ANNUAL REPORT / 2016

CAF

ANNUAL REPORT 2016

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.
AND DEPENDENT COMPANIES THAT MAKE UP THE CAF GROUP

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

This publication, which is also published in Basque, French and Spanish, includes the legal documentation relating to CAF and Subsidiaries.

More information on CAF and its products, together with the information required by law for shareholders and investors, can be obtained on the website www.caf.net

LETTER FROM THE CHAIRMAN

Dear Shareholders,

I would like to extend a warm greeting to the shareholders on the occasion of this 2016 Annual Report, especially as we are celebrating the centenary of the creation of Compañía Auxiliar de Ferrocarriles, now Construcciones y Auxiliar de Ferrocarriles. An anniversary that only a small number of companies manage to reach.

We must, without doubt, congratulate ourselves on this. Above all because, aside from the anniversary, reaching one hundred years is the result of management based on values aimed at creating long-term value and far-removed from short-termism, the only guarantee of a business project's sustainability over time.

Especially in economic contexts such as those that we have experienced recently. In fact, having surpassed the turning point of the global economic crisis of recent years, we are still witnessing weak and volatile growth conditioned by the geopolitical uncertainty affecting the world's big economies (US, China and Russia) and, recently, Europe itself. Our task, therefore, should be to prepare and strengthen the Company to successfully tackle the various scenarios that might potentially arise.

The outlook of the railway industry remains positive. The pursuit of environmentally friendly, high-capacity mobility solutions plays in our favour. Thus, UNIFE's projections anticipate sustained growth of 3.2% a year in the supply of railway material and services at global level for the coming years. The most traditional segments of our business, wheel sets material and services, will continue to be the main drivers of the projected increase in activity.

In this context of an expanding industry, CAF has, without doubt, the potential and obligation to achieve profitable growth by capitalising on the opportunities that, as a leader in the industry, are within our reach.

The record level of contracts obtained in 2016 -amounting to EUR 2,677 million- is proof of this and has driven our backlog to its all-time high -EUR 6,228 million- equal to 4.7 times the sales in 2016.

Among the wheelsets material contracts obtained in 2016, mention must be made of the contracts with British operators Arriva UK and First Group, to whom we will supply trains from our CIVITY UK platform for an aggregate amount of EUR 1,000 million. Another contract in the UK to adapt the trams in Birmingham to enable them to operate "catenary free" and CAF's future launch in that country of assembly, trial and maintenance activities, make CAF a leading competitor in the British railway industry.

Other contracts obtained in 2016 were equally important. They include the contract to supply trams for the Purple Line in Maryland, USA for an amount in excess of USD 200 million, in addition to our participation in its operation and maintenance under a public-private partnership for a period of 30 years. In turn, in Australia CAF received two orders for trams for the Canberra Metro Consortium and for Transport for New South Wales, the total volume of which exceeds EUR 100 million.

Also, in Europe, within the urban transport area of note are the contracts for the supply of trams to Amsterdam and of metro units to Brussels, in addition to the contracts obtained in Latin America. Specifically, for the Quito metro currently under construction, Line 1 of the Mexico City metro, as well as both extensions to the projects currently in progress for the Colombian city of Medellín and the Santiago de Chile metro.

The contracts for the supply of maintenance and wheelsets (MiiRA) services and the contracts related to the other businesses have, in turn, contributed around EUR 370 million to the backlog.

Specifically in relation to new businesses, in 2016 we obtained the Railway Company License and the Entity in Charge of Maintenance Certificate for the Spanish railway network. These two certificates make CAF one of the few companies able to manufacture, supply, operate and maintain its own passenger and cargo trains for the Spanish network, which we are confident will contribute to the generation of new business in the medium term.

In turn, revenue in 2016 amounted to EUR 1,318 million, an increase of 2.7% year-on-year. This figure, a reflection of the recovery of the industrial activity that we have experienced in the second half of the year and increased sales in Services and Signalling in the period, marks the beginning of a new cycle of growth for the Company. Meanwhile, EBITDA stood at EUR 135.3 million, which represents 10.3% of sales, and cash flows before tax totalled EUR 82.8 million. The decrease in the depreciation and amortisation charge and, above all, the reduced impact of exchange rate fluctuations due to the management of hedges throughout the year has enabled us to earn profit before tax of EUR 59.3 million, in line with 2015. Lastly, net profit for the year amounted to EUR 37.3 million.

Of particular note is the positive performance shown by the Company's financial position. Thus, the net financial debt was reduced by 45%, specifically to EUR 265 million, and at the same time the maturities of the bank borrowings arranged were extended. This solid financial position is, without doubt, a fundamental element when it comes to facing potential episodes of financial instability in the debt markets.

Therefore, in line with our commitment to shareholders earning a return on their investment, the proposal that we will submit to the Annual General Meeting is to distribute dividends of EUR 19.9 million, which represents a gross amount of EUR 0.58 per share, a little over 10% higher than the dividend distributed in 2015.

We also remind you that on 27 July 2016 we, the directors, executed a resolution to split the number of the Company's shares by virtue of the powers delegated by the General Meeting in June 2016. This transaction gave rise to a reduction in the par value of the shares from EUR 3.01 per share to EUR 0.301 per share, effective from 30 November 2016. As a result, the Company's share capital is now represented by 34,280,750 shares.

I would like also like to highlight the progress made by the Company in corporate governance, an area to which we have allocated resources and dedication for some time now and for which we have set the target of complying with all the possible Recommendations in the Code of Best Practice (Corporate Governance) for Listed Companies published by the Spanish National Securities Market Commission (CNMV) In 2016 initiatives included the publication of our first Corporate Responsibility Report and the creation of the new Risk Management unit.

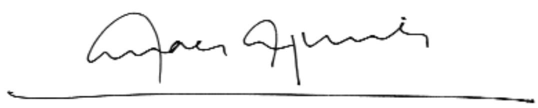
In relation to the industrial activities carried on by the CAF Group in 2016, we should note that more than 20 projects were performed at our factories in that period. These projects include the electric suburban trains from our CIVITY platform for Nederlandse Spoorwegen (the Netherlands), electrical units for suburban services intended for the CPTM network (Sao Paulo, Brazil), the Toluca-Mexico City connection and Euskotren, as well as units for the metro systems of Santiago de Chile, Istanbul and Medellín. These represented the main projects being manufactured in 2016.

In the next strategic cycle the CAF Group will face new challenges which will require an adequate response. The Company is preparing for this, determined to grow sustainably and profitably. This growth will be focused on three areas: expansion of the vehicles business, bolstering of the services business and growth in other businesses.

Technology will continue to have an important role. Therefore, in the coming years CAF will continue to commit to the development of key technologies for the Group and for the railway industry as a whole. These key technologies include new technologies in the area of signalling, particularly CBTC solutions, as well as the technologies related to energy storage and management or the digitization of products, services and internal processes.

A year ago I told you that CAF was a strong, profitable and global company. Well, I wish to convey to you once again my confidence in our future, based on our firm intention to grow and on the commitment and capacity of our people to achieving this.

I would like to acknowledge this and thank them, as well as all our shareholders, for the confidence placed in our business project.



Andrés Arizkorreta García
Chairman

MAIN LINES

HIGH SPEED TRAINS

High Speed Trains and Variable Gauge Trains S-120 and S-121 (RENFE)
High Speed Trains for the Madrid-Seville Line
Shuttle Trains S-104 (RENFE)
High Speed Trains for Turkey
High Speed Trains for Norway

INTERCITY TRAINS

Tilting trains S/598 (RENFE)
Diesel trains S/599 (RENFE)
Electric trains S/449 (RENFE)
Diesel trains for Algeria
Intercity Push-Pull Service. Ireland
Diesel trains - Corsica
Diesel trains - Tunisia
Diesel trains - France
Trains for Saudi Arabia
Sardinia diesel trains
Northern Ireland trains
US trains
Caledonian Sleeper Escocia

PASSENGER CARS

Saloons and Luxury Lounge
Sleeping Cars and Couchettes
Restaurant and Cafeteria Cars

CAF is a multinational group with over 100 years' experience offering rail solutions and integrated transport systems using cutting-edge technology.

SUBURBANS

REGIONAL TRAINS

Auckland (New Zealand)
Caminhos de Ferro Portugueses (Portugal)
Companhia Brasileira de Trens Urbanos (Brazil)
Companhia Paulista de Trenes Metropolitanos (Brazil)
Eusko Trenbideak-Ferrocarriles Vascos (ET/FV)
Ferrocarriles Españoles de Vía Estrecha (FEVE)
Ferrocarrils de la Generalitat de Catalunya (FGC)
Finnish Railways (VR Ltd)
Heathrow Airport Express (UK)
Hong-Kong Airport Express
Irish Rail (Ireland)
Izban (Turkey)
Montenegro
Nederlandse Spoorwegen (NS)
Northern-Arriva (UK)
Northern Ireland Railways (North Ireland)
Northern Spirit (UK)
Red Nacional de Ferrocarriles Españoles (RENFE)
Regione Autonoma Friuli Venezia Giulia (Italy)
Secretaría de Comunicaciones y Transportes (Mexico)
Serveis Ferroviaris de Mallorca (SFM)
TransPennine-First Group (UK)
Zweckverband Schönbuchbahn (Germany)

CITY

STREETCARS

Amsterdam
Antalya
Belgrade
Besançon
Bilbao
Birmingham
Boston
Budapest
Canberra
Cádiz-Chiclana
Cincinnati
Cuiabá
Debrecen
Edinburgh
Stockholm
Freiburg
Granada
Houston
Kansas
Kaohsiung
Lisbon
Luxembourg
Maryland
Nantes
Seville
Sidney
St. Etienne
Tallinn
Utrecht
Valencia
Vélez-Málaga
Vitoria
Zaragoza

SUBWAY TRAINS

Algiers
Barcelona
Bilbao
Bucharest
Brussels
Calcuta
Caracas
Istanbul
Helsinki
Hong Kong
Madrid
Malaga
Medellin
Mexico
New Delhi
Palma (Mallorca)
Quito
Rome
Santiago de Chile
São Paulo
Seville
Washington

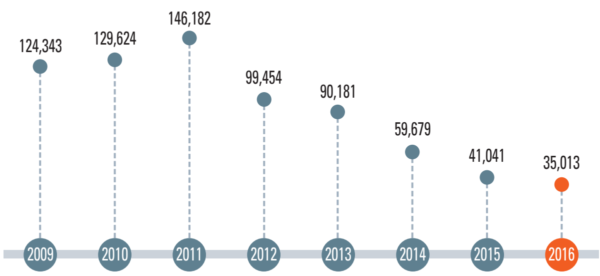
ARTICULATED LIGHT RAILWAY

Amsterdam
Buenos Aires
Monterrey
Pittsburgh
Sacramento
Valencia

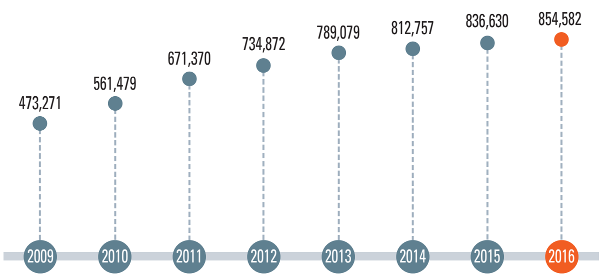
DIRECTORS' REPORT OF THE CONSOLIDATED GROUP

EARNINGS

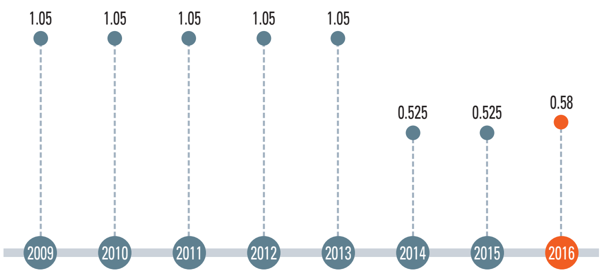
PROFIT ATTRIBUTABLE TO THE PARENT (in thousands of euros)



GROUP EQUITY (in thousands of euros)



DIVIDEND/SHARE PERFORMANCE (in euros)



Profit from continuing operations in the consolidated statement of profit or loss amounted to EUR 37,280 thousand, and revenue stood at EUR 1,318,200 thousand, up 3% on 2015. The proposal for the distribution of earnings is to use EUR 19,883 thousand to pay dividends, giving rise to gross earnings of EUR 0.58 per share.

The aggregates in 2016 were as follows:

- Profit from continuing operations amounted to EUR 37,280 thousand after tax and EUR 59,329 thousand before tax (2015: EUR 42,614 thousand and EUR 60,409 thousand, respectively) representing a fall of 13% and 2%, respectively.
- The depreciation and amortisation charge and impairment losses relating to non-current assets amounted to EUR 23,430 thousand which, added to the profit for the year before tax from continuing operations, generated a cash flow of EUR 82,759 thousand, representing a decrease of approximately 17% on 2015 (EUR 99,641 thousand).
- EBITDA[1] from continuing operations totalled EUR 135,270 thousand, down approximately 19% on 2015 (EUR 166,015 thousand).
- Revenue amounted to EUR 1,318,200 thousand in 2016, up 3% on 2015 (EUR 1,283,591 thousand).
- The backlog[2] amounted to EUR 6,227,931 thousand at 2016 year-end, up 28% on 2015 (EUR 4,869,061 thousand). This backlog continues to guarantee the continuation of the Group's normal business activities.
- The proposal for the distribution of earnings is to use EUR 19,883 thousand to pay dividends, giving rise to gross earnings of EUR 0.58 per share.
- If the proposed distribution of profit is approved, the Group's equity would total EUR 763,794 thousand.
- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2016.

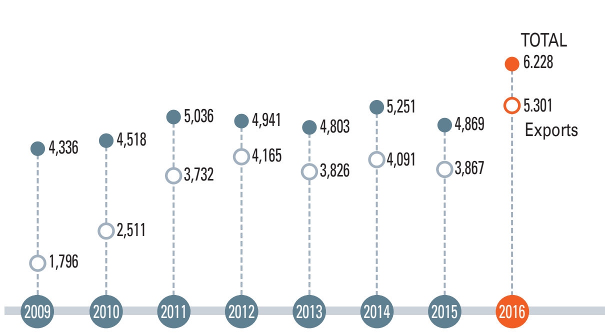
1. The CAF Group's EBITDA is calculated by deducting from "Profit from Operations" in the consolidated statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

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

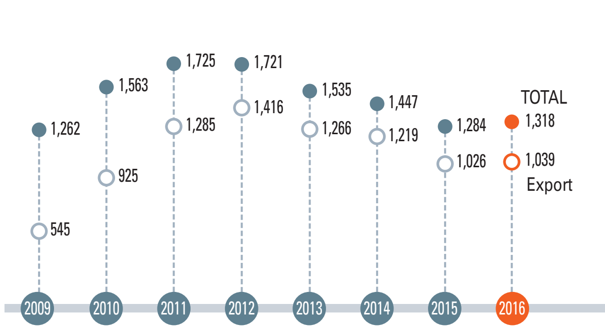
COMMERCIAL ACTIVITY

Backlog at 2016 year-end amounted to EUR 6,228 million, a record for the Group, thus guaranteeing increasing levels of activity in the future. The majority of the contracts in 2016 came from the European market and the urban and commuter/regional segments.

BACKLOG (in millions of euros)



REVENUE (in millions of euros)



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

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

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

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

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

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

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

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

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

INDUSTRIAL ACTIVITY

In 2016 560 cars of various wheel-set segments were supplied to European, American and Asian countries. The cars were manufactured at the CAF Group's different facilities around the world.

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

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

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

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

The most important products manufactured in 2016 were as follows:

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

BOGIES	
With welded chassis	849

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

HUMAN RESOURCES

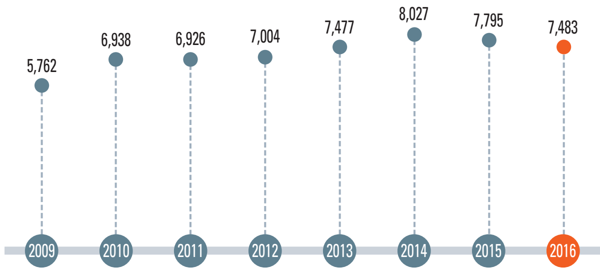
The workforce of the CAF Group companies taken as a whole remained stable in 2016. Of note is the significant undertaking carried out to adapt CAF's workforce to the needs of the Group's various businesses, at local and international level.

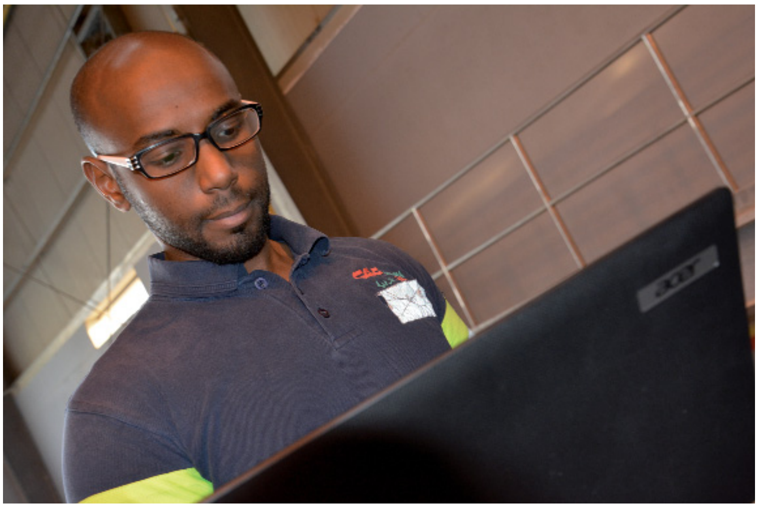
The CAF Group's workforce remained stable at global level in 2016, with 7,587 employees at the end of the reporting period, down 0.08% on 2015.

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

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

AVERAGE HEADCOUNT (number of persons)





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

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

ENVIRONMENTAL ACTIVITY

CAF carries on its activity under the premise of offering more efficient and environmentally friendly transport and preventing pollution in the course of its industrial activities. Thus, it has undertaken a large number of initiatives in the area of research, development and innovation in order to optimise and control the environmental impacts of its products over their lifecycles. Also worthy of note are the efforts made in relation to preventing pollution in the course of its industrial activities.

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

- Offering more efficient and environmentally friendly transport. To do this, CAF carries out numerous research and development activities included in the 2015-2017 Technology Plan in order to prioritise the demands of its customers and users: the quality, safety and eco-efficiency of its products.
- Preventing pollution in the industrial activities carried out. CAF's Environmental Policy indicates that the efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and minimise important areas of environmental concern, such as emissions into the atmosphere, waste generation and energy consumption, among others.

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

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

INVESTMENTS

Capital expenditure on CAF's plant and facilities in 2016 amounted to EUR 16,756 thousand. The main objectives were to adapt and modernise the facilities to perform the new projects awarded to the Group, as well as to improve in areas such as occupational safety and risk prevention.

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

A new automatic axis machining and verification line implemented at the Wheel Sets Business Unit (MiiRA). This investment, which commenced in 2015, is intended to improve productivity and reduce costs through the installation of a production line designed to automate the refining,

burnishing and rectifying processes and ultrasonic and magnetic particle testing, given the vital importance of these processes, and represents a first step towards full automation of the business.

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

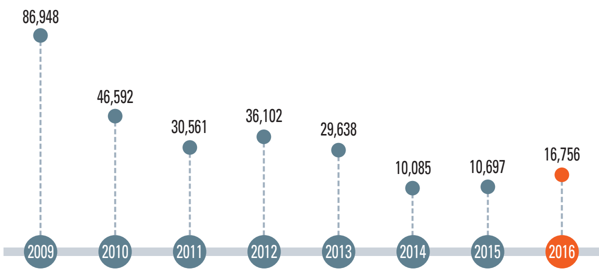
At the Vehicle Business Unit, a series of measures were commenced as part of the current project to improve productivity and efficiency, such as renewing machinery, worthy of note among which was the acquisition of new milling machines for part machining and gantry welding systems, and the modernisation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

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

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

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

INVESTMENTS (in thousands of euros)



TECHNOLOGICAL DEVELOPMENT

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

The aforementioned projects obtained financial support for R&D activities from the following entities:

- Provincial Government of Guipúzcoa
- Basque Autonomous Community Government
- Ministry of Economy and Competitiveness
- Ministry of Industry, Energy and Tourism
- European Commission

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

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

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

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

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

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

European projects:

- REFRESCO for the development of car body structure solutions in composite material
- NGTC for the study of an interface between ERTMS and the satellite positioning module
- STARS to determine through experiments the suitability of the GNSS-Global Navigation Satellite System.
- ROLL2RAIL, a two-year project led by CAF on the technical side which precedes Shift2Rail, the aim of which is to develop a series of key technologies that will provide a significant leap in innovation in the rolling stock vehicle field.
- SHIFT2RAIL. CAF is one of the eight constituent entities of the Shift2Rail JU (Joint Undertaking), which carries out railway R&D activities as part of the Horizon 2020 programme. The technology development work on this project, which commenced in 2016, will continue until 2024.

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

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

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

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

99 technology projects were developed in 2016. Also, in 2016 the CAF Group's Technology Plan for 2017-2018 was completed, which will set in motion a total of 65 new projects for CAF and its subsidiaries, in addition to 68 projects from the previous plan that will continue.

The following engineering projects entered into service in 2016:

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

RISK MANAGEMENT POLICY

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

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

1. FINANCIAL RISKS

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

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

a) Market risk

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

The Group's interest rate risk arises on borrowings. The Group's policy for working capital financing transactions is to resort to third-party borrowings in the form of debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure. For long-term financing transactions, the Group sets an objective, to the extent permitted by the markets, of maintaining a fixed interest rate structure.

a.2) Foreign currency risk

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

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (the euro).

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

a.3) Commodity risk

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

b) Credit and counterparty risk

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

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

c) Liquidity and financing risk

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

The CAF Group manages liquidity risk using the following mechanisms:

- Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not be coincide in the same timeframe, which results in financial resources being consumed.

- Implementing and maintaining an active working capital management policy through ongoing monitoring of compliance with billing milestones for each project commissioned.
- Maintaining a strong short-term liquidity position.
- Maintaining surplus undrawn credit balances.

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

d) Risks arising from variances with respect to project budgets

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

2. RISKS ARISING FROM ENVIRONMENTAL DAMAGE

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

3. LEGAL AND CONTRACTUAL RISKS ARISING MAINLY FROM HARM CAUSED TO THIRD PARTIES AS A RESULT OF DEFICIENCIES OR DELAYS IN THE PROVISION OF SERVICES

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

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

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

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

4. OCCUPATIONAL RISKS OR DAMAGE TO PLANT ASSETS

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

operates and the expectations of all the individuals who work at the organisation.

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

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

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

OUTLOOK

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

- Consolidating our international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including taking advantage of joint ventures.
- Firm commitment to growth in the railway services business beyond fleet maintenance, such as concession arrangements, operation of railway systems, leasing, maintenance and/or refurbishing of trains and locomotives, and various value propositions to customers that might arise from the marketing of digital services (condition based maintenance, fleet management, etc.).
- Significant growth in business related to the design and construction of turnkey transport systems and, when required by customers, the maintenance and operation thereof, by the Group on its own or through alliances, including capital investment depending on the circumstances.
- Continue making investments in technological development, in relation to technologies and marketable products at component, subsystem or material level, intended to be supplied to customers in all our lines of business (wheel sets, signalling, energy, data management, inspections, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.
- Achieve further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Vectia, etc.
- Further the digitization of our operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0).
- Systematic and recurring execution of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety and management of all the Group's business activities and areas, within a highly competitive environment. This includes:
  - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK, Urbos AXL, metro, etc.)
  - Gradual expansion of the Industrial Operations Transformation Plan.
  - Optimisation of the life cycle cost (LCC) of the product, an area that increasingly defines our competitiveness.
- Lastly, to make progress in fundamental areas of business management such as, for example, corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

EVENTS AFTER THE REPORTING PERIOD

CORPORATE GOVERNANCE

annual corporate governance report 2016

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

The Annual Corporate Governance Report for 2016 forms part of the Directors' Report and is published on CAF's website (www.caf.net), following notification as a relevant event to the Spanish National Securities Market Commission.

LETTER FROM THE AUDITOR

Deloitte.

Deloitte, S.L.
Plaza Julio Caro Baroja, 2
20018 San Sebastián
España

Tel: +34 943 26 78 00
Fax: +34 943 26 78 01
www.deloitte.es

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

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

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

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

Report on Other Legal and Regulatory Requirements

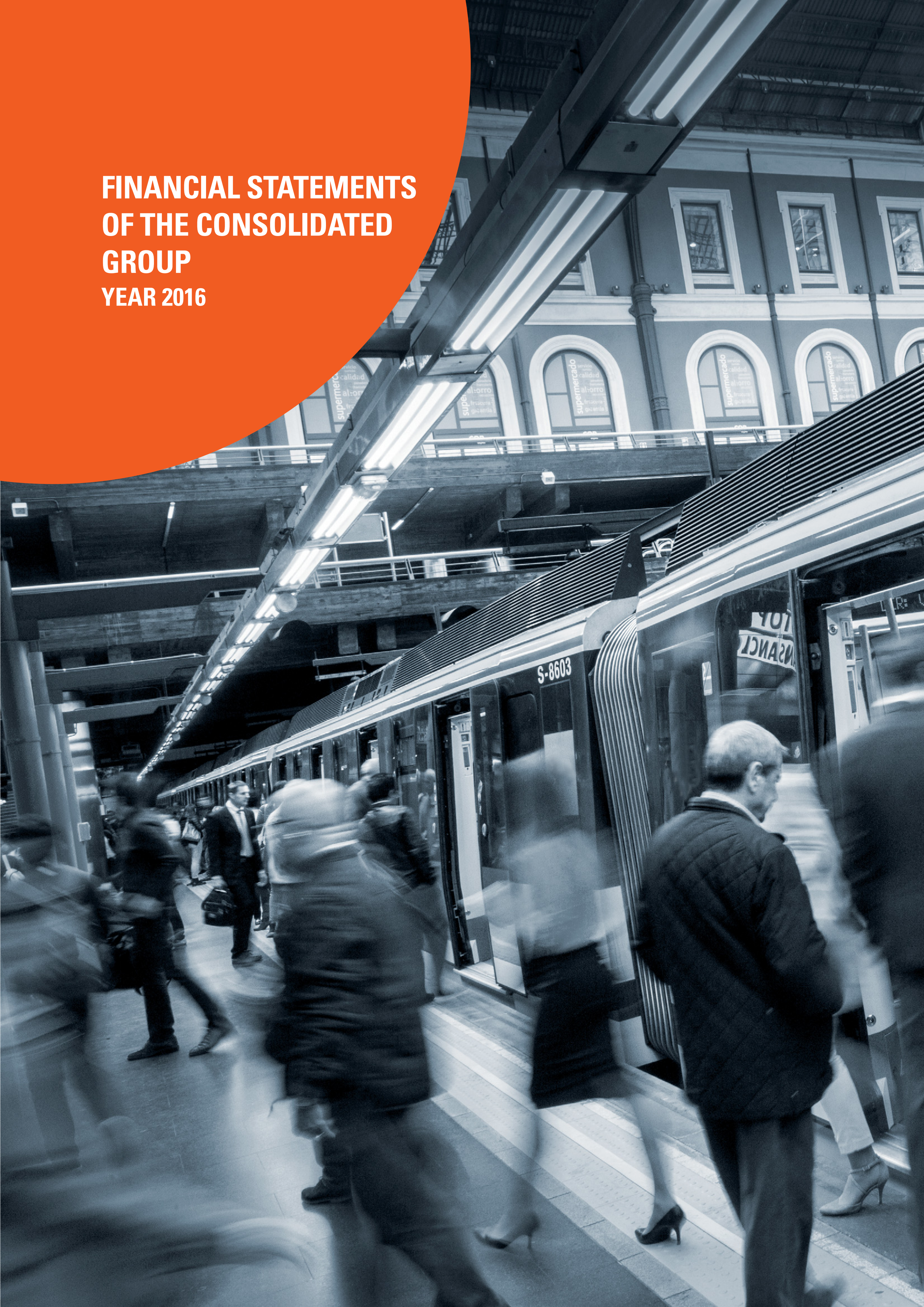
The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the situation of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part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

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

Javier Giral Gracia
27 February 2017

FINANCIAL STATEMENTS OF THE CONSOLIDATED GROUP

YEAR 2016



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

Consolidated Statements of Financial Position

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

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

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

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

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statements of financial position as at 31 December 2016.

Consolidated Statements of Profit or Loss

for the years ended 31 December 2016 and 2015 (Notes 1, 2 and 3) (Thousands of Euros)

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

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

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

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

Consolidated Statements of Comprehensive Income

for 2016 and 2015 (Notes 1, 2 and 3) (Thousands of Euros)

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

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

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

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

Consolidated Statements of Changes in Equity

for 2016 and 2015 (Notes 1, 2 and 3) (Thousands of Euros)

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

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

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

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

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

Consolidated Statements of Cash Flows

for 2016 and 2015 (Notes 1,2 and 3) (Thousands of Euros)

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

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

1. DESCRIPTION AND ACTIVITIES OF THE PARENT

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

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

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

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

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of presentation

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

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

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

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

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

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

b) Adoption of new standards and interpretations issued

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

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

Standards and interpretations issued but not yet in force

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

IFRS 9, Financial Instruments

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

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

IFRS 16, Leases

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

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

c) Functional currency

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

d) Use of estimates

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

– The assessment of possible impairment losses on certain assets (see Notes 7, 8, 9, 10, 11, 12 and 13);

– The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 15);

– The useful life of the property plant and equipment and intangible assets (see Notes 3-a and 3-b);

– The fair value of certain financial assets (see Note 3-d);

– The calculation of provisions (see Note 20);

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

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

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

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

e) Comparative information

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

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

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

f) Consolidated Group and basis of consolidation

Scope of consolidation

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

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

	% of control or influence	Location	Line of business	Auditor
Fully consolidated companies				
Industrial Subgroup				
CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of rolling stock equipment and components	Deloitte
CAF USA, Inc.	100%	Delaware	Manufacturing	G. Thornton
CAF México, S.A. de C.V.	100%	Mexico City	Manufacturing and maintenance	Deloitte
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Manufacturing and maintenance	Deloitte
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance	G. Thornton
CAF Rail UK, Ltda.	100%	Belfast	Repairs and maintenance	Deloitte
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance	Deloitte
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance	Deloitte
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance	Deloitte
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance	CACF Audit
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance	Deloitte
CAF Rail Australia Pty. Ltd.	100%	Sydney	Manufacturing and maintenance	Pitcher Partners
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance	Deloitte
CAF France, SAS	100%	Paris	Manufacturing and maintenance	Deloitte
Trenes de Navarra, S.A.U.	100%	Navarre	Manufacturing	Deloitte
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing	Bsk
Construcciones Ferroviarias - CAF Santana, S.A.	83.73%	Jaén	Manufacturing	Bsk
Tradinsa Industrial, S.A.	100%	Lleida	Repairs and maintenance	Deloitte
CAF New Zealand Ltd	100%	Auckland	Manufacturing and maintenance	Staples Rodway
CAF Sisteme Feroviare SRL	100%	Bucharest	Manufacturing and maintenance	Deloitte
CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance	Deloitte
CAF Arabia, Co.	100%	Riyadh	Manufacturing and maintenance	Deloitte
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance	-
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance	Deloitte
CAF Hungria, K.F.T.	100%	Budapest	Manufacturing and maintenance	BDO

	% of control or influence	Location	Line of business	Auditor
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D	Deloitte
CAF Power & Automation, S.L.U.	100%	Guipúzcoa	Electronic and power equipment	Deloitte
Vectia Mobility Research & Development, A.I.E.	67.48%	Guipúzcoa	R&D	Deloitte
Vectia Mobility, S.L.	79.46%	Guipúzcoa	Solutions for urban transport	Deloitte
CAF Turnkey & Engineering, S.L.U.	100%	Vizcaya	Engineering	Deloitte
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests	Bsk
Lander Simulation and Training Solutions, S.A.	57%	Guipúzcoa	Simulators	Bsk
Geminys, S.L.	100%	Guipúzcoa	Operating manuals	Bsk
CAF Signalling, S.L.U.	100%	Guipúzcoa	Signalling	Deloitte
CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi	100%	Istanbul	Signalling	Deloitte
Services Subgroup				
Actren, S.A.	51%	Madrid	Maintenance	Deloitte
Sermanfer, S.A.	100%	Madrid	Maintenance	Bsk
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services	Almaguer
Inversiones en Concesiones Ferroviarias, S.A.	100%	Guipúzcoa	Business development	Deloitte
Urbanización Parque Romareda, S.A.	100%	Zaragoza	Holding company	-
UPR Argentina, S.A.	100%	Buenos Aires	Holding company	-
Ctrens Companhia de Manutençao, S.A.	100%	Sao Paulo	Lease services	Deloitte
Provetren, S.A. de C.V.	100%	Mexico City	Lease services	Deloitte
Regiotren, S.A. de C.V.	100%	Mexico City	Lease services	-
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Ennera Energy and Mobility, S.L.	100%	Guipúzcoa	Power generation	Bsk
Ennera Kaihatsu CO, LTD	100%	Tokyo	Power generation	-
Rail Line Components, S.L.U.	100%	Guipúzcoa	Marketing	Bsk
Construction Subgroup				
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	Mexico City	Equipment	Deloitte
Companies accounted for using the equity method (Note 9)				
Industrial Subgroup				
Compañía de Vagones del Sur, S.A.	29.3%	Jaén	Manufacturing	-
Ferrocarril Interurbano, S.A. de C.V.	49.63%	Mexico City	Manufacturing and equipment	Deloitte
Basa TMB, S.L.	32.61%	Vizcaya	Repairs and maintenance	-

	% of control or influence	Location	Line of business	Auditor
Technology Subgroup				
Nuevas Estrategias de Mantenimiento, S.L.(*)	50%	Guipúzcoa	Technology solutions	Bsk
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automated production	-
Tumaker, S.L.	24.9%	Guipúzcoa	Printing equipment	Bsk
Services Subgroup				
Ferrocarriles Suburbanos, S.A. de C.V.	43.35%	Mexico City	Transport services	Deloitte
Plan Metro, S.A.	40%	Guipúzcoa	Lease services	-
Consorcio Traza, S.A. (**)	25%	Zaragoza	Holding company	-
Arabia One for Clean Energy Investments PSC	40%	Ma'an	Power generation	-
Purple Line Transit Operators, LLC	20%	Delaware	Operation and maintenance	-

(*) This company owns all the shares of NEM Solutions USA, Inc. with registered office in the US.

(**) This company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Changes in the scope of consolidation

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

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

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

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

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

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

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

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

Consolidation method

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

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

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

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

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

Translation of foreign currency financial statements

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

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

g) Correction of errors

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

3. ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT BASES APPLIED

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements as at 31 December 2016 and 2015 were as follows:

a) Intangible assets

Computer software and development projects for which there are no doubts as to their technical and commercial success are measured at their acquisition cost (or, where appropriate, at their accumulated production cost applied in accordance with inventory measurement bases - see Note 3-e). Computer software is amortised on a straight-line basis over five years from its acquisition (see Note 7). Development projects are amortised on a straight-line basis over five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (see Note 7).

b) Property, plant and equipment

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

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

In-house work performed by the consolidated companies on items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (see Note 3-e).

The items of property, plant and equipment are depreciated on a straight-line basis at rates based on the following years of estimated useful life:

	Years of estimated useful life
Buildings	25 - 50
Plant and machinery	6 - 10
Other fixtures, tools and furniture	3 - 10
Other items of property, plant and equipment	10 - 20

In general, for items of property, plant and equipment that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans borrowed specifically or generally directly attributable to the acquisition or production of the assets.

c) Impairment of assets

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

d) Financial instruments

Trade and other receivables

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

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

Also, the Group derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the risks and rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred. At 31 December 2016, the Group derecognised receivables amounting to EUR 107,190 thousand (31 December 2015: EUR 31,364 thousand) as a result of factoring agreements.

Financial assets

In accordance with the classification criteria established by IAS 39, the Group classifies its financial assets in the following categories:

1. Loans and other long-term receivables. Loans and other long-term receivables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectability. The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to all its cash flows.

2. Held-to-maturity investments. Financial assets with fixed maturity that the Group has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.

3. Held-for-trading financial assets classified as at fair value through profit or loss. These assets must have any of the following characteristics:

   – They have been classified as held-for-trading because they have been acquired to generate a profit through short-term fluctuations in their prices.

   – They are financial derivatives provided that they have not been designated as part of a hedging relationship.

   – They have been included in this category of assets since initial recognition.

4. Available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. Changes in fair value are recognised with a charge or credit to "Valuation Adjustments" in the consolidated statements of financial position until the investments are disposed of, at which time the cumulative balance of this heading relating to the investments disposed of is recognised in full in the consolidated statement of profit or loss. In this regard, (permanent) impairment is presumed to exist if the market value of the asset has fallen by more than 40% or if there has been a prolonged fall in market value over a period of 18 months without the value having recovered.

   Equity investments in unlisted companies, the market value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost.

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

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

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

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

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

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

2016

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

2015

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

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

Cash and cash equivalents

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

Derivative financial instruments

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

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

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

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

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

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

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

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

e) Inventory measurement bases

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

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

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

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

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

f) Recognition of contract revenue and profit

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. The Group only recognises profit realised at year-end.

Maintenance revenue is recognised on an accrual basis. The Group has certain maintenance contracts billed on a straight-line basis which envisage the performance of in-depth inspections from time to time. In these cases, the difference between the costs billed and the costs incurred, determined as the proportion that contract costs incurred bear to the total contract costs, is recognised with a charge to "Revenue" and a credit to "Other Non-Current Liabilities" in the accompanying consolidated statements of financial position.

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

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

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

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

– From 10% onwards, a percentage of profit and revenue equal to the percentage of completion is recognised.

Based on the revenue realised, the projected profit or loss on each contract (calculated as described above) and the stage of completion, inventories are derecognised for the amount of the costs settled with a charge to the related consolidated statement of profit or loss and a credit to "Inventories" on the asset side of the consolidated statements of financial position (see Note 11).

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

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

g) Customer advances and completed contract work

The difference between revenue recognised on each project (see Note 3-f) and the amount billed for the project is recognised as follows:

– If the difference is positive, under "Trade and Other Receivables - Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (deferred billings) (see Notes 11 and 12).

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

h) Current/Non-current classification

Items are classified under "Current Assets" and "Current Liabilities" (prebillings, deferred billings and short-term provisions) which may be realised within more than twelve months. Considering the items as a whole, the directors' estimates indicate that the current assets will be realised essentially in the short term and, in any event, the current liabilities to be realised in more than twelve months exceed the current assets that would be realised in more than twelve months (see Notes 11 and 20).

i) Government grants

The Group companies recognise government grants received as follows:

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

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

j) Post-employment benefits

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

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

In the assumptions applied in the actuarial study performed by an independent third party, the future obligations were discounted at a market rate, taking into account salary increases similar to those made in the past.

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

k) Early retirements and termination benefits

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

l) Income tax

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

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

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

m) Leases

The CAF Group classifies as finance leases, lease arrangements whereby the lessor transfers all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

In finance leases in which the Group acts as the lessor, at inception of the lease an account receivable is recognised equal to the present value of the minimum lease payments receivable plus the residual value of the asset, discounted at the interest rate implicit in the lease. The difference between the account receivable recognised and the amount to be received, which relates to unearned finance income, is allocated to consolidated profit or loss as earned using the effective interest method (see Note 9-e).

At 31 December 2016, the Group had various outstanding operating leases for which it had recognised EUR 8,027 thousand in 2016 (2015: EUR 7,901 thousand) with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Group expects to continue to lease these assets (principally computer hardware and real estate), the costs of which are tied to the CPI.

The payment commitments for future years in relation to outstanding operating leases at 31 December 2016 amounted to EUR 17,170 thousand over the next few years, of which EUR 5,897 thousand are due in 2017 (31 December 2015: EUR 17,759 thousand and EUR 5,749 thousand of which were to be paid in 2016).

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

n) Administrative concessions

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

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

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

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

4. DISTRIBUTION OF THE PROFIT OF THE PARENT

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

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

5. FINANCIAL AND OTHER RISK MANAGEMENT POLICY

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

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

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

a) Market risk

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

The Group's interest rate risk arises on borrowings. The Group's policy for working capital financing transactions is to resort to third-party borrowings in the form of debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure. For long-term financing transactions, the Group sets an objective, to the extent permitted by the markets, of maintaining a fixed interest rate structure.

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

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

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

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

a.2) Foreign currency risk

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

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (the euro).

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

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

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

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

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

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

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

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

a.3) Commodity risk

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

b) Credit and counterparty risk

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

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

At 31 December 2016 and 2015, the Group had insured a portion of its accounts receivable from customers in certain countries abroad through credit insurance policies (see Note 12).

c) Liquidity and financing risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations fully and effectively (see Notes 13 and 16).

The CAF Group manages liquidity risk using the following mechanisms:

– Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not coincide in the same timeframe, which results in financial resources being consumed.

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

– Maintaining a strong short-term liquidity position.

– Maintaining surplus undrawn credit balances.

d) Risks arising from variances with respect to project budgets

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

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

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

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

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

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

6. SEGMENT REPORTING

a) Basis of segmentation

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

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

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

b) Basis and methodology for segment reporting

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

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

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

– Rolling stock

– Wheel sets and components

Segment information about the businesses is as follows:

Segmentation by business unit	Rolling stock	Wheel sets and components	General	Inter-segment	Total
	2016 (Thousands of euros)				
REVENUE:					
External sales	1,249,872	68,328	-	-	1,318,200
Inter-segment sales	-	29,827	-	(29,827)	-
Total sales	**1,249,872**	**98,155**	**-**	**(29,827)**	**1,318,200**
PROFIT OR LOSS:					
Profit (Loss) from operations	108,665	(4,719)	7,894	-	111,840
Financial loss (*)	(26,530)	(26)	(26,428)	-	(52,984)
Share of net results of associates	473	-	-	-	473
Profit (Loss) before tax	**82,608**	**(4,745)**	**(18,534)**	**-**	**59,329**
Income tax (*)	-	-	(22.049)	-	(22,049)
Profit (Loss) for the year from continuing operations	**82,608**	**(4,745)**	**(40,583)**	**-**	**37,280**
Profit attributable to non-controlling interests	(2,267)	-	-	-	(2,267)
Profit (Loss) attributable to the Parent	**80,341**	**(4,745)**	**(40,583)**	**-**	**35,013**
Depreciation and amortisation charge (Notes 7 and 8)	26,803	7,660	206	-	34,669
ASSETS	**2,333,064**	**74,826**	**825,547**	**-**	**3,233,437**
LIABILITIES	**1,620,121**	**28,432**	**801,207**	**-**	**2,449,760**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	25,782	6,282	-	-	32,064
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment-Income (Expense) (Notes 2-f, 7, 8, 9 and 11)	4,628	(4,584)	8,876	-	8,920

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

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

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

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

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

The information based on geographical location is as follows:

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

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

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

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

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

7. OTHER INTANGIBLE ASSETS

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

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

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

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

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND NON-CURRENT FINANCIAL ASSETS

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

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

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

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

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

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

2016

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

2015

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

a) Investments in associates

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

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

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L.	4,256	50	2,128	4,681	181
Plan Metro, S.A. (3)	(26,461)	40	(10,584)	-	-
Consorcio Traza, S.A. (2)	50,678	25	12,670	12,670	242
Ferrocarriles Suburbanos, S.A. de C.V.	1,623	43,35	704	-	-
Arabia One for Clean Energy Investments PSC	1,893	40	757	757	64
Other investments (4)	-	-	464	464	(14)
			6,139	**18,572**	**473**

(1) After adjustments and unification for consolidation purposes (in thousands of euros).

(2) Consorcio Traza, S.A. holds an 80% ownership interest in the public-private entity S.E.M. Los Tranvías de Zaragoza, S.A.

(3) This company's shares are pledged to certain banks.

(4) Dormant companies or companies with no significant activity: Asyris Vision Technologies, S.A., Ltd. Basa TMB, S.L., Compañía de Vagones del Sur, S.L., Ferrocarril Interurbano, S.A. de C.V. and Tumaker, S.L.

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

b) Non-current investment securities

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

The Group owns 14.18% of Iniciativa FIK, AIE, the company object of which is research and development and the exploitation of scientific and technological knowledge. The par value of the shares amounts to EUR 3,125 thousand. The ownership interest has been written down by EUR 2,073 thousand (31 December 2015: EUR 1,824 thousand) and impairment of EUR 249 thousand was recognised in 2016 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying consolidated statement of profit or loss.

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

c) Other financial assets

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

d) Derivative financial instruments

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

e) Loans and receivables

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

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

Loans to employees

In accordance with the agreements entered into with employees, the Parent grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Group does not discount these amounts since it considers that this effect is scantly material.

Share ownership scheme (Cartera Social)

The share ownership scheme was set up in 1994 to promote permanent employees' ownership of CAF's share capital through the creation of Cartera Social, S.A. This company is the owner of CAF, S.A.'s shares and eight employees of the Parent act as trustees thereat. Since that date, Cartera Social, S.A. has sold the rights on the shares it owns in CAF, S.A. to the Parent.

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

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

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

Non-current tax receivables

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

Non-current trade receivables

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

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

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

- The payments are guaranteed by CPTM through monthly bank deposits of BRL 11.6 million made to a bank account (in 2009 real terms, amounting to BRL 17.6 million at 31 December 2016 following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Security Agent and can be used to pay the concession operator in the event of default by CPTM on its payment obligations.
- The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.
- The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (see Note 25-a). At 31 December 2016, this guarantee amounted to BRL 36,144 thousand (EUR 10,536 thousand).
- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to CPTM at the end of the concession term for no consideration.

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

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

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

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

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

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

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

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

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

10. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

11. INVENTORIES AND CONSTRUCTION CONTRACTS

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

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

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

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

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

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

Construction contracts

The detail of the cumulative amount of costs incurred and of profits recognised (less the related losses recognised) and the amount of advances received at 31 December 2016 and 2015 is as follows:

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

12. TRADE AND OTHER RECEIVABLES

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

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

These receivables arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances, approximately 36% in 2016 (2015: 35%), was billed to customers. The remaining receivable relates to "Amounts to Be Billed for Work Performed" (see Note 11). At 31 December 2016, the balances billed included EUR 137,790 thousand (31 December 2015: EUR 137,790 thousand) in relation to the agreement with Metro de Caracas, the balance of which is past due and relates to work performed and billed to the customer and the collection of which is considered to be covered by the insurance policy in force and through offset against liabilities to the customer, basically the provision described in Note 20.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, has arranged a supplier credit policy with credit risk coverage for the Metro de Caracas Line 1 refurbishment project. The insureds under this policy are the venturers in the aforementioned unincorporated temporary joint venture, including CAF. At 31 December 2016, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filing a claim under the aforementioned insurance policy had been met, but no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

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

At 31 December 2016 and 2015, the CAF Group had balances billed to Metro de Caracas amounting to EUR 36,767 thousand (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty as to their collectability.

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

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

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

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

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

13. OTHER CURRENT FINANCIAL ASSETS

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

2016

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

2015

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

"Held-to-Maturity Investments" and "Held-for-Trading Financial Assets" include the cash surpluses invested in government debt securities, repos, short-term deposits, term deposits, promissory notes or fixed-income investment funds. These are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss. In 2016 the Group recognised income in this connection amounting to EUR 3,480 thousand (2015: EUR 7,829 thousand).

14. EQUITY

a) Share capital of the Parent

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

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

At 31 December 2015, the Parent's share capital was represented by 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities that had notified the Spanish National Securities Market Commission (CNMV) that they held voting rights representing over 3% of the Parent's share capital at 31 December 2016 and 2015 were as follows:

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

(*) The shareholders of this company are employees of the Parent (see Note 9).

(**) Kutxabank S.A. holds the direct ownership interest, although the indirect holder is Bilbao Bizkaia Kutxa Fundación Bancaria, which controls Kutxabank S.A.

On 8 June 2013, at the Annual General Meeting, the Board of Directors was empowered to increase the share capital on one or more occasions, through the issuance of new shares with a charge to monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these consolidated financial statements, no capital increase had been performed since that resolution.

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

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

b) Share premium

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

c) Revaluation reserve

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

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

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses and to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance were used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

d) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2016 and 2015 the balance of this reserve had reached the legally required minimum.

e) Restricted reserves

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

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

f) Translation differences

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

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

g) Non-controlling interests

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

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

h) Capital management

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

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

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

15. OTHER CURRENT AND NON-CURRENT FINANCIAL LIABILITIES AND OTHER OBLIGATIONS

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

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

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

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

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

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

	2016
2018	13,028
2019	7,425
2020	7,141
2021	6,327
2022 and subsequent years	13,933
Total	**47,854**

	2015
2017	11,869
2018	10,973
2019	5,970
2020	5,743
2021 and subsequent years	17,278
Total	**51,833**

Refundable advances

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

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

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

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

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

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

Employee benefit obligations

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

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

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

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

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

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

Actuarial assumptions	**2016**	**2015**
Discount rate	1.77% - 1.82%	2.10% - 3.05%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Annual salary or pension increase rate	1-2%	1-2%
Retirement age	65-67	65-67

The fair value of the plan assets was calculated at year-end using the projected unit credit method.

16. BANK BORROWINGS

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

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

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

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

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

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

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

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

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

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

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

In 2016 the Parent arranged three new loans for a total of EUR 64,487 thousand (one of which amounts to USD 10,000 thousand) which have been paid in full, and drew down EUR 35,000 thousand against loans arranged in 2015. Also, nine loans totalling EUR 152,608 thousand were paid-off early and EUR 6,658 thousand were repaid on schedule. These loans were arranged on an arm's length basis. At 31 December 2016, the balance drawn down, according to the amortised cost method, was EUR 306,378 thousand long term and EUR 15,074 thousand short term (31 December 2015: EUR 350,053 thousand long term and EUR 30,917 short term). Of the amount drawn down, EUR 259,987 thousand bear interest at a fixed interest rate (EUR 20,000 thousand as a result of an interest-rate swap, see Note 17).

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

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

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

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

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

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

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

	31/12/16
2018	54,012
2019	180,674
2020	56,673
2021	166,344
2022 and subsequent years	190,442
Total	**648,145**

	31/12/15
2017	83,094
2018	71,209
2019	296,700
2020	36,492
2021 and subsequent years	174,673
Total	**662,168**

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

2016

	Maturity (in currency)		
Currency put options at 31/12/16 (fair value hedges)	**2017**	**2018**	**2019 and subsequent years**
Hedges:			
USD currency forwards (*)	644,214,550	79,234,468	55,313,750
GBP currency forwards	36,442,339	138,283,706	94,422,445
EUR currency forwards	15,623,445	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	224,317,236	19,185,635	-
AUD currency forwards	14,789,903	55,404,595	9,806,539
TWD currency forwards	463,285,969	-	-
SAR currency forwards	490,954,194	-	-
MXP currency forwards	2,723,626,945	-	-
CAD currency forwards	880,705	-	-
HUF currency forwards	975,898,338	-	-

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

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

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

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

(*) Before considering the related tax effect

2015

Currency put options at 31/12/15 (fair value hedges)	Maturity (in currency) 2016	2017	2018 and subsequent years
Hedges :			
USD currency forwards (*)	366,133,945	138,995,784	-
GBP currency forwards	28,999,253	-	68,204,871
EUR currency forwards	20,550,367	-	-
BRL currency forwards	115,113,533	-	-
SEK currency forwards	276,206,561	-	-
AUD currency forwards	500,000	-	-
TWD currency forwards	687,732,668	-	-
SAR currency forwards	520,982,164	-	-
MXP currency forwards	2,257,637,478	-	-
CAD currency forwards	3,027,862	-	-
ZAR currency forwards	18,357,300	-	-
HUF currency forwards	5,019,184,783	-	-

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

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

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

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

The hedging instruments expire in the same year in which the cash flows are expected to occur.

Following is a reconciliation of the remeasurement at each year-end to the carrying amounts recognised in the consolidated statements of financial position (in thousands of euros):

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

In 2016 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 4,988 thousand (2015: expense of EUR 192 thousand) mainly as a result of changes in the estimated amounts of the hedged items.

Also, the settlement and the change in the value of the fair value derivatives resulted in an expense of EUR 18,145 thousand in 2016 (2015: expense of EUR 35,100 thousand), which is similar to the changes in value of the hedged items.

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

18. CURRENT AND DEFERRED TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 14 May 2013, the Municipal Council of Beasain notified the Parent of the commencement of its general audit of various taxes for the years 2009-2013. In May 2015, as a result of the tax assessments received, a payment of EUR 266 thousand was made, EUR 235 of which against a provision recognised in 2014, and another of EUR 223 thousand was made, of which EUR 192 thousand were capitalised to property, plant and equipment. The Parent filed pleadings against these tax assessments in 2015. At the date of these financial statements, the Parent was awaiting a response to one of the pleadings and to the appeal for judicial review filed by the Parent which is currently suspended.

19. RECEIVABLES FROM AND PAYABLES TO PUBLIC AUTHORITIES

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

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

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

20. SHORT- AND LONG-TERM PROVISIONS

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

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

Long-term provisions

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

Contractual liability and warranty and support services

The provisions for contractual liability relate mainly to delays in deliveries, in accordance with the production and shipment schedule and the contractual obligation agreed upon, and to provisions for onerous contracts. The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts. The expected period to settle the provisions varies on the basis of their nature, the average approximate period being:

– Contractual liability: 1-2 years

– Warranty: 1-4 years (varies on the basis of the contractual arrangement to which it relates)

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

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

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

Litigation

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

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

21. INCOME AND EXPENSES

a) Procurements

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

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

b) Other operating expenses

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

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

c) Information on the environment

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

The Group did not receive any environmental grants in 2016.

The final free allocation of CO_2 emissions for 2013-2020 was approved at the Spanish Cabinet meeting held on 15 November 2013, with the Parent allocated emission allowances of 151,537 tonnes of CO_2 for the aforementioned period. If the emissions exceed the volume of allowances allocated, emission allowances must be acquired in the market.

In 2016 the Group emitted 15,572 tonnes of CO_2 (2015: 16,550 tonnes), whereas it had been allocated allowances for the emission of 19,133 tonnes (2015: 19,491 tonnes). As a result, the Group did not recognise any liability at year-end. In 2016 and 2015 the Group did not sell any emission allowances.

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

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

d) Grants related to income

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

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

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

22. AVERAGE HEADCOUNT AND STAFF COSTS

The average headcount in 2016 and 2015 was as follows:

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

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

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

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

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

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

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

23. INFORMATION ON THE BOARD OF DIRECTORS

a) Remuneration and other benefits of directors

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

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

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

In 2016 and 2015 neither the members of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the Board of any direct or indirect conflict of interest that they might have with the Parent.

24. REMUNERATION OF SENIOR EXECUTIVES

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

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

25. OTHER DISCLOSURES

a) Guarantees and other contingent assets and liabilities

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

In March 2014 the Brazilian Administrative Council for Economic Defence (CADE), following completion of an administrative investigation process initiated in May 2013 into several railway manufacturers, one of which is a subsidiary of the CAF Group in Brazil, initiated administrative proceedings arising from possible anti-competitive behaviour. The Parent submitted its preliminary defence and has cooperated on an ongoing basis with the authorities and provided them with the information requested. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these consolidated financial statements there were no economic claims filed against this subsidiary. Also, as a result of this proceeding, a current account with a balance of EUR 263 thousand was blocked. An appeal has been filed in this connection. At the reporting date, the actions brought by CAF Brasil against the blocked account had been upheld and the decision on a final extraordinary appeal for the account to be definitively unblocked is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, have initiated court proceedings. At the date of formal preparation of these consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have yet to be summoned. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleadings in the first half of 2016. The investigations relating to this proceeding are expected to continue throughout 2017.

b) Disclosures on the average period of payment to suppliers

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

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

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services included in "Payable to Suppliers" and "Other Payables" under current liabilities in the statements of financial position.

The statutory maximum payment period applicable to the Parent in 2016 under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, was 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

26. EVENTS AFTER THE REPORTING PERIOD

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

27. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

Approval by the Board of Directors

Mr. ANDRÉS ARIZKORRETA GARCÍA	Chairman
Mr. ALEJANDRO LEGARDA ZARAGÜETA	Director
Mr. JOSÉ ANTONIO MUTILOA IZAGUIRRE	Director
Mr. LUIS MIGUEL ARCONADA ECHARRI	Director
Mr. JUAN JOSÉ ARRIETA SUDUPE	Director
Mr. XABIER GARAIALDE MAIZTEGI	Director
Mr. JAVIER MARTINEZ OJINAGA	Director
Ms. CARMEN ALLO PÉREZ	Director
Ms. MARTA BAZTARRICA LIZARBE	Director-Secretary of the Board

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

San Sebastián, 27 February 2017.

Approved by	Signed by
THE CHAIRMAN OF THE BOARD	THE SECRETARY OF THE BOARD
ANDRÉS ARIZKORRETA GARCÍA	MARTA BAZTARRICA LIZARBE

Resolutions submitted by the Board of Directors for approval by the Shareholders' meeting

Annual General Meeting to be held at the registered office in Beasain, Gipuzkoa, on 10 June 2017 at 12:00 pm at first call and, if necessary, on 11 June 2017 at the same time and place at second call:

AGENDA

One: Examination and approval, where appropriate, of the financial statements and directors' report of Construcciones y Auxiliar de Ferrocarriles, S.A., and the consolidated financial statements and directors' report of its consolidated group of companies for 2016, and of the management of the Board of Directors.

Two: Approval of the proposed distribution of profit for 2016, paying a dividend of a gross amount of EUR 0.58 per share.

Three: Re-election of auditors.

Four: Amendment of the bylaws:

4.1. Amendment of Articles 13 and 20 of the bylaws to adapt them to the current wording of Article 406 of the Spanish Limited Liability Companies Law.

4.2. Amendment of Article 34 of the bylaws to bring their content into line with Article 5.3 of the Board of Directors Regulations.

Five: Amendment of Articles 4, 10 and 16 of the General Meeting Regulations to adapt them to the amendments to the bylaws submitted for approval at the Annual General Meeting under point 4.1 of the Agenda, if they are approved.

Six: Approval of the Directors' Remuneration Policy.

Seven: Appointment of Julián Gracia Palacín as independent director.

Eight: Delegation to the Board of Directors, pursuant to the provisions of Articles 297.1.b) and 511 of the Spanish Limited Liability Companies Law, Article 319 of the Mercantile Registry Regulations and other applicable regulations, with the express power to delegate, and for a term of five (5) years from the adoption of this resolution, of the power to issue, once or on several occasions, directly or through Group companies, debt instruments and other fixed-income or other securities (including warrants) which can be converted into shares of the Company or other Group companies, including expressly the power to disapply the pre-emption right of the shareholders, although this last power to disapply the pre-emption right is limited to a maximum amount of 20% of the share capital at the time of authorisation. Consequent revocation of the powers delegated to the Board of Directors in the resolution of the Annual General Meeting held on 7 June 2014.

Nine: Advisory vote on the 2016 Annual Report on Directors' Remuneration.

Ten: Delegation of powers to the Board of Directors to formalise and execute the foregoing resolutions.

Eleven: Perusal and approval, as the case may be, of the minutes of the meeting.

Proposed distribution of income

Allocate EUR 19,883 thousand to the distribution of dividends, EUR 1,546 thousand paid out of profit for the year and EUR 18,337 thousand charged to voluntary reserves.

Board of Directors

Mr. ANDRÉS ARIZKORRETA GARCÍA	Chairman
Mr. ALEJANDRO LEGARDA ZARAGÜETA	Director
Mr. JOSÉ ANTONIO MUTILOA IZAGUIRRE	Director
Mr. LUIS MIGUEL ARCONADA ECHARRI	Director
Mr. JUAN JOSÉ ARRIETA SUDUPE	Director
Mr. XABIER GARAIALDE MAIZTEGI	Director
Mr. JAVIER MARTINEZ OJINAGA	Director
Ms. CARMEN ALLO PÉREZ	Director
Ms. MARTA BAZTARRICA LIZARBE	Director-Secretary of the Board

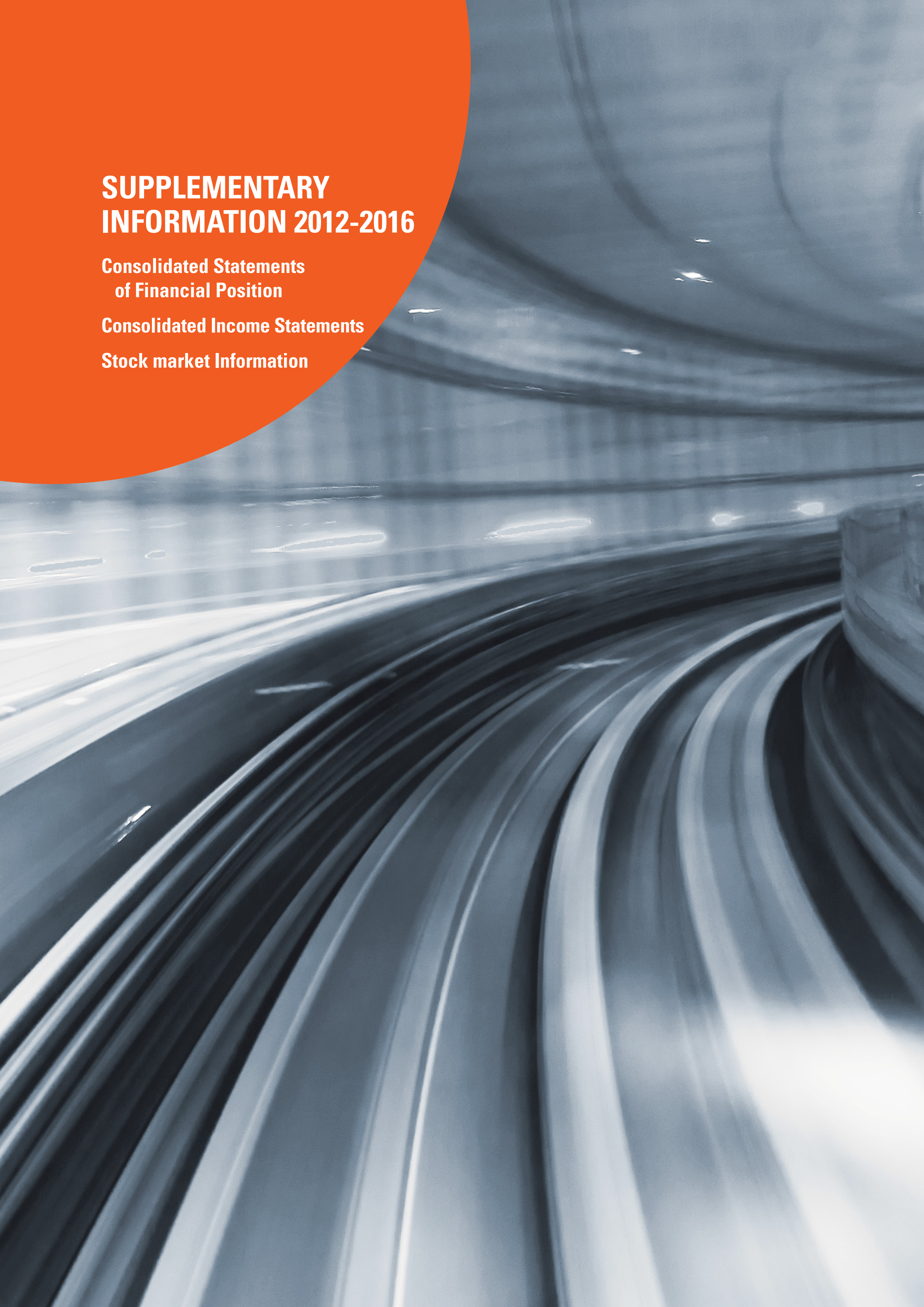
This information relates to the composition of the Company's Board of Directors at 27 February 2017, date on which the Financial Statements of the Company and its consolidated group for financial year 2016 were formally issued. At the aforementioned date, the members of the Company's Board of Directors held 0.005% of the share capital.

SUPPLEMENTARY INFORMATION 2012-2016

Consolidated Statements of Financial Position

Consolidated Income Statements

Stock market Information



Consolidated Statements of Financial Position

as of December 31st 2016, 2015, 2014, 2013, 2012 (Thousands of Euros)

Assets	2016	2015	2014	2013	2012
Non-current assets:					
Intangible assets					
Goodwill	15	15	15	15	15
Other intangible assets	40,129	34,719	37,673	35,172	42,036
	40,144	**34,734**	**37,688**	**35,187**	**42,051**
Property, plant and equipment, net	**229,309**	**240,787**	**271,839**	**286,593**	**300,102**
Investments accounted for using the equity method	**18,572**	**14,308**	**12,257**	**14,902**	**13,167**
Non-current financial assets	**666,419**	**612,897**	**669,549**	**657,233**	**760,828**
Deferred tax assets	**159,176**	**161,108**	**163,842**	**162,283**	**102,075**
Total non-current assets	**1,113,620**	**1,063,834**	**1,155,175**	**1,156,198**	**1,218,223**
Current assets:					
Inventories	**60,287**	**86,253**	**180,504**	**159,857**	**250,827**
Trade and other receivables					
Trade receivables for sales and services	1,306,363	1,120,483	1,107,006	1,040,576	761,312
Other receivables	204,033	169,306	188,410	206,739	218,204
Current tax assets	13,426	8,451	6,493	17,604	12,844
	1,523,822	**1,298,240**	**1,301,909**	**1,264,919**	**992,360**
Other current financial assets	**140,480**	**122,423**	**123,945**	**97,703**	**129,025**
Other current assets	**3,206**	**5,939**	**4,591**	**2,022**	**1,742**
Cash and cash equivalents	**392,022**	**297,440**	**197,111**	**127,150**	**76,682**
Total current assets	**2,119,817**	**1,810,295**	**1,808,060**	**1,651,651**	**1,450,636**
Total assets	**3,233,437**	**2,874,129**	**2,963,235**	**2,807,849**	**2,668,859**

The figures for 2012 were reclassified as described in Note 2-e to the consolidated financial statements for 2013.

Equity and Liabilities	2016	2015	2014	2013	2012
Equity:					
Shareholders' equity					
Registered share capital	10,319	10,319	10,319	10,319	10,319
Share premium	11,863	11,863	11,863	11,863	11,863
Revaluation reserve	39,119	39,119	39,119	58,452	58,452
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	758,268	734,288	691,777	618,264	554,784
Profit for the year attributable to the Parent	35,013	41,041	59,679	90,181	99,454
	854,582	**836,630**	**812,757**	**789,079**	**734,872**
Valuation adjustments					
Available-for-sale financial assets	-	-	-	3,704	-
Hedges	(5,908)	(5,142)	(6,212)	(2,882)	(4,449)
Translation differences	(76,703)	(127,748)	(70,336)	(70,789)	(28,508)
	(82,611)	**(132,890)**	**(76,548)**	**(69,967)**	**(32,957)**
Equity attributable to the Parent	**771,971**	**703,740**	**736,209**	**719,112**	**701,915**
Non-controlling interests	**11,706**	**11,187**	**12,704**	**10,249**	**5,685**
Total equity	**783,677**	**714,927**	**748,913**	**729,361**	**707,600**
Non-current liabilities:					
Long-term provisions	**4,646**	**4,526**	**5,075**	**4,785**	**4,678**
Non-current financial liabilities					
Bank borrowings	648,145	662,168	683,062	477,934	480,517
Other financial liabilities	61,428	74,924	76,405	73,590	69,222
	709,573	**737,092**	**759,467**	**551,524**	**549,739**
Deferred tax liabilities	**172,137**	**156,817**	**152,426**	**147,020**	**84,283**
Other non-current liabilities	**58,039**	**63,996**	**66,880**	**52,366**	**22,741**
Total non-current liabilities	**944,395**	**962,431**	**983,848**	**755,695**	**661,441**
Current liabilities:					
Short-term provisions	**227,937**	**228,766**	**265,329**	**335,027**	**348,681**
Current financial liabilities					
Bank borrowings	103,075	203,722	158,039	232,705	108,962
Other financial liabilities	139,527	53,700	46,733	39,074	30,808
	242,602	**257,422**	**204,772**	**271,779**	**139,770**
Trade and other payables					
Payable to suppliers	376,531	352,153	463,067	460,652	439,866
Other payables	657,056	355,596	293,197	252,808	369,900
Current tax liabilities	969	647	3,513	1,866	1,089
	1,034,556	**708,396**	**759,777**	**715,326**	**810,855**
Other current liabilities	**270**	**2,187**	**596**	**661**	**512**
Total current liabilities	**1,505,365**	**1,196,771**	**1,230,474**	**1,322,793**	**1,299,818**
Total equity and liabilities	**3,233,437**	**2,874,129**	**2,963,235**	**2,807,849**	**2,668,859**

Consolidated Incomes Statements

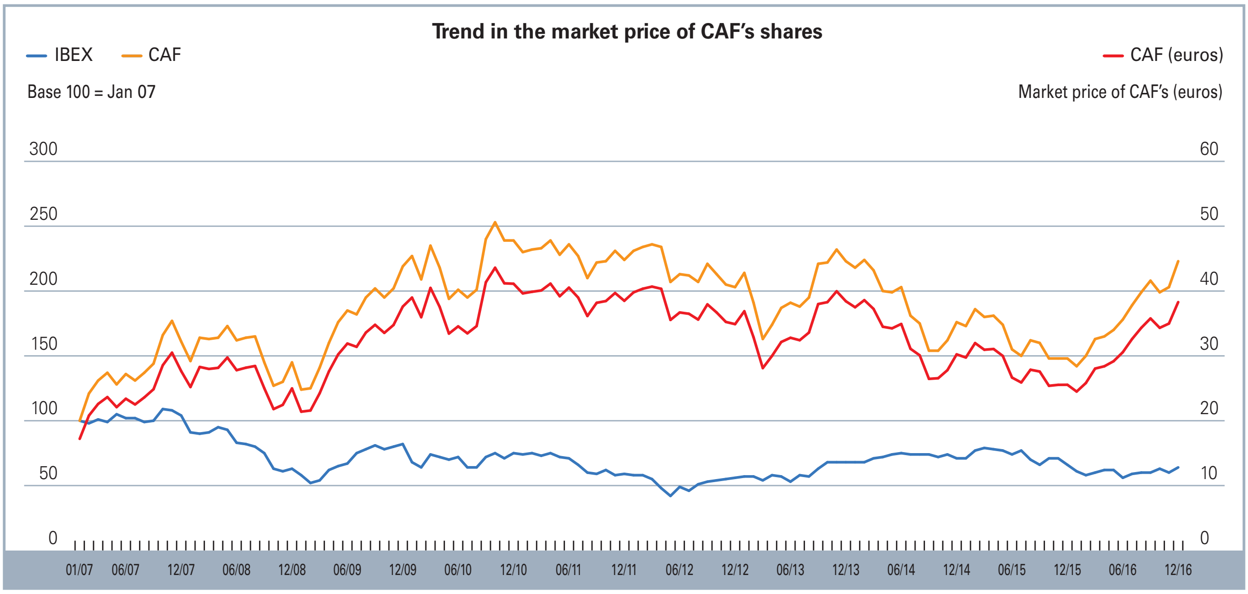
as of December 31st 2016, 2015, 2014, 2013, 2012 (Thousands of Euros)

(Debit) Credit	2016	2015	2014	2013	2012
Continuing operations:					
Revenue	1,318,200	1,283,591	1,447,141	1,535,240	1,721,186
+/- Changes in inventories of finished goods and work in progress	(15,474)	(126,137)	7,690	(149,530)	(222,057)
In-house work on non-current assets	9,778	6,490	9,840	7,106	1,325
Procurements	(608,669)	(435,014)	(743,140)	(560,010)	(595,441)
Other operating income	15,792	4,245	5,289	4,117	5,327
Staff costs	(397,634)	(402,164)	(406,236)	(394,460)	(352,334)
Other operating expenses	(186,723)	(164,996)	(174,159)	(219,535)	(376,105)
Ebitda	**135,270**	**166,015**	**146,425**	**222,928**	**181,901**
Depreciation and amortisation charge	(34,669)	(38,399)	(42,398)	(42,552)	(39,231)
Impairment and gains or losses on disposals of non-current assets	11,239	(833)	10,958	(29,065)	(1,282)
Profit from operations	**111,840**	**126,783**	**114,985**	**151,311**	**141,388**
Finance income	13,643	10,476	10,187	13,974	24,437
Finance costs	(72,819)	(56,632)	(47,252)	(47,687)	(35,273)
Changes in fair value of financial instruments	870	3	373	(275)	17
Exchange differences	5,916	(19,632)	(2,394)	(3,645)	(3,176)
Impairment and gains or losses on disposals of financial instruments	(594)	(589)	4,357	1,013	355
Financial loss	**(52,984)**	**(66,374)**	**(34,729)**	**(36,620)**	**(13,640)**
Result of companies accounted for using the equity method	473	-	200	(392)	17
Profit before tax	**59,329**	**60,409**	**80,456**	**114,299**	**127,765**
Income tax	(22,049)	(17,795)	(18,327)	(23,262)	(27,711)
Profit for the year from continuing operations	**37,280**	**42,614**	**62,129**	**91,037**	**100,054**
Consolidated profit for the year	**37,280**	**42,614**	**62,129**	**91,037**	**100,054**
Attributable to:					
The Parent	35,013	41,041	59,679	90,181	99,454
Non-controlling interests	2,267	1,573	2,450	856	600
Earnings per share (euros) (Note 2-e)					
Basic	1,02	1,20	1,74	2,63	2,90
Diluted	1,02	1,20	1,74	2,63	2,90

Stock market information

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

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



	2016	2015	2014	2013	2012
Stock market capitalization					
Capitalization	1,312,952,725	875,873,163	1,036,478,476	1,317,409,223	1,196,398,175
Per-share data					
Net earnings per share (*)	1.02	1.20	1.74	2.63	2.90
Dividend per share (*)	0.58	0.53	0.53	1.05	1.05
Per-share net book value (*)	22.52	20.53	21.48	20.98	20.48
Stock market ratios					
PER	30.30	23.76	18.53	12.53	13.08
Average price/EBITDA	7.84	5.87	7.55	5.07	7.15
MV/BV (average price/book value)	1.37	1.39	1.50	1.57	1.85
Dividend yield	1.87%	1.85%	1.63%	3.18%	2.77%
Pay-out	56.79%	43.85%	30.16%	39.91%	36.19%

(*) Information presented considering the stock split performed on 30 November 2016 for the purpose of comparison with all prior years.

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

OFFICES

REGISTERED OFFICE
José Miguel Iturrioz, 26
20.200 BEASAIN (Guipúzcoa)
Spain
Tel.: +34 943 880 100
Fax: +34 943 881 420
caf@caf.net

ADMINISTRATION OFFICES
C/ Padilla, 17 6º
28006 MADRID
Spain
Tel.: +34 91 436 60 00
Fax: +34 91 436 03 96
caf@caf.net

SHAREHOLDERS' DEPARTMENT
José Miguel Iturrioz, 26
20200 BEASAIN (Guipúzcoa)
Tel.: +34 943 189 262 (Shareholders' assistance telephone)
Fax: +34 943 189 226
accionistas@caf.net

CAF GERMANY
Seidlstraße 26
80335 München
Germany
Tel.: +49 (0)89 544 790 120
Fax: +49 (0)89 544 790 250

CAF FRANCE
16 rue Friant
75014 Paris
France
Tel.: + 33 1 82 73 01 00
Fax: + 33 5 62 91 05 77

CAF RAIL UNITED KINGDOM
The TechnoCentre Puma Way
Coventry, CV1 2TT
United Kingdom
Tel.: +44(0)2476 158195

CAF ITALY
Vía G. Parini, 2
20121 Milano
Italy
Tel.: +39 02 4975 9575
Fax: +39 02 4975 9575

CAF NETHERLANDS
Graadt van Roggenweg 328 – 334
(Regus Business Centre)
3531 AH Utrecht
Netherlands
Tel.: +31 (0)30 298 2290

CAF POLAND
Emilii Plater 53/1116
00113 Warsaw
Poland
Tel.: +48 22 5286788
Fax: +48 22 5286701

CAF USA
1401 K Street, N.W. Suite 1003
20.005-3418 - WASHINGTON DC
USA
Tel.: 1 202 898 4848
Fax: 1 202 216 8929

CAF MEXICO
Eje 1 Norte (Mosqueta) Edificio
Oriente 1ª piso
Col. Buenavista, Delegación
Cuauhtémoc c.p. 06350
Mexico D.F.
Mexico
Tel.: +52 55 568 875 43
Fax: +52 55 568 811 56

CAF CHILE
Avda. de los conquistadores 1700,
Piso 16
Comuna de providencia
Santiago de Chile
Chile
Tel.: +56 2 473 7200
Fax: +56 2 473 7290

CAF BRAZIL
Rua Tabapua, nº81 - 10º andar
CEP 04533-010 ITAIM IBI
São Paulo
Brazil
Tel.: +55 11 3074-0600
Fax: +55 11 3074-0624

CAF ARGENTINA
Chacabuco 380 1er Piso
C1069AAH
Ciudad Autónoma de Buenos Aires
Republic of Argenitina
Tel.: +54-11-4343-4500

CAF QATAR
Al Fardan Office Tower, 14th Floor,
West Bay, Doha
Qatar
Tel.: +974 44101506
Fax: +974 44101500

CAF ALGERIA
Résidence «Petit Hydra» Entrée E107
Paradou, Hydra
Argel
Algeria
Tel.: +213 021 60 08 07 / 021 46 26 38
Fax: +213 021 60 08 07 / 021 46 26 38

CAF INDIA PVT LTD
113-116, 1st Floor, Block - A, Naurang
House, 21, Kasturba Gandhi Marg,
New Delhi-110001
India
Tel.: +91 11 4025 0000/ 4734 0794
Fax:+91 11 4734 0680

CAF MALAYSIA
20th Floor Menara Boustead,
69, Jalan Raja Chulan, 50200 Kuala
Lumpur
Malaysia
Tel.: +603 21449371
Fax: +603 21418006

CAF RAIL AUSTRALIA PTY LTD
Level, 17, suite 5, 1 Margaret St.
Sydney NSW 2000
Australia
Tel.: +61 (0) 2 8084 5119
Fax: +61 (0) 2 8068 6983

CAF TURKEY
Altay Çeşme Mah. Çam Sk. No:16/14
D Blok DAP Royal Center
34843 Maltepe/Istanbul
Turkey
Tel.: +90 216 457 1227

CAF HUNGARY KFT.
Váci út 22-24, 7 emelet
1132 Budapest
Hungary
Tel.: +36 1 808 9444