors' compensation must be sufficient to attract and retain the directors with the intended profile and to compensate for the dedication, qualification and responsibility required by the position, but not so high as to compromise the independent criterion of non-executive directors.

Complies                       Explain

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

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

Complies                       Partly complies                       Explain

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

And, specifically, variable components of remuneration should:

- a) Be related to return criteria that can be determined or measured and that consider the risk assumed to earn income.

- b) Promote the Company's sustainability and include non-financial criteria that are proper for the long-term creation of value, such as the compliance with the Company's rules and internal procedures and its risk management and control policies.
- c) Be configured by balancing the compliance with short-, medium- and long-term goals, allowing to compensate for the continuous performance over a sufficient period of time that shows contribution to the sustainable creation of value, so that the measurement elements of such return do not refer only to specific, occasional or extraordinary events.

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

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

Complies  Partly complies  Explain  Not applicable

## H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by the company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

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

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

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

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

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

C.1.19. e) Individuals who maintain or have maintained in the last year an important business relation with the Company or Group companies, whether on his/her behalf or as significant shareholder, director or senior executive of an entity maintaining such relation either at present or in the past. Business relations shall be those of supplier of goods or services, including financial ones, or of advisor or consultant. f) Individuals who may be significant shareholders, executive directors or senior executives of an entity who receives or may have received any major donations from the Company or its Group over the past 3 years.

Mere employees of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the Nomination Committee. i) Individuals who had been directors during a continuous term exceeding 12 years. j) Individuals falling under any of the assumptions mentioned in subsections a), e), f) or g) above with respect to any significant shareholder or any shareholder represented on the Board.

In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company. Proprietary Directors forced to resign after their shareholders sell their shareholding may only be re-elected as Independent Directors when the shareholder they represented up to that moment sold his/her entire shareholding in the Company. A Director with Company shares may be an Independent Director provided he/she meets all the requirements pursuant to this Article and does not hold a significant shareholding. RE-ELECTION Directors shall hold office for five years. Directors may be re-elected once or several times for equal periods. Directors' appointments shall be effective upon acceptance thereof. The Board of Directors shall be renewed upon members' office expiration. ASSESSMENT The Nomination and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Nomination and Remuneration Committee has the following basic responsibilities: 1. Report and review the criteria that must be followed with respect to the composition and remuneration of the Board of Directors and the selection of candidates. The Committee shall define the necessary Board members' functions and skills and shall evaluate the time and dedication needed for each member to perform his/her duties correctly. The Committee shall always ensure that the existing relation between the number of Proprietary, Independent and Executive Directors is the most suitable for the Company's appropriate operation and the protection of minority shareholders. The Committee shall also report on senior officers' appointments and removals planned by the Board. 2. Submit to the Board proposals for Directors' appointment through cooption or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. Any Director shall, for that purpose, request the Committee to consider them in case they are adequate potential candidates to cover Directors' vacancies. REMOVAL The Board Regulations state the following rules for Directors' removal: Directors'

removal shall comply with the legislation in force at each given time. Directors must tender their resignation to the Board of Directors and formalise their resignation, if the latter deems it appropriate, in the following events: a) The proprietary director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of proprietary directors. b) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject to disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement.

Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any offence, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall reasonably report all of the aforementioned in the Annual Corporate Governance Report. In any case, directors shall inform and, if applicable, resign in those events that may be detrimental to the Company's name and reputation.

The Directors' Selection Policy, approved by CAF's Board of Directors during this fiscal year, repeats the functions applicable to the Nomination and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, and the conditions to be met by candidates, putting special emphasis on the essential purpose of favouring gender diversity in appointing members of the Board of Directors pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quincecies of the Companies Law.

#### C.2.1. AUDIT COMMITTEE

h) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same. iv. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence. i) Supervise the Company's internal control and management risk function j) Report in advance to the Board of Directors on all matters under the Law, bylaws and the Board's Regulations; and particularly on: 1.<sup>o</sup> The financial information that the Company must make public on a periodic basis. 2.<sup>o</sup> the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens and 3.<sup>o</sup> the related party transactions. k) Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. Report on any other proposal for amending the above said Regulations. The provisions of sections e), f) and g) will be understood notwithstanding the regulatory standards of account auditing.

Operation:

The Committee shall convene upon the Chairman's decision to perform its functions. The Committee shall convene at least twice a year. The Committee shall also convene upon request of, at least, one of its members. The request shall be submitted to the Committee Chairman and shall include the agenda with the matters to be addressed by the Committee. The Chairman of the Committee is responsible for summoning it. The notice call, except for special emergency reasons considered by the Chairman, shall be issued to Committee members at least five calendar days in advance by post, fax, telegram or electronic mail. The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss matters not included in the cited agenda. The Committee shall be duly convened when half of the members attend the meeting in person or by proxy.

During 2016, the Audit Committee held five meetings.

Most important actions in the year:

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

#### NOMINATION AND REMUNERATION COMMITTEE

Most important actions in the year:

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

D.5. The transactions performed with other related parties amount to EUR 89,633 thousand.

The abovementioned transactions are broken down in Note 10 to the Group's consolidated financial statements.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on 27/02/2017.

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

Yes

No