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ANNUAL REPORT 2017

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 my warmest greetings to you all on occasion of the presentation of the 2017 Annual Report which was also the year in which we celebrated the centenary of the founding of our Company. This is a particularly important milestone which only a small number of organisations reach, that is the result of value-based management focused on long-term objectives; the foundations required for any sustainable project.

A year which also constitutes the first stage of the current 2020 strategic cycle, which is geared towards profitable growth of the CAF Group, in the interests of its employees, shareholders, customers, suppliers, and society as a whole.

Growth which, following several years of global financial uncertainty, should not be hindered, at least in the short-term, based on the best forecasts currently available with regard to the economy in Europe, North America and the emerging countries. However, our dedication and commitment must continue to prepare and strengthen the Company for markets that, in any case, are becoming and will become increasingly more global and competitive.

The outlook for the rail transport industry is optimistic, since it offers unparalleled mobility solutions in terms of low environmental impact and capacity. In fact, UNIFE anticipates sustained annual growth of 3.2% in the supply of railway material and services at global level for the 2019-2021 period. Prospects are even somewhat greater in areas of special commercial interest to us, for example, Western Europe. Growth, on the other hand, is distributed equally among our main business segments (rolling stock, services, signalling and comprehensive mobility projects).

As a result of this boost in investment in the sector and the competitive profile of the CAF Group, the level of contracts obtained in 2017, which totalled EUR 1,514 million, has enabled us to achieve a new all-time high of EUR 6,265 million in terms of our backlog at the end of 2017; equal to 4.2 times the sales figure. The profile of the contracts obtained in 2017 was in line with that in recent years, i.e., with a large European component, low exposure to emerging currencies, a large proportion of platform-based projects and improved payment conditions.

Tramway projects accounted for a significant part of this. Certain contracts related to extensions to contracts with customers that renewed their trust in us (Stockholm, Utrecht, Budapest and Kansas). Other contracts, aimed at high-potential new clients, such as those in De Lijn (Belgium), Manila, Cosenza or Seattle, use energy accumulation systems that enable "catenary-free" operations. Another important contract, amounting to almost EUR 200 million, was awarded for the supply of units to the West Midlands franchise, which strengthens the Group's commercial presence in the UK, and will be further reinforced in the second half of 2018 with the start-up of industrial operations at our new plant in Newport (Wales), which is currently in the construction and equipping phase.

From a more qualitative point of view, I should mention the Group's entry into the service segment in Germany through the supply contract with Schönbuchbahn, which includes both a 20-year maintenance contract and the supply of rail vehicles. The Group has also entered the French market for shunting locomotives through the contract obtained from RATP. The agreement reached by the Group with ETS and Euskotren for the installation of an automatic driving system on Line 3 of the Bilbao metro that is compatible with the ERTMS system, should be highlighted due its special importance as a technological first.

The contracts relating to maintenance, wheel set and component services (MiiRA) and the rest of the business activities continued to contribute significantly with an upward trend seen in the Group's backlog.

The maintenance of this backlog was one of the Company's objectives for 2017. A double-digit growth in revenue and a rise in profits completed the challenges set by the Group for 2017.

In this connection, revenue reached EUR 1,477 million in 2017, i.e. a 12% increase compared with 2016 and in line with the annual target, thanks to an increased level of activity in all the business activities. On the other hand, EBITDA stood at EUR 180.3 million, representing an increase of 33% year-on-year and a 12.2% increase in sales. EBIT also evolved favourably, totalling 9.9% of sales compared to the 8.5% recognised in 2016, while the cash flow amounted to EUR 77 million. Lastly, profit before tax increased to EUR 67.5 million, while net profit stood at EUR 42.5 million, 14% higher than in 2016.

All of this was the result of a higher level of business activity, the positive effect of the platform and module optimisation

programs, the transformation of industrial operations, the optimisation of purchases and the reduction of LCC costs. This was also the result of smooth project execution which, at the same time, aided the 17% decrease experienced in net financial debt, which decreased to EUR 219 million at year-end (1.2 times EBITDA). This ratio, the ongoing negotiation of the borrowing costs and the extension of maturity dates, in addition to the issuance of the first commercial paper programme by the CAF Group at the end of 2017 (for a maximum volume of EUR 200 million), help to strengthen the Company's solid financial position in the event of potential episodes of financial instability in the debt markets.

As a result of the aforementioned, the proposal we submitted to the shareholders' meeting was to allocate a total of EUR 22.6 million to dividends, a figure that would result in the distribution of a gross amount per share of EUR 0.66, which is 14% higher than the amount earmarked for allocation to dividends for distribution to our shareholders in 2016.

In response to the commitment made one year ago with respect to compliance with all the Recommendations in the Spanish Code of Good Governance published by the Spanish National Securities Market Commission that were applicable to us, I am pleased to inform you that the dedication, attention and efforts made in this area in recent months allow us to confirm that this objective has been met in full. Also, the 2017 Directors Report included the disclosures on non-financial information required pursuant to Royal Decree Law 18/2017 and a new annual Corporate Responsibility Report was published in line with the GRI international standards.

In relation to the industrial activities carried on by the CAF Group in 2017, more than 35 projects occupied our factories in that period, whether in the design, manufacturing or delivery stage. The electric suburban trains of our CIVITY platform for Nederlandse Spoorwegen (the Netherlands), electrical units for the Toluca-Mexico City connection, regional trains for the Northern franchise and cars for the Caledonian Sleepers (both British projects), as well as the units for the city of Santiago de Chile metro represented the main projects under manufacture in 2017.

As indicated above, 2017 has been the first year of our current strategic cycle. During 2017 we have progressed in the actions aimed at strengthening our international growth in the three main areas of business: trains and their components; long-term services in the railway industry (maintenance, operation, lease and refurbishment of trains and locomotives, in addition to digital services); and business activities related to integrated transportation systems and their various areas of scope (signalling, electrification, EPC, etc.) and activities (construction, operation, maintenance and financing).

Therefore, the investment efforts carried out in line with our 2017-2019 technological plan have been key, with 134 active R&D+i projects in areas such as signalling (CBTC and ERTMS), alternative energies (accumulation, hybridisation) and virtual validation environments and any matter relating to digitalisation. Here we should mention Digital Train, which focuses on the on-line capture and processing of useful data for the operating, diagnosis and predictive maintenance of trains. Also of note is the progressive incorporation of Industry 4.0 technologies such as additive manufacturing, the Internet of Things, collaborative robotics and virtual reality in our productive processes in order to achieve greater efficiency and speed in the performance of our activities. And, without forgetting the need to develop the information systems that support all of these developments.

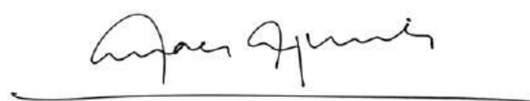
We have also made progress with regard to the management and production capacity required to respond to the double-digit growth in revenue we experienced in 2017, growth that can be extrapolated to the coming years. In this connection mention should be made of the new Beasain Engineering and R&D Centre, the extensions to the Huehuetoca plant (Mexico) and the aforementioned construction of the new plant in Newport (Wales).

The two corporate acquisitions carried out in 2017 also contributed to value generation and the creation of business opportunities. Firstly, the acquisition of the British engineering company BWB, of great prestige in the UK and other areas of Anglo-Saxon influence, which, in addition to opening up new markets, will enable the CAF Group to expand its service offering in the field of infrastructure, mobility, environmental and building engineering. Secondly, the acquisition of the Italian company RIFER, a benchmark in the field of wheel set and railcar maintenance services located in a large rail and intermodal transport hub in the north of the country, which should enable the Group to expand its service offering, in addition to serving as a new sales channel for our components in Central Europe.

All of these developments are accompanied by a new impetus to transform the organisation and our people through various initiatives related to talent management and organisational health. I would like to give my most sincere thanks to everyone who forms part of the CAF Group, because your contribution and commitment have been, and are, the cornerstone for achieving our objectives and for our future.

I would also like to acknowledge and thank all our shareholders for the support and confidence they continue to place in our business project.

Many thanks,



Andrés Arizkorreta García
Chairman

CAF

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

CITY

STREETCARS

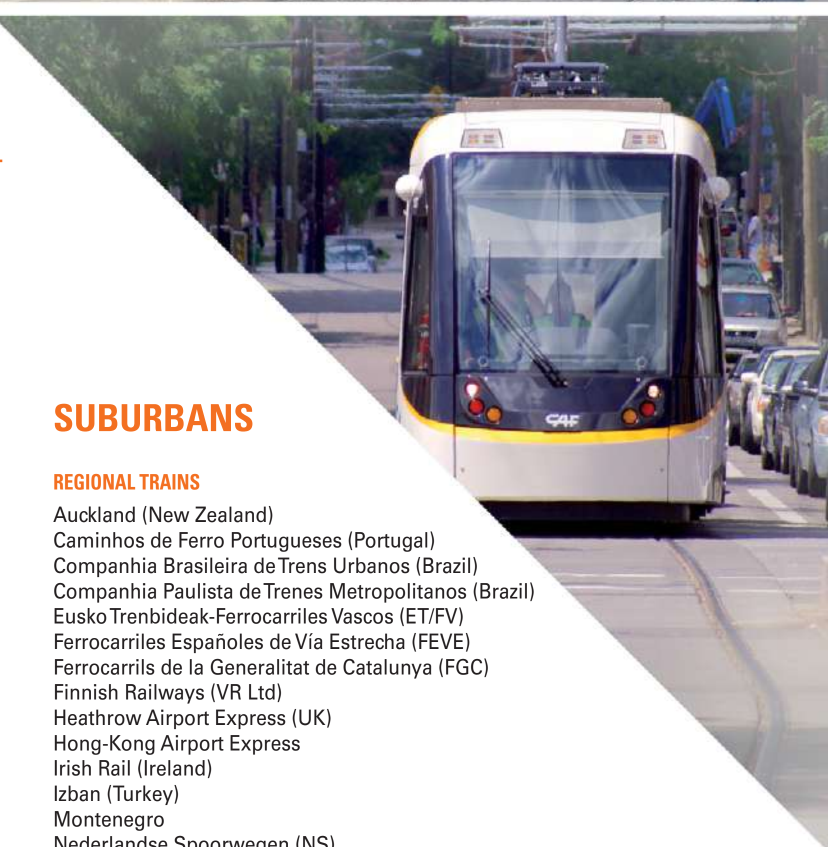
Amsterdam
Antalya
Belgrade
Besançon
Bilbao
Birmingham
Boston
Budapest
Canberra
Cádiz-Chiclana
Cincinnati
Cuiabá
Debrecen
De Lijn
Edinburgh
Stockholm
Freiburg
Granada
Houston
Kaohsiung
Lisbon
Luxembourg
Manila
Maryland
Mauricio
Nantes
Seattle
Seville
Sidney
St. Etienne
Tallinn
Utrecht
Valencia
Vélez-Málaga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

SUBWAY TRAINS

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

ARTICULATED LIGHT RAILWAY

Amsterdam
Buenos Aires
Monterrey
Pittsburgh
Sacramento
Valencia



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)
West Midlands - Abellio, JRE, Mitsui & Co (UK)
Zweckverband Schönbuchbahn (Germany)

MAIN LINES

INTERCITY TRAINS

Tilting trains S/598 (RENFE)
Diesel trains S/599 (RENFE)
Electric trains S/449 (RENFE)
Diesel trains for Algeria
Interccity 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

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

PASSENGER CARS

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

2017 DIRECTORS' REPORT OF THE CONSOLIDATED GROUP

CAF GROUP BUSINESS MODEL AND OUTLOOK

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

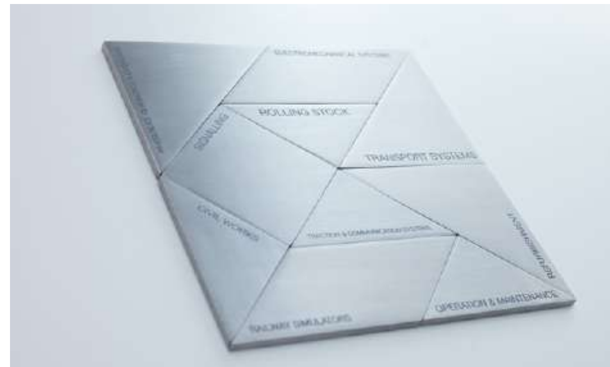
A leader in the railway industry, it offers its customers one of the widest and most flexible product ranges in the market, from integrated transport systems to wheel sets, components, infrastructure, signalling and services (maintenance, refurbishing and financial services). Within the wheel-sets segment, which represents its core business, CAF offers a wide range of products that includes, among others, high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

With more than 85% of revenue relating to the international market and a significant focus on western Europe, the CAF Group has production plants in Spain, France, the US, Mexico and Brazil, in addition to a new plant currently under construction in the UK that will start up in 2018. The Group also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

The main objective of the CAF Group's strategy for 2020 is profitable growth for the Group. To accomplish this, the CAF Group's activities in the coming years will focus on furthering the development of prior years' lines of action and setting in motion new areas of action, such as:

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential. The backlog, which represented 4.2 x sales in 2017, and business alliances will support the Group in its pursuit of this objective. In this regard, the efforts already underway aimed at equipping the Group with industrial capacity in the UK in various areas of activity are worth mentioning (services, engineering and manufacture), to improve its response to requirements in that market.
- Firm commitment to long-term 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.). In this regard, in 2017 the Group acquired RIFER, a leader in Italy in the provision of wheel set and railcar maintenance services. Based in Milan, very close to the Swiss border, at an important rail and intermodal transport hub, this strategic location will enable CAF MiiRA to offer products and services to Central European countries. With a headcount of more than 60 employees and annual billings close to EUR 10 million, this company has experienced considerable growth over the last few years thanks to its commitment to modernising its facilities and production processes and methods.
- 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 high value-added 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. This strategy aims to increase and diversify the integrated transport offering beyond the railway, thereby responding to new, sustainable social mobility needs. To do so, the technological commitment has been and is a fundamental part of the

The main objective of the CAF Group's strategy for 2020 is profitable growth for the Group, in both the core business of designing and manufacturing trains and in the railway services business, all based on a firm commitment to technology and an ongoing improvement in efficiency.



Group's ongoing strategy to gain a competitive advantage. The acquisition in July 2017 of the engineering company BWB, one of the UK's most prestigious consulting firms, forms part of this strategy. BWB has a headcount of around 300 people and has experienced significant growth in recent years thanks to the success of its business model.

- Make progress in the digitization of our operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0). These initiatives span innovative solutions for the services included in the Group's railway solutions, its production processes and IT systems, as a means to guarantee its long-term competitiveness.
- 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 will increasingly define our competitiveness.
- Lastly, to make progress in fundamental areas of business management such as, corporate social responsibility, shareholder and investor attention, corporate risk management and, in general, practices related to good corporate governance.

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

BUSINESS PERFORMANCE AND RESULTS

Revenue for 2017 amounted to EUR 1,477 million, which is an increase of 12% on 2016. Similarly, profit for the year attributable to the Parent increased by 20% with respect to the figure for the previous year.

- The Company's backlog is at record highs and continues to guarantee the continuation of the Group's normal business activities.
- EBITDA as a percentage of the Group's revenue stood at 12% in 2017, thus remaining in double figures.
- In a year of increased activity, net financial debt was reduced by 17%, thereby strengthening the Group's solvency indices.
- The proposed distribution of profit consists in paying dividends of EUR 22.6 million.

Main indicators (*)

Figures in millions of euros	2017	2016	Change (%)
Contracts			
Backlog	6,265	6,228	0.6%
Contracts in the year	1,514	2,677	-43%
Contracts to Revenue ratio	1.03	2.03	-49%
Profit and cash flow			
Revenue	1,477	1,318	12%
EBITDA	180	135	33%
Profit for the year attributable to the Parent	42	35	20%
Cash flow	77	58	33%
Investment in working capital	247	253	-2%
Investment in P, P & E and R&D+i	72	38	89%
Capital management and liquidity			
Net financial debt	219	265	-17%
Equity attributable to the Parent	750	772	-3%
Available liquidity	606	677	-10%
Net financial debt to EBITDA ratio	1.21	1.96	-38%
Proposed dividend per share	0.66	0.58	14%

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

COMMERCIAL ACTIVITY

2017 ended with a new record for the volume of backlog, which amounts to EUR 6,265 million.

In addition to this landmark, the Group's vision for the future is also important, which translates into the development of new products and business lines to be able to maintain the growth trend in future years. In this connection we should highlight the agreement reached with Euskal Trenbide Sarea and EuskoTren to implement an autonomous driving system on Line 3 of the Bilbao metro, which is compatible with the ERTMS -European Rail Traffic Management System- signalling system. The Group will also collaborate with EuskoTren in the improvement of preventive maintenance of the 900 and 950 series in the "Study into predictive maintenance patterns" project

Within the new business lines, mention should be made of the new ENEP car for transporting truck trailers by rail, thereby helping to reduce greenhouse gas emissions and heavy traffic on the roads. With this new car, which does not require investments in logistics terminals, and supported by the sound performance of the BITRAC locomotives, leased in recent years, the Group participated in the Expression of Interest launched simultaneously by the Spanish and French Governments for the operation of European rolling highways. Also, the ENEP car is capable of extending the rolling highway concept to all Iberian gauge tracks with a minimal investment in gauge-changing facilities.

Among the new projects obtained in 2017, mention should be made of the contract entered into at the beginning of the year with RATP - Régie Autonome des Transports Parisiens-, the Paris public transport operator, for twelve electric maintenance locomotives equipped with batteries to operate "catenary free", a solution aligned with the Company's commitment to environmental sustainability.

Tramway solutions were of notable importance in the backlog arranged in 2017; furthermore, the CAF Group was selected to supply new trams for Vitoria - Gasteiz.

Specifically, four public authorities have renewed the trust previously placed in the company by exercising various options to extend their contracts. Storstockholms Lokaltrafik AB, the company responsible for the Stockholm transport network, signed two extensions in 2017 and acquired 20 new trams: ten four-car trams and ten three-car trams; its fleet for the Swedish capital now boasts 42 Urbos trams. In the Netherlands, specifically in the province of Utrecht, a contract was entered into for the manufacture of 22 seven-car trams, in addition to the initial the supply for 27 trams arranged in 2015. BKK -Budapesti Közlekedési Központ-, which manages the transport services in Budapest, the Hungarian capital, formalised an agreement for 21 five-car trams and five nine-car trams, taking the total number of cars to 46 and 17, respectively. In the US, Kansas City decided to increase its fleet of trams with the addition of two new three-car units.

Four new clients chose the Urbos platform to provide tramway services to their respective populations. In the US, specifically Washington State, Seattle Department of Transport (SDOT) entered into a contract for ten three-car trams that can operate on "catenary-free" sections using the energy accumulation system developed in house by the CAF Group.

On the island of Mauritius, for the 26-km section connecting the island's main cities -Curepipe, Vacoas, Rose Hill, Quatre Bornes and the capital, Port Louis-, CAF will supply 18 seven-car Urbos trams and a signalling system, automatic vehicle location system and transit signal priority system, in addition to workshop equipment and a driving simulator. This is a turnkey project led by Larsen & Toubro Limited.

2017 ended with a new record for the volume of backlog, which amounts to EUR 6,265 million. Tramway solutions were of notable importance in the backlog arranged in 2017; in addition to the new projects, worthy of special mention is the renewed trust placed in the company by customers that have exercised options to extend their contracts.

In Belgium, De Lijn -Flemish Transportation Company- entered into a contract for 48 trams that will operate in the provinces of Antwerp, West Flanders and East Flanders. In Italy, the Region of Calabria formalised a contract for the purchase of four five-car Urbos trams for the new tramway system in the city of Cosenza. In Germany, the public transport authority Zweckverband Schönbuchbahn arranged a contract for nine three-car light rail vehicles and maintenance over a 19-year period, to provide the essential structure for mobility within its network area.

CAF's light-rail vehicles will also operate in Manila, the capital of the Philippines, on Line 1 of the Manila Light Rail Transit System, as part of a project that the Department of Transport of the Philippine Republic arranged through Mitsubishi Corporation. 30 units of rolling stock will be supplied, strengthening the trust between the two companies by means of a new project, following previous successful collaborations on the Istanbul metro and the Canberra tram.

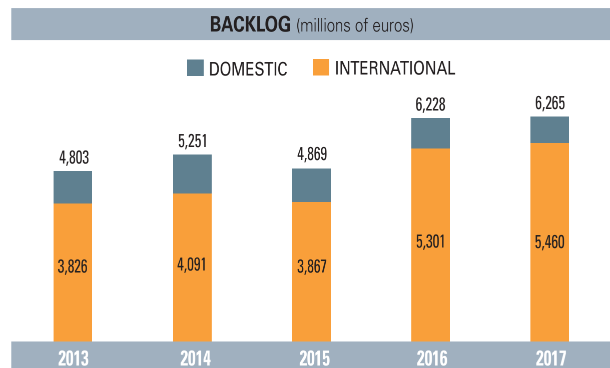
In the metro market, the city of Naples arranged a contract for the supply of ten six-car units for Line 1 of the metro of the capital of the Campania region of Italy. The relationship of trust between CAF and various Italian public authorities continues to grow with this new contract, which joins those entered into in the past with the Rome metro, Bari commuter trains, the Friuli-Venezia Giulia and Sardinia regions and Trenitalia.

We conclude this summary by analysing the diesel and electric units contracted in the UK and New Zealand. On the other side of the world, the city of Auckland has renewed its trust in our trains by a contracting an additional 15 electric units and maintenance over a period of eight years. These units are equipped with an on-board electricity storage device which enables them to operate on lines that are not electrified, as is the case of the Papakura–Pukekohe route, thereby avoiding the use of diesel trains that currently provide the service.

In the UK, the joint venture formed by Abellio, Japan East Railway Company and Mitsui & Co Ltd was awarded the operation of the West Midlands franchise and selected CAF for the manufacture and maintenance of 26 diesel multiple units (14 four-car units and twelve two-car units). The selection of CAF confirms the trust of UK operators in CAF's products, which enjoy a significant presence in the UK, as demonstrated by the tramway contracts in cities like Edinburgh and Birmingham, or wheel sets for the provision of services by operators such as First Group, Arriva and Serco.

Last, but by no means least, mention should be made of the sound commercial performance of, and contracts contributed by, the wheel sets business (MiiRA) and the Group's other businesses, which increased the total annual contracts to around EUR 1,500 million.

The Group, which is now more than 100 years old, faces 2018 with a renewed sense of optimism in light of the forecast investments from various operators, which include opportunities in the domestic market such as those announced by the Ministry of Public Works relating to imminent tenders by Renfe for various types of material.

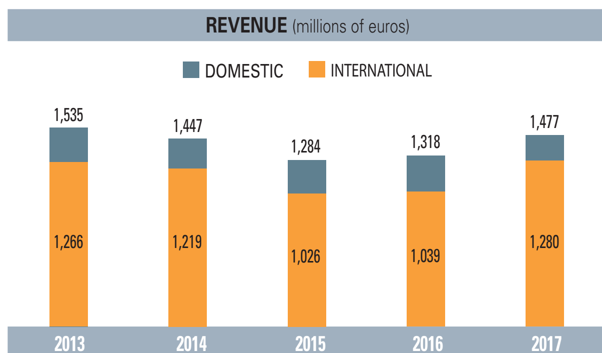


INDUSTRIAL ACTIVITY

In 2017 the CAF Group's plants supplied a total of 599 cars belonging to nearly 20 different projects to various countries in Europe, America, Asia and Oceania.

Within 35 projects in the design, manufacture or delivery phase that were active in 2017, approximately 20 of them related to the manufacturing phase, which occupied the industrial activity of the Group's various plants.

Certain projects were completed in 2017, such as the project for twelve locomotives for the Saudi Arabian operator SAR, with the delivery of the remaining locomotive; or Euskotren's order for 28 units, the manufacture of the last six of which was completed; the eight trains for the Istanbul metro completing the order for 21 trains; the last of the 20 trains contracted by the Helsinki metro; and the six trams completing the contract for twelve arranged by the German city of Freiburg.



The manufacturing phase of other projects commenced in previous years continued, namely the order for 35 trains for the operator CPTM in the Brazilian city of Sao Paulo, of which nine units were manufactured, taking the total to 24 at the end of the year; or the project for the Santiago de Chile metro, with the manufacture of 18 units of the order for 41 trains; ten of the 16 trams under the contract arranged with the city of Saint Etienne; the 15 trains of the Civity platform for the city of Toluca (Mexico); eight trams for Utrecht; the first of the trams for Canberra; the first nine trams of the 21 arranged by Luxemburg and 15 trains for the Medellín city metro.

The first five trains for the Dutch operator Nederlandse Spoorwegen (NS) left the manufacturing plants. Four of the trains have four cars and the other train has three cars. This is the first delivery batch of the 118 trains of the aforementioned two types that make up the order.

As regards the other projects, which are in earlier phases of development, mention should be made of the projects arranged with the UK operators Arriva Northern and TransPennine, the first units of which were at different stages of completion at the end of 2017.

The most important products manufactured in 2017 were as follows:

NO. OF VEHICLES	
Long-distance Amtrak cars	11
Long-distance Caledonian cars	16
Locomotive for Saudi Railway Company (SAR)	1
Euskotren commuter trains	18
Commuter trains for CPTM	72
Commuter trains for Toluca	75
Commuter trains for NS (four-car units)	16
Commuter trains for NS (three-car units)	3
Chile metro	90
Istanbul metro	48
Helsinki metro	4
Medellín metro	45
Trams for Freiburg	42
Trams for Saint Etienne	50
Trams for Utrecht	40
Trams for Luxemburg	63
Trams for Canberra	5
TOTAL	**599**

BOGIES	
With welded chassis	877

WHEEL SETS AND COMPONENTS UNITS (MiiRA)	
Assembled axles	4,160
Loose axle bodies	6,211
Monoblock wheels	47,816
Elastic wheels	867
Couplers	451
Gear units	2,482

INVESTMENTS

Capital expenditure by the CAF Group in 2017 amounted to EUR 44,263 thousand. 2017 investments included:

At the Wheel Sets Business Unit (MiiRA), the investment for a new automatic axle machining and verification line was completed and the line came into service at the end of the year. Similarly, the adaptation of MiiRa's new offices was completed in early 2017 and they are now fully operational.

At the Rolling Stock Business Unit, a plan commenced in 2017 to improve the industrialisation model with the aim of equipping the Parent with the capacity and facilities required to provide an optimal response to the considerable number of projects awarded in 2016. These measures included most notably the new engineering and R&D building being constructed in Beasain and investment in manufacturing areas, such as the refitting and renovation of the finishing warehouses applying the lean manufacturing methodology, implementation of new vehicle-platform-specific lines, the conditioning and equipping of the new kitting areas, acquisition of a new paint shop and the construction of a new tram test track.

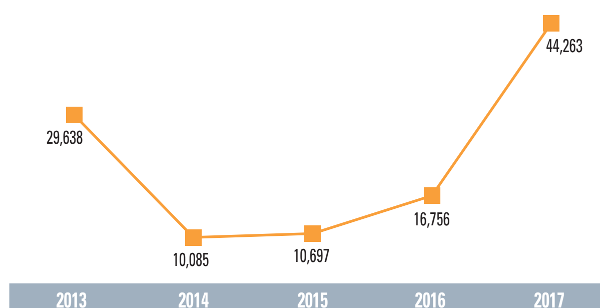
With regard to investments in the Parent's other departments, the existing offices were also reorganised and extended. The main departments affected by these investments were the Quality, Manufacturing Engineering, Purchasing and Planning departments.

Similarly in the IT area, the data warehousing system is currently being upgraded to provide a more modern hybrid infrastructure comprised of various types of data warehousing. A server consolidation process was also launched to equip servers with greater processing resources, thus minimising the number of incidents and reducing consumption.

The investments made by the Group's subsidiaries include most notably those carried out by CAF Power & Automation to extend the traction laboratory and the implementation of the new lean manufacturing model, and by CAF Signalling mainly in the in the validation and trials area of R&D laboratory.

Lastly, investments abroad included notably those at the Huehuetoca factory in Mexico, which commenced in 2016, geared towards upgrading its facilities and the acquisition of new painting and alumina coating shops, which were necessary to fulfil the projects the Group will develop in Mexico in the coming years. Mention should also be made of the commencement of the construction of the new manufacturing plant in the UK, specifically in Newport (Wales), completion and start-up of which is scheduled for the second half of 2018.

INVESTMENTS (thousands of euros)



There was an exceptional upturn in capital expenditure by the CAF Group in 2017 totalling EUR 44.2 million, which was aimed mainly at maintaining the Growth Plan and implementing the New Industrial Model.

R&D+i ACTIVITY

As regards CAF and CAF I+D, in 2017 the CAF Group's new Technology Plan for 2018-2019 was completed which, aligned with the Strategic Plan, will set in motion a total of 47 new projects for CAF and its subsidiaries, and continue another 67.

Similarly, the Product Plan for 2018-2019 was completed, which is focused on the basic development of new types of vehicle to extend CAF's product range and on improving its existing offering.

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 2017-2018 Technology Plan implemented in 2017 fostered a total of 134 projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2017-2018 Technology Plan encompassed the following fields:

- Specific rolling stock products
- Basic railway technologies such as dynamics, aerodynamics, fluids, noise, EMC, etc., in addition to technologies such as Big Data, cybersecurity, communications and computer vision.
- Digital Train, which comprises projects using Big Data and Machine Learning, etc. technologies to gather and process data obtained in service for use in product and maintenance enhancements.
- Energy accumulation and management, comprising projects relating to the reduction and optimisation of energy consumption in trains (driving, ancillary systems, etc.) and in the railway system as a whole, capture and storage of energy in batteries and hydrogen, etc.
- Signalling (on-board and fixed)
- Traction
- Specific products and developments using wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

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

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

- SMART-TRAIN, a project associated with the Digital Train developments funded by the strategic HAZITEK programme.
- SIP-SCIE, a project to develop energy capture technologies supported by the Spanish Centre for Industrial Technological Development (CDTI).
- 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. As a founder member of the Shift2Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is involved in various technology development projects (CONNECTA, PINTA, IMPACT, etc.) which are scheduled to continue until 2024.

A total of 134 technology projects were implemented in 2017. Also, the new Technology Plan for 2018-2019 was launched which, aligned with the CAF Group's Strategic Plan, will set in motion a total of 47 new projects and continue another 67 existing projects.

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

- Development of proprietary, on-board ETCS DMI software in compliance with BL3 regulations, thereby eliminating the need to depend on software licensed from a third party.
- Certification of the generic on-board ETCS software for the Netherlands, including the country-specific CRs required by ProRail.
- ERTMS system L1 Infrastructure with temporary speed restrictions (PCE, L1EM, LEU) was completed. It is being installed in the Atlantic Axis, Vandellós -Tarragona and Pamukova - Kosekoy projects.
- ATO system for the Mexico-Toluca project integrated in Laboratory.
- Modularisation of the traction platforms, including software.
- Complete validation and application of Full-Litio technology in customer projects, which enables "catenary-free" rolling stock to operate and extends its battery life.
- Development of hybrid renewable energy (mainly photovoltaic) systems and battery storage systems.

In addition to the development, enhancement and expansion of CAF's existing vehicle platforms, the most significant engineering projects undertaken in 2017 were as follows:

- Oaris high-speed trains for Flytoget (Norway)
- Diesel and electric multiple units for Arriva Northern (UK)
- Electric multiple units for First TransPennine Express (UK)
- LRVs for the Boston and Maryland metros (US)
- Push-pull cars for Caledonian and First TransPennine Express (UK)
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)
- Metros for Mexico City Line 1 (Mexico), Algiers (Algeria) and Quito (Ecuador).

The following projects entered into service in 2017:

- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Naples metro (Italy)
- Trams for Cosenza (Italy), Seattle (USA) and De Lijn (Belgium)

MAIN RISKS AND UNCERTAINTIES

The CAF Group's Board of Directors establishes the mechanisms and basic principles to appropriately control and manage risks through the General Risk Management and Control Policy.

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

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

– Achieving the strategic objectives set by the CAF Group with a controlled volatility;

– Providing the utmost level of guarantees to shareholders;

– Protecting the CAF Group's results and reputation;

– Defending the interests of shareholders, customers, other groups interested in the Parent's operations and that of society in general; and

– Ensuring the Company's stability and financial strength in a sustained way over time.

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

1) establishment of the risk-management context for each activity;

2) identification of the various risk types (due to their corporate or business-related nature) to which the Group is exposed;

3) analysis of the risks identified and what they entail for the CAF Group as a whole;

4) risk assessment based on the defined risk appetite;

5) the measures envisaged to address the identified risks; and

6) regular monitoring and control of current and potential risks.

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

In this regard, the Board of Directors is ultimately responsible for the General Risk Management and Control Policy, and approves the appropriate procedures to identify, measure, manage and control risks. It is also responsible for establishing clear lines of authority and responsibility, and requires the

existence of appropriate methodologies to measure the various types of risks and the effective internal controls to manage them. It is the body responsible for establishing and monitoring the Integrated Risk Management and Control System implemented at the Group, and verifies whether the significant risks for the Group are consistent and fall within the defined risk tolerance level.

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

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

Strategic risks: these are risks arising from the uncertainty that macroeconomic and geopolitical conditions represent, in addition to characteristics inherent to the industry and markets in which the Group operates and the strategic planning and technological decisions adopted.

Financial risks: these arise from fluctuations in the markets, and include the following risk subcategories:

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

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

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

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

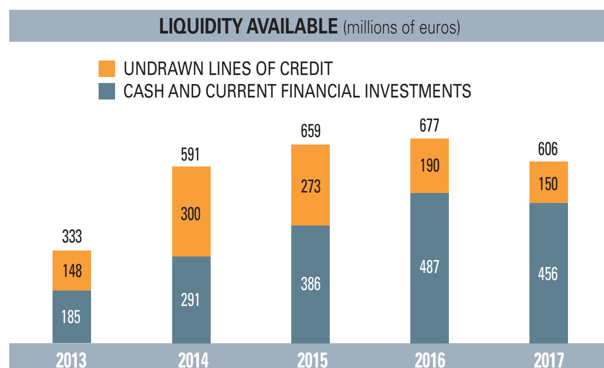
LIQUIDITY AND CAPITAL RESOURCES

Availability of liquidity at short term

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

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

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



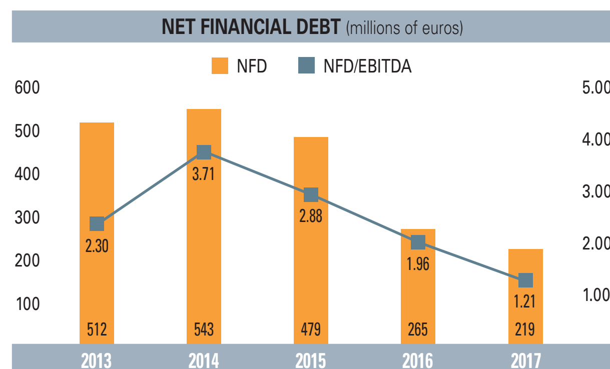
Also, on 21 December 2017 Construcciones y Auxiliar de Ferrocarriles, S.A. registered on the Irish Stock Exchange a Euro-Commercial Paper Programme for a maximum amount of EUR 200 million. Although in 2017 no placements were performed under this programme, the Group expects to use this capital-market product as a source of short-term financing alternative to existing credit lines, thereby diversifying the origin of sources of financing and adding an additional source of liquidity, the volume of which will depend on investor appetite for the Company's promissory notes.

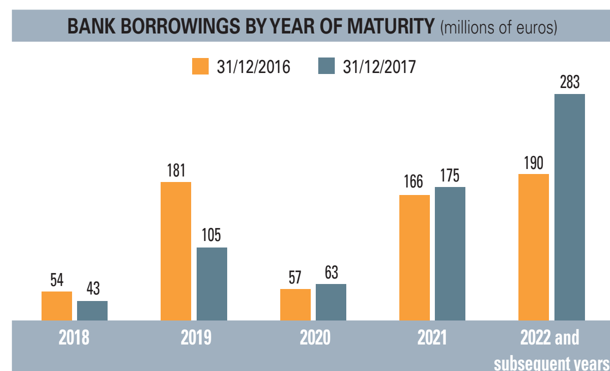
Capital structure

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

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

The CAF Group regularly assesses the appropriateness of its liability structure, and takes into consideration the projected cash flows, the maturity profile of its debt, the foreseeable evolution of its working capital and other future liquidity needs. The main aggregates of the Group's liability structure have performed as follows in recent years:





The CAF Group evaluates its available liquidity on an ongoing basis in order to meet the Group's liquidity needs at all times. Also, the Group's capital management is aimed at achieving a financial structure that optimises the cost of capital, ensuring a sound financial position.

The CAF Group is constantly renegotiating its financial liability structure, in order to minimise borrowing costs and bring maturities into line with its needs, within the possibilities offered by bond markets. As a result of these actions, in 2017 the maturities of the Group's debt were extended vis-à-vis the maturities at the end of 2016, as demonstrated below:

Millions of euros	2013	2014	2015	2016	2017
Gross debt - Concessions	446	421	346	364	283
Gross debt - Corporate	268	429	531	403	406
Total	**714**	**850**	**877**	**767**	**689**

CONSOLIDATED NON-FINANCIAL INFORMATION AND CORPORATE SOCIAL RESPONSIBILITY STATEMENT

This section of the directors' report provides disclosures on the non-financial information as defined in the legislation in force “consolidated non-financial information statement”, without prejudice to CAF also preparing an annual corporate social responsibility report that includes both the aforementioned non-financial information and also further develops additional matters relating to sustainability and corporate social responsibility.

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

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

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

The CAF Group’s Corporate Social Responsibility Report for 2017 has been prepared in accordance with the Core option of the Global Reporting Initiative (GRI) G4.

For more information than that disclosed below, see the “2017 Corporate Social Responsibility Report”, which is available on the CAF Group's website.

ENVIRONMENTAL ACTIVITY

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

- Offering more efficient and environmentally friendly means of transport, as detailed in the current Corporate Social Responsibility Policy. To 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 the environmental impact of the industrial activities carried out. CAF's Environmental Policy indicates that the efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and minimise important areas of environmental concern, such as atmospheric emissions, waste generation and energy consumption, among others.

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

These risks are fully integrated in the Group’s risk management and control system and the procedures and controls that are applied stem from the Company’s Environmental Policy and the CSR Policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

The CAF Group is committed to combatting climate change and to being environmentally friendly mainly through two channels: offering more efficient and environmentally friendly means of transport and preventing the environmental impact of the industrial activities carried out as a whole.

In relation to the first area, and with the aim of offering more efficient and environmentally friendly means of transport, the CAF Group is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their lifecycle.

As a result of these activities, in 2011 the CAF Group developed the first verified Environmental Product Declaration (EPD) for a tram (the Urbos tram for Zaragoza) in the world under ISO 14025. This environmental impact study on the Zaragoza tram was quantified using a life cycle assessment (LCA) pursuant to ISO 14040 and ISO 14044. From 2011 the CAF Group has continued to certify products in various segments (tram, metro, regional trains) and in 2017 it was one of the rolling stock manufacturers with the largest number of EPDs registered.

Furthermore, as regards how to minimise the environmental impact of its activities, the Group has implemented an Environmental Management System at its most important manufacturing centres (Beasain, Irún and Zaragoza) which is certified under ISO 14001:2004. The most recent maintenance audit for ISO 14001:2004 certification was performed in June 2017. Similarly, other centres, such as CAF TE and CAF Signalling, have implemented an Environmental Management System that is certified under ISO 14001.

An audit was also carried out in order to identify gaps with respect to ISO 14001:2015 that will enable the establishment of an action plan to bring the system into line with the aforementioned standard and achieve certification. By doing so, in 2018 the Environmental Management Systems of all the centres will transition to the new version of ISO 14001:2015. CAF Signalling is already certified under this new standard.

As regards the environmental indicators obtained in 2017, mention should be made, due to its importance, of the energy intensity indicator (energy use per man-hours). At the CAF Group, the indicator that includes all domestic activities of all the main businesses taken as a whole stands at 0.32 Kwh per man-hour. This figure is down considerably on 2016 due to the discontinuation of the steelworks activities at the Beasain factory at the beginning of 2017.

For more information on environmental matters, see Chapter 5 “Contributing to the care of the environment” in the “2017 Corporate Social Responsibility Report”, which is available on the CAF Group's website.

SOCIAL MATTERS

The CAF Group, as explained in its Corporate Social Responsibility Policy, is committed to the local, national and international community, and implements and fosters initiatives focused on improving the quality of life of the people in the communities where it operates and the areas of its activity. The Group's objective is to participate in the various communities with which it interacts through development cooperation and supporting the various public authorities and leading public and private entities.

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

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Corporate Social Responsibility Policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

The CAF Group engages in activities that contribute to the wellbeing and improvement of local communities; certain of these are intrinsic to its activity, while others relate to collaborative and participatory initiatives that are categorised in four areas: the economic environment, knowledge generation, collaboration with educational and training institutions, and social and cultural matters.

The Group is committed to the local economy, which materialises on two fundamental, but not exclusive levels. The first of the levels is reflected in the generation of quality employment wherever it carries on its activities. The quality of employment results in appropriate general conditions and a vocation of employment stability. More than 90% of CAF's employees have permanent contracts.

As explained in its Corporate Social Responsibility Policy, the CAF Group is committed to the local, national and international community, and implements and fosters initiatives focused on improving the quality of life of the people in the communities where it operates and the areas of its activity.

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

As in previous years, the CAF Group continues to collaborate in order to generate knowledge where it carries on its activities. In 2017 the Group had various initiatives in progress that can be categorised into three types: Participation in governing or management bodies of research centres; long-term collaboration to develop knowledge with universities and research centres; and participation in public or private entities focusing on innovation.

Similarly, the Group remains committed to training future professionals and with this in mind establishes agreements to collaborate with educational institutions or entities that foster youth employment in the area in which it operates. It has in-force agreements with the main universities and professional schools. It highlights, within the international activity in 2017, the Group's promotion of internships for graduates at CAF Group headquarters in countries such as England and Scotland in the UK, Hungary, Italy, Germany, the Netherlands, Luxembourg, France and Chile, among others.

Lastly, the CAF Group collaborates with public and/or private entities to support social, knowledge and cultural projects that have a positive impact on the communities where it is located. Among these activities, mention should be made of the use of Basque in the Beasain and Irún workplaces; noting that in 2017 the Silver Bikain certificate was obtained. This certificate recognises the quality of the use of Basque in a professional environment.

For more information on Social matters, see Chapter 6 "The Social Value of Our Activity" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

HUMAN RESOURCES

The people who are part of CAF Group are key to develop a sustainable Project as is expressed explicitly in the Corporate Social Responsibility policy and Code of Conduct.

CAF Group promotes the professional development of the people taking into account the balance between the objectives of the company and the needs and expectations of employees, encouraging the permanent adaptation and improvement of competencies and capacities. The experience, the knowledge and the motivation of the people are reflected in each one of their products and services.

In addition, CAF Group is committed to use the necessary resources to eliminate or reduce the occupational hazards of all persons as reflected in the current occupational risk prevention policy.

In his area are identifies the following risks related to the prevention of occupational hazards and the appropriate professional development of employees: (i) Rotation of staff (ii) insufficient training and professional development (iii) lack of Diversity and Equal Opportunities (iv) Accidents and health issues.

These risks are fully integrated into the group's risk management and control system; and the procedures and controls that apply derive from the policy of Corporate Social Responsibility, Policy of Prevention of Occupational Hazards and the Code of Conduct of the Group. Within the control and risk management system, the compliance and effectiveness of the measures taken are periodically monitored.

In 2017, a significant programme for the incorporation of resources was launched to respond to the growth initiatives of the different businesses. In this sense, the CAF Group has increased its headcount during 2017 to reach 8,428 employees. The average headcount of the Group in 2017 amounted to 7,948.

CAF GROUP IN FIGURES	31/12/2017	31/12/2016
College graduates	2,783	2,232
Middle managers and administrative personnel	1,306	1,104
Production and Services	4,339	4,251
Total	**8,428**	**7,587**

In order to adapt the template to the company's challenges, the relative weight of the group of university graduates has increased. Part of the increase in this template is derived from the acquisition of BWB.

It is worth noting the permanent communication between employees, trade unions and the company to know their interests and expectations, which should allow reaching agreements beneficial to all. In the field of labor relations, the agreement for the signature of collective agreements of all headquarters of the parent company applicable to the 2017 and 2018 periods stands out in 2017.

With regard to training, the training process is key to structuring this activity and this can be seen both in the parent company and in the set of national subsidiaries linked to their main businesses (Rolling Stock, Services, Components,

The individuals that form the CAF Group are key to developing a sustainable project. For this reason, the CAF Group fosters the professional development of those individuals, bearing in mind the balance between the Company's objectives and employees' expectations and needs, and encourages continuous adaptation and improvement of the competencies and skills.

Signalling, Power and Traction Equipment's and Engineering). The indicators of activity and effectiveness of the training process, at the end of 2017, show positive figures. More than 115,000 hours of training have been received, 92% of the planned training activities have been carried out and the assistance has increased to 91%.

In the CAF Group it is actively promoted freedom for discrimination, either direct or indirect, especially in terms of gender, and the defense and effective implementation of the principle for employment equality among men and women, making progress in the establishment of measures that favor the work-life balance. The 14% out of the total amount of employees in the CAF Group are women, a percentage that exceeds the one on the previous period.

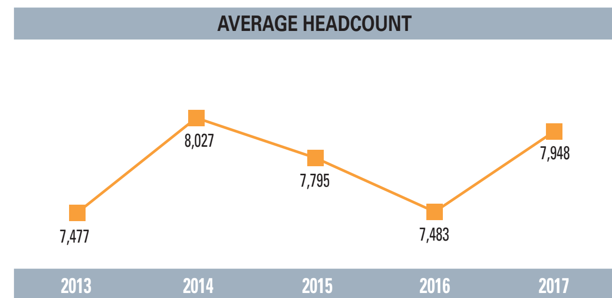
In 2017 an audit of the maintenance of the certificate regarding management framework, based on the requirements expressed in standard OHSAS 18001:2007 for the plants located in Beasain and Irún, an audit for the renewal of the certificate OHSAS 18001:2007 and a regulatory audit for the plant in Zaragoza, and an audit for the renewal of the certificate OHSAS 18001:2007 for CAF TE and CAF Signalling have been performed. Additionally, and in order to make an internal tracking of the management framework implemented according to the requirements of the standard one, internal audits were performed in each one of them.

The occupational risk prevention plans of the main offices and businesses of the Group define the prevention activities schedule and the annual targets in terms of occupational risk prevention.

With regard to the aim of accident rates, 3 indicators are mainly measured: the frequency rate, the severity rate and the absolute frequency rate. These indicators, regarding the most significant national activities in the CAF Group, are outlined in the table below.

Similarly, these indicators are calculated for the rest of the business and locations.

For more information on Human Resources matters, see Chapter 4 "Our Team´s excellence" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group´s website.



Prevention of occupational hazards in figures (2017)	Rolling stock business Main manufacturing plants Rolling stock business/components			Railway services business headquarters
	BEASAIN	IRÚN	ZARAGOZA	
Frecuency index $FI = \frac{\text{number of injuries with leave x 1,000,000}}{\text{worked hours}}$	23.83	32.6	32	39.67
Severity index $SI = \frac{\text{number of lost journeys x 1,000}}{\text{worked hours}}$	0.56	0.5	0.51	1.44
absolut frecuency index $AFI = \frac{\text{total injuries x 1,000,000}}{\text{worked hours}}$	160.45	293.3	288	73

RESPECT FOR HUMAN RIGHTS

The CAF Group is committed to scrupulously respecting fundamental rights, the principles of equality and non-discrimination, protecting children from exploitation and any other principle included in the Universal Declaration of Human Rights and the United Nations Global Compact. These commitments are expressed both in the Code of Conduct and in the Corporate Social Responsibility Policy.

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

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Company's Code of Conduct, Psychological Harassment Prevention Protocol, Compliance Manual and the Corporate Social Responsibility policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

The CAF Group has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 91% of the personnel included in the training plan established to this end have participated in these activities.

In addition, the CAF Group is committed to maintaining the highest standards of professionalism and integrity in its commercial relationships. Specifically, as part of the supplier approval process the CAF Group requires compliance with the ethical principles contained in the Code of Conduct.

The CAF Group has certain measures to assess and guarantee compliance with the Code of Conduct in the supply chain, inter alia supplier approval audits, which include the assessment of human-rights related matters such as certification in this area or the verification of compliance with the Code of Conduct. Also, in 2017 an assessment of compliance with the Corporate Social Responsibility Policy was performed on 15 significant suppliers, whose importance was based both on the type of product they supply and their geographical location. All of the assessments carried out in this process were satisfactory.

Lastly, mention should be made of the existence in this area of the Psychological Harassment Prevention Protocol, which is integrated in the occupational risk prevention system. The purpose of this Protocol is to define situations of psychological harassment in the workplace, establish preventive measures to prevent and avoid these situations, and establish procedures so that, should they arise, the Company's personnel know how to act.

For more information on Human Rights matters, see the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

Commitment to scrupulously respecting fundamental rights, the principles of equality and non-discrimination, protecting children from exploitation and any other principle included in the Universal Declaration of Human Rights and the United Nations Global Compact.

FIGHTING CORRUPTION AND BRIBERY

Good Corporate Governance System

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

This system is based on the commitment to ethical principles, best practices and transparency, and is organised around the defence of the corporate interests and the creation of sustainable value for the CAF Group's stakeholders.

Fighting corruption and bribery is part of the primordial Good Governance and Corporate Social Responsibility objectives, and has given rise to the establishment of preventive measures to ensure strict compliance with the legislation in force in the territories in which the CAF Group carries on its activities, including the approval and implementation of a Code of Conduct and a Corporate Compliance Manual.

Since 2011 the CAF Group's Code of Conduct has defined the series of general rules and principles of corporate governance and professional conduct applicable to all the Group's professionals and any other entity or party that, as part of their professional activity, collaborates or has a professional relationship with the Group.

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

In implementing the Code of Conduct, a corporate compliance programme was established, which materialised in the Corporate Compliance Manual that was approved by CAF's Board of Directors on 29 April 2015; the Manual complies with the provisions of the recent changes introduced in the Spanish Criminal Code and the Code of Conduct forms part thereof. The Manual is reviewed periodically and the most recent version, in force in 2017, was approved by the Board of Directors on 27 July 2016.

This Manual responds to the need to verify the sufficiency and the effective establishment of the procedures and controls at the Group to prevent, as far as possible, the risk of significant offences being committed in relation to the CAF Group's activities and the consequences of such offences.

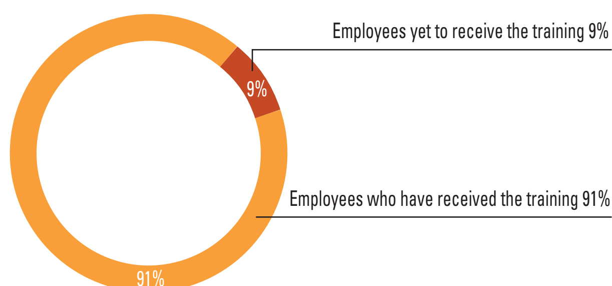
Risks and activities related to fighting corruption and bribery

As indicated above, the analysis of criminal risks enabled the definition, from the catalogue of offences that can be committed by legal persons, of the "significant offences", which are those that to a greater or lesser extent can be related to the purpose of the CAF Group's activity and, consequently, are the offences that warrant greater attention from a corporate compliance perspective.

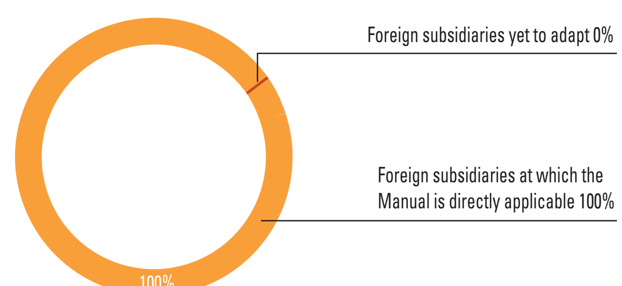
Of the above list, the following are specifically related to fighting corruption and bribery: (i) corruption between individuals; (ii) bribery; and (iii) corruption in international transactions.

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

CORPORATE COMPLIANCE MANUAL TRAINING AT 31/12/17 (CAF, S.A. AND DOMESTIC SUBSIDIARIES)



DEGREE OF BASIC IMPLEMENTATION OF THE CORPORATE COMPLIANCE MANUAL AT FOREIGN SUBSIDIARIES OF THE CAF GROUP AT 31/12/17



The corporate governance system is based on the commitment to ethical principles, best practices and transparency, and is organised around the defence of the corporate interests and the creation of sustainable value for the CAF Group's stakeholders.

Management of specific risks related to fighting corruption and bribery

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

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

Specific conduct policies

The Corporate Compliance Manual specifies the risk activities that the Group carries on and links them to potential criminal conduct that might be committed and assigns certain conduct policies that must be observed to avoid the commission of offences.

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

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

Corporate Compliance Manual dissemination and training

In 2017 the Group continued to provide to the CAF Group's personnel the training activities commenced in 2016 aimed at raising awareness of, disseminating and applying the Corporate Compliance Manual. At the end of the 2017, training had been provided to 91% of the personnel at the Parent and Spanish subsidiaries, in accordance with the Corporate Compliance Manual. More than 2,000 people have received training in this connection. Similarly, a system has been established to provide training to new employees.

Whistleblowing channel

The Manual also establishes a single whistleblowing channel to report complaints, which is supervised by the Compliance Committee. This body regularly analyses the complaints received and, where applicable, takes the appropriate steps based on the specific circumstances of each complaint. If it considers that the complaint warrants greater attention, the Compliance Committee can send the documentation to the relevant department in order to perform a joint assessment of the facts and determine the measures to be adopted. An appropriate record is kept of all the complaints received, which ensures the confidentiality of the whistleblower and the content thereof.

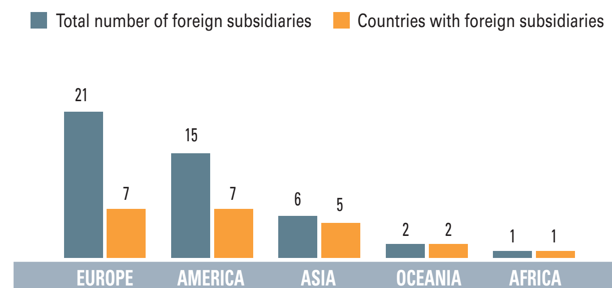
Adaption of the Corporate Compliance Manual at subsidiaries

The Corporate Compliance Manual was immediately applicable to Spanish subsidiaries from the date of its approval, and a deadline of 31 December 2017 was established for its adaptation for foreign CAF Group subsidiaries.

The adaptation process was completed within the deadline at the CAF Group's 45 foreign subsidiaries. These subsidiaries are located in 22 countries on the five continents.

For more information on combating corruption and bribery matters, see Chapter 2 "Good Corporate Governance" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

ADAPTATION, BY GEOGRAPHICAL AREA, OF THE CORPORATE COMPLIANCE MANUAL AT ALL FOREIGN SUBSIDIARIES OF THE CAF GROUP AT 31/12/17



EVENTS AFTER THE REPORTING PERIOD

At 31 January 2018, the Group had a firm backlog of EUR 6.158.860 thousand.

ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2017 neither Construcciones y Auxiliar de Ferrocarriles, S.A. nor its subsidiaries purchased or held treasury shares.

PAYMENTS TO SUPPLIERS

The average period of payment to suppliers in 2017 was 80.91 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Group is making an effort to align events giving rise to payments with those giving rise to collection in order to reduce the payment time without losing the necessary liquidity.

ALTERNATIVE PERFORMANCE MEASURES

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

Contracts in the year: this includes firm orders in the year and potential modifications to orders from prior years, and is obtained as follows: (Backlog at end of reporting period - Backlog at beginning of the reporting period + Revenue).

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

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

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

+ Inventories

+ Trade and other receivables

+ Other current financial assets - Derivatives (see Note 13 to the consolidated financial statements)

+ Other current assets

– Short-term provisions

– Current financial liabilities - Derivatives (see Note 15 to the consolidated financial statements)

– Trade and other payables

– Other current liabilities

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

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

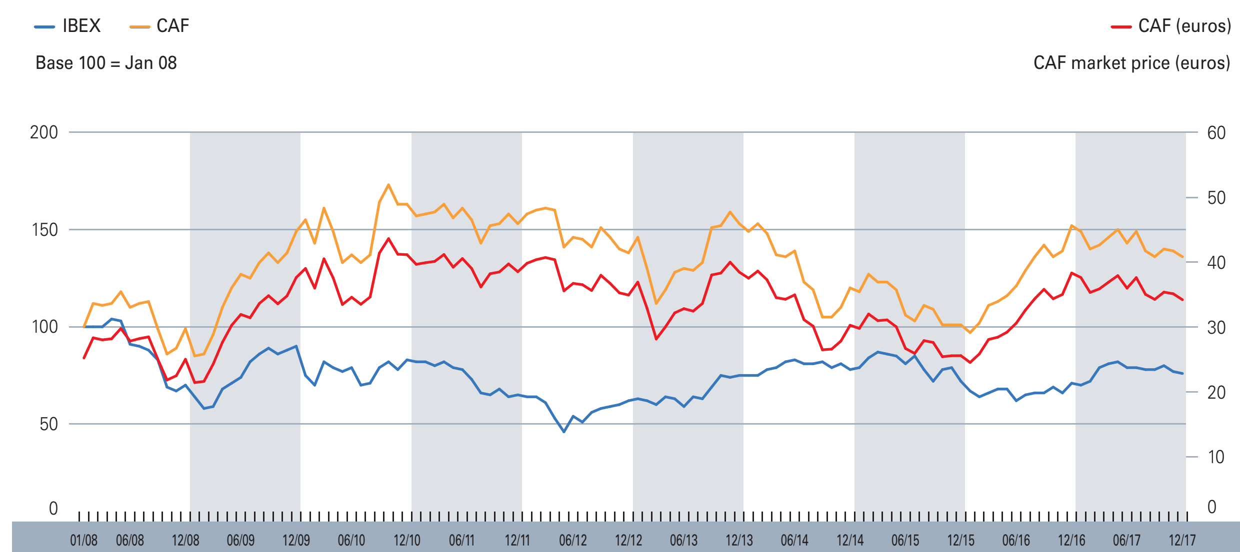
Market capitalisation at year-end: the value of the shares at the close of the last trading day of the year multiplied by the number of outstanding shares traded on the stock market (see Note 14 to the consolidated financial statements).

Free-float rotation: ratio that compares the volume of traded securities with estimated number of shares included in the float, excluding those shares held by significant shareholders, members of the Board of Directors and treasury shares. The estimated free float % is disclosed in the Annual Corporate Governance Report (section A.9 bis).

STOCK MARKET INFORMATION

	2017	2016	2015	2014	2013
Market price					
Market capitalisation at year-end (Millions of euros)	1,172	1,313	876	1,036	1,317
Closing price (euros)	34.18	38.30	25.55	30.23	38.43
Low (euros)	32.22	20.66	23.45	23.01	26.11
High (euros)	39.50	38.39	34.39	39.70	40.62
Data per share (euros)					
Earnings per share (EPS)	1.24	1.02	1.20	1.74	2.63
Dividend per share	0.66	0.58	0.525	0.525	1.05
Market ratios					
PER (average market price /EPS)	29.06	30.30	23.76	18.53	12.53
Market price/EBITDA	6.84	7.84	5.87	7.55	5.07
PBV (average market price/BV)	1.64	1.37	1.39	1.50	1.57
Dividend yield	1.84%	1.87%	1.85%	1.63%	3.18%
Pay-out ratio (dividend/EPS)	53.4%	56.8%	43.9%	30.2%	39.9%
Liquidity ratios					
Free-float rotation	71%	89%	99%	123%	109%
Traded volume (millions of shares)	11.8	15.6	16.2	21.2	15.8

EVOLUTION OF CAF GROUP SHARE PRICE (monthly average)



CORPORATE GOVERNANCE

The Annual Corporate Governance Report for 2017 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
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

Opinion

We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

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

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

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

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.

Key Audit Matters

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

Recognition of revenue and margins by reference to stage of completion

Description

The Group engages mainly in the manufacture of rolling stock material and, in relation to long-term construction contracts, as indicated in Notes 11 and 12 to the accompanying consolidated financial statements, it generally recognises the revenue and profit or loss on each contract by reference to the estimated stage of completion thereof, obtained on the basis of the hours incurred in the contract as a percentage of the total budgeted hours. The revenue recognised in 2017 by reference to the stage of completion amounted to EUR 933 million.

Determination of the stage of completion necessarily involves a high degree of complexity and estimation by management in relation to, inter alia, the estimation of the total costs to be incurred in each contract, the number of hours incurred in each contract as a percentage of the total number of hours budgeted or the estimation of the margin taking into consideration the expected revenue and estimated costs to be incurred. Also, the stage of completion calculated by the Group on the basis of the hours incurred as a percentage of the total hours of the projects entails a significant risk as it is subject not only to the estimates of the total hours envisaged for each of the projects but also to the correct charging of

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the recognition of revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively, including the information system controls, for which we involved our internal technology and systems experts, and the performance of substantive procedures such as: detailed perusal of the most significant contracts and analysis thereof with management in order to obtain an appropriate understanding of the terms and conditions agreed upon; analysis of whether the revenue is properly recognised, taking into account the contractual terms and obligations vis-à-vis the customers; tests of details on a selective basis aimed at assessing the reasonableness of the estimates made by management, and the review of the most sensitive assumptions; and the performance of combined manual and technology and systems expert-assisted tests in order to obtain and verify the entries recorded in the revenue accounts.

Notes 11 and 12 to the accompanying consolidated financial statements contain the disclosures and information relating to the Group's revenue by reference to the stage of completion.

hours by the staff engaged on each of the projects over the year.

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

Provisions for delays in deliveries and other contractual commitments

Description

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

As described in Note 20 to the accompanying consolidated financial statements, the provisions recognised by the Group to meet these obligations amounted to EUR 129 million at 31 December 2017.

The assessment performed by management to determine, if appropriate, the recognition of those obligations is complex and involves the use of a significant level of judgement based on assumptions with respect to possible events occurring during the product construction process, including the identification of causes not attributable to the Group.

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

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process for recognising provisions for delays in deliveries. In particular, the controls whereby management assesses the status of each project. We obtained the detail of the estimates made by management in relation to the provisions recognised and, for a sample of contracts obtained on a selective basis, we assessed the reasonableness of the estimates made by management by comparing those estimates with the terms and conditions included in the aforementioned contracts, the circumstances prevailing in those contracts and historical experience. We also carried out substantive tests relating to the obtainment of confirmations from third parties.

Lastly, we also assessed the appropriateness of the disclosures provided in the consolidated financial statements (see Notes 20 and 25).

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

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

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

Based on the work performed, as described in the preceding paragraphs, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix 1 to this auditor's report. This description, which is on page 7, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2018.

Engagement Period

The Annual General Meeting held on 10 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

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

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

Pablo Mugica
Registered in ROAC under no. 18694

27 de febrero 2018

Appendix 1 to our auditor's report

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

FINANCIAL STATEMENTS OF THE CONSOLIDATED GROUP

YEAR 2017

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

Consolidated Balance Sheets

as at 31 December 2017 and 2016 (Notes 1, 2 and 3) (Thousands of Euros)

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

Assets	31-12-17	31-12-16 (*)
Non-current assets:		
Intangible assets (Note 7)		
Goodwill (Note 2-f)	24,124	15
Other intangible assets	46,421	40,129
	70,545	**40,144**
Property, plant and equipment, net (Notes 6 and 8)	**244,513**	**229,309**
Investments accounted for using the equity method (Note 9)	**19,752**	**18,572**
Non-current financial assets (Note 9)	**576,502**	**666,419**
Deferred tax assets (Note 18)	**144,989**	**159,176**
Total non-current assets	**1,056,301**	**1,113,620**
Current assets:		
Inventories (Note 11)	**71,654**	**60,287**
Trade and other receivables		
Trade receivables for sales and services (Notes 10, 11 and 12)	1,277,243	1,306,363
Other receivables (Notes 9, 10 and 19)	198,470	204,033
Current tax assets (Note 19)	10,030	13,426
	1,485,743	**1,523,822**
Other current financial assets (Note 13)	**126,702**	**140,480**
Other current assets	**3,229**	**3,206**
Cash and cash equivalents	**371,625**	**392,022**
Total current assets	**2,058,953**	**2,119,817**
Total Assets	**3,115,254**	**3,233,437**

Equity and Liabilities	31-12-17	31-12-16 (*)
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	770,489	758,268
Profit for the year attributable to the Parent	42,406	35,013
	874,196	**854,582**
Valuation adjustments		
Available-for-sale financial assets (Note 9)	39	-
Hedges	(6,580)	(5,908)
Translation differences	(117,238)	(76,703)
	(123,779)	**(82,611)**
Equity attributable to the Parent	**750,417**	**771,971**
Non-controlling interests	**9,783**	**11,706**
Total equity	**760,200**	**783,677**
Non-current liabilities:		
Long-term provisions (Note 20)	**7,071**	**4,646**
Non-current financial liabilities (Notes 15 and 16)		
Bank borrowings	625,645	648,145
Other financial liabilities	70,170	61,428
	695,815	**709,573**
Deferred tax liabilities (Note 18)	**153,805**	**172,137**
Other non-current liabilities (Note 3-f)	**55,821**	**58,039**
Total non-current liabilities	**912,512**	**944,395**
Current liabilities:		
Short-term provisions (Note 20)	**227,939**	**227,937**
Current financial liabilities (Notes 15 and 16)		
Bank borrowings	46,262	103,075
Other financial liabilities	93,038	139,527
	139,300	**242,602**
Trade and other payables		
Payable to suppliers (Note 25)	423,385	376,531
Other payables (Notes 11, 15 and 19)	646,593	657,056
Current tax liabilities (Note 19)	5,009	969
	1,074,987	**1,034,556**
Other current liabilities	**316**	**270**
Total current liabilities	**1,442,542**	**1,505,365**
Total Equity and Liabilities	**3,115,254**	**3,233,437**

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

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet as at 31 December 2017.

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

Consolidated Statements of Profit or Loss

for the years ended 31 December 2017 and 2016 (Notes 1, 2 and 3) (Thousands of Euros)

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

(Debit) Credit	2017	2016 (*)
Continuing operations:		
Revenue (Notes 6, 9 and 10)	1,477,039	1,318,200
+/- Changes in inventories of finished goods and work in progress	(77,035)	(15,474)
In-house work on non-current assets	8,977	9,778
Procurements (Note 21)	(542,771)	(608,669)
Other operating income (Note 21)	7,886	15,792
Staff costs (Note 22)	(446,381)	(397,634)
Other operating expenses (Note 21)	(247,463)	(186,723)
Depreciation and amortisation charge (Notes 7 and 8)	(34,690)	(34,669)
Impairment and gains or losses on disposals of non-current assets (Notes 2-f, 7, 8 and 9)	148	11,239
Profit from Operations	**145,710**	**111,840**
Finance income (Notes 9, 10 and 13)	7,309	13,643
Finance costs (Notes 9, 16 and 17)	(68,551)	(72,819)
Changes in fair value of financial instruments	35	870
Exchange differences	(17,591)	5,916
Impairment and gains or losses on disposals of financial instruments (Note 9)	4	(594)
Financial Loss	**(78,794)**	**(52,984)**
Result of companies accounted for using the equity method (Note 9)	594	473
Profit before Tax	**67,510**	**59,329**
Income tax (Note 18)	(24,993)	(22,049)
Profit for the year from continuing operations	**42,517**	**37,280**
Consolidated Profit for the Year	**42,517**	**37,280**
Attributable to:		
The Parent	42,406	35,013
Non-controlling interests	111	2,267
Earnings per share (euros)		
Basic	1.24	1.02
Diluted	1.24	1.02

(*) 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 2017.

Consolidated Statements of Comprehensive Income

for 2017 and 2016 (Notes 1, 2 and 3) (Thousands of Euros)

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

	2017	2016 (*)
A) Consolidated profit for the year:	**42,517**	**37,280**
B) Other comprehensive income - Items not reclassified to profit or loss:	**(4,771)**	**713**
Arising from actuarial gains and losses (Note 3-j)	(5,525)	990
Tax effect (Note 18)	754	(277)
C) Items that may be reclassified subsequently to profit or loss:	**(41,168)**	**50,292**
Cash flow hedges:	**(2,058)**	**(301)**
Revaluation gains/losses (Note 17)	(2,138)	(33)
Amounts transferred to profit or loss	80	(268)
Available-for-sale financial assets:	**39**	**-**
Revaluation gains/losses (Note 9)	39	-
Amounts transferred to profit or loss	-	-
Translation differences:	**(40,385)**	**53,971**
Revaluation gains/losses (Note 14)	(40,385)	53,971
Amounts transferred to profit or loss	-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:	**656**	**(516)**
Revaluation gains/losses		
Cash flow hedges (Notes 9 and 17)	160	(1,206)
Translation differences	(150)	3
	10	(1,203)
Amounts transferred to profit or loss		
Cash flow hedges (Note 17)	646	635
Translation differences	-	52
	646	687
Tax effect	**580**	**(2,862)**
Total comprehensive income (A+B+C)	**(3,422)**	**88,285**
Attributable to:		
The Parent	(3,533)	86,005
Non-controlling interests	111	2,280

(*) 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 2017.

Consolidated Statements of Changes in Equity

for 2017 and 2016 (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 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**
Total comprehensive income	**-**	**-**	**-**	**(4,771)**	**42,406**	**(633)**	**(40,535)**	**111**	**(3,422)**
Transactions with shareholders or owners	**-**	**-**	**-**	**1,862**	**(19,883)**	**-**	**-**	**(2,034)**	**(20,055)**
Dividends paid	-	-	-	-	(19,883)	-	-	(3,005)	(22,888)
Other transactions with non-controlling interests (Note 2-f)	-	-	-	1,862	-	-	-	971	2,833
Other changes in equity	**-**	**-**	**-**	**15,130**	**(15,130)**	**-**	**-**	**-**	**-**
Transfers between equity items (Note 14)	-	-	-	15,130	(15,130)	-	-	-	-
Balances at 31 December 2017	**10,319**	**11,863**	**39,119**	**770,489**	**42,406**	**(6,541)**	**(117,238)**	**9,783**	**760,200**

(*) 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 2017.

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

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 2017 and 2016 (Notes 1,2 and 3) (Thousands of Euros)

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

	2017	2016 (*)
Cash flows from operating activities:		
Profit before tax	67,510	59,329
Adjustments for		
Depreciation and amortisation charge (Notes 7 and 8)	34,690	34,669
Impairment losses (Notes 8 and 9)	(222)	2,827
Changes in provisions (Notes 3 and 20)	8,912	221
Other income and expenses	20,734	11,559
Gains and losses on disposals of non-current assets (Notes 2-f and 8)	108	(13,795)
Investments accounted for using the equity method (Note 9)	(594)	(473)
Finance income	(7,309)	(13,643)
Finance costs	68,551	72,819
Changes in working capital		
Trade receivables and other current assets (Notes 3-d and 12)	(22,989)	(144,083)
Inventories (Note 11)	(25,282)	33,917
Trade payables (Note 11)	33,461	316,941
Other current liabilities	45	(418)
Other non-current assets and liabilities	(1,263)	(6,206)
Other cash flows from operating activities		
Income tax paid (Note 19)	(10,351)	(16,684)
Other amounts paid relating to operating activities	(944)	(1,562)
Net cash flows from operating activities (I)	**165,057**	**335,418**
Cash flows from investing activities:		
Payments due to investment		
Group companies and associates (Note 9)	(61)	(1,102)
Business units (Note 2-f)	(8,329)	-
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	(51,254)	(26,977)
Other financial assets (Notes 9 and 13)	(4,028)	(42,967)
Proceeds from investments		
Group companies and associates (Note 2-f)	693	581
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	182	13,867
Other financial assets (Notes 9 and 13)	35,567	49,910
Interest received (Notes 9 and 13)	5,189	12,907
Net cash flows from investing activities (II)	**(22,041)**	**6,219**
Cash flows from financing activities:		
Proceeds from issue of equity instruments - non-controlling interests	4,000	2,001
Purchase of equity instruments - non-controlling interests	(1,167)	-
Proceeds/(Payments) relating to financial liability instruments		
Issue (Notes 15 and 16)	76,543	171,782
Repayment (Notes 15 and 16)	(128,307)	(346,284)
Dividends and returns on other equity instruments paid (Note 14)	(22,888)	(19,933)
Other cash flows from financing activities		
Interest paid (Note 16)	(76,862)	(58,952)
Net cash flows from financing activities (III)	**(148,681)**	**(251,386)**
Net increase in cash and cash equivalents (I+II+III)	**(5,665)**	**90,251**
Cash and cash equivalents at beginning of year	392,022	297,440
Effect on cash of foreign exchange rate changes	(14,732)	4,331
Cash and cash equivalents at end of year	**371,625**	**392,022**

(*) 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 2017.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

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. (hereinafter "CAF" or "the Parent") was incorporated in 1917 for an indefinite period of time in San Sebastián (Guipúzcoa), and its registered office is in Beasain (Guipúzcoa).

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

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

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

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of presentation

The consolidated financial statements for 2017 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 2017 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 2016 were approved by the shareholders at the Annual General Meeting of CAF on 10 June 2017. The 2017 consolidated financial statements of the Group and the 2017 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 2017 no new accounting standards taken into account when preparing the accompanying consolidated financial statements came into force.

Standards and interpretations issued but not yet in force

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

Pronouncement	Effective date IASB	Effective date European Union
IFRS 15, Revenue from Contracts with Customers	1 January 2018	1 January 2018
IFRS 9, Financial Instruments	1 January 2018	1 January 2018
IFRS 16, Leases	1 January 2019	1 January 2019
IFRS 17, Insurance Contracts	1 January 2021	Pending
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	1 January 2018
Amendments to IAS 40, Reclassification of Investment Property	1 January 2018	Pending
IFRIC 22, Foreign Currency Transactions and Advance Consideration	1 January 2018	Pending
IFRIC 23, Uncertainty Over Income Tax Treatments	1 January 2019	Pending
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures	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
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019	Pending

At the reporting date, the Group was analysing all the effects of adopting IFRS 15, Revenue From Contracts with Customers, and IFRS 9, Financial Instruments, which will enter into force on 1 January 2018 and have been endorsed by the European Union.

The Group will adopt IFRS 15 and IFRS 9 as from 1 January 2018, and will foreseeably perform the transition to the application thereof by means of the modified transition approach, whereby previous years' figures are not restated, but rather the cumulative effect of the initial application of the standard is recognised as an initial adjustment to reserves.

IFRS 15 provides a new revenue model applicable to all contracts with customers. The core principle of the standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the new standards does not have any effect on the cash position of the contracts or the substance of the contracts with customers.

The model set out by the standard is structured in five steps:

1. Identify the contract(s) with a customer
2. Identify the various performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations identified in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Currently, most of the Group's construction contracts are recognised by reference to the stage of completion. After the analysis by the Group, these contracts will continue to meet the requirements in order to continue to be recognised in the same way after the entry into force of IFRS 15. However, changes in the financial statements are expected which, at the date of preparation of the consolidated financial statements, are being assessed by the Group and which, in summary, would be as follows:

– In certain of the Group's contracts there are extensions which are optional for the customer and are recognised by the Group once the extension is signed with the customer. In accordance with the new standard, the original contract and the option exercised shall be recognised separately, not in aggregate as had been the case to date, which affects the timing of recognition of the Group's income and expenses.

– With regard to the identification of goods and services in the contracts, distinct products and services are being provided under certain of the Group's contracts and, accordingly, they should be considered as a distinct service and their value should be estimated, giving rise to an impact on the timing of recognition of Group revenue, as the stage of completion of each service is estimated separately.

The aforementioned effects will give rise to a reclassification of approximately EUR 23 million, reducing "Trade Receivables for Sales and Services" and increasing "Inventories", with a negative impact on equity of approximately EUR 3 million before tax.

Most of the Group's contracts include clauses relating to possible penalties which could change the probable transaction price and, therefore, could give rise to certain consideration arrangements with customers being recognised as a reduction of income rather than as an expense. In the transition to IFRS 15, the Group will classify a portion of the contractual liability described in Note 20 as a reduction of "Trade Receivables for Sales and Services". At 31 December 2017, this standard would reduce the Group's assets and liabilities by approximately EUR 83 million and would have no impact on equity.

The impact that IFRS 9, Financial Instruments, could have has also been assessed. The current IAS 39 is superseded by IFRS 9, with significant differences with respect to the former. The impact on the Group would be summarised as follows:

– Impairment losses: a new impairment model based on expected credit losses is established, as opposed to the current incurred loss model. Under the expected credit loss model, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. The Group is designing the impairment models adapted to this approach, which it estimates will have a negative impact on equity of less than EUR 8 million, before tax, on the date of initial application.

– The Group holds certain "Available-for-Sale Financial Assets" which arose from investments in the share capital of unlisted companies recognised at acquisition cost. The Group is using the measurement models in order to calculate the fair value of those assets, subject to the sensitivity of the estimates themselves. The directors estimate that the value of these instruments on the date of initial application will increase by a range of EUR 9 million to EUR 12 million.

The Group is assessing the additional disclosures so that the consolidated financial statements may be adapted, if required, after the entry into force of the standards described above.

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 2017 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 and percentage of completion (see Note 3-f).

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statement of profit or loss.

There have been no changes in accounting estimates with respect to 2016 that might have had a material impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2017 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2016.

The 2016 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 2017.

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 2017 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
Fully consolidated companies			
Industrial activity			
CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of rolling stock equipment and components
CAF USA, Inc.	100%	Delaware	Manufacturing
CAF México, S.A. de C.V.	100%	Mexico City	Manufacturing and maintenance
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Manufacturing and maintenance
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance
CAF Rail UK, Ltda.	100%	Belfast	Manufacturing and maintenance

	% of control or influence	Location	Line of business
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance
CAF Rail Australia Pty. Ltd.	100%	Sydney	Manufacturing and maintenance
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance
CAF France, SAS	100%	Paris	Manufacturing and maintenance
Trenes de Navarra, S.A.U.	100%	Navarre	Manufacturing
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing
Construcciones Ferroviarias - CAF Santana, S.A.	100%	Jaén	Manufacturing and engineering
Tradinsa Industrial, S.A.	100%	Lleida	Repairs and maintenance
CAF New Zealand Ltd	100%	Auckland	Manufacturing and maintenance
CAF Sisteme Feroviare SRL	100%	Bucharest	Manufacturing and maintenance
CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance
CAF Arabia, Co.	100%	Riyadh	Manufacturing and maintenance
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance
CAF Hungary, K.F.T.	100%	Budapest	Manufacturing and maintenance
CAF Netherlands, B.V.	100%	Utrecht	Manufacturing and maintenance
CAF Rolling Stock UK, Ltd.	100%	Newport	Manufacturing
Technological activity			
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D
CAF Power & Automation, S.L.U.	100%	Guipúzcoa	Electronic and power equipment
Vectia Mobility Research & Development, A.I.E.	70%	Guipúzcoa	R&D
Vectia Mobility, S.L.	70%	Guipúzcoa	Solutions for urban transport
CAF Turnkey & Engineering, S.L.U.	100%	Vizcaya	Engineering
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests
Lander Simulation and Training Solutions, S.A.	57%	Guipúzcoa	Simulators
Geminys, S.L.	100%	Guipúzcoa	Operating manuals
CAF Signalling, S.L.U.	100%	Guipúzcoa	Signalling
CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi	100%	Istanbul	Signalling
BWB Holdings, Ltd. (**)	60%(*)	Nottingham	Engineering
Services activity			
Actren, S.A.	51%	Madrid	Maintenance
Sermanfer, S.A.	100%	Madrid	Maintenance
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services

	% of control or influence	Location	Line of business
CAF Investment Projects, S.A.U.	100%	Guipúzcoa	Business development
Urbanización Parque Romareda, S.A.	100%	Zaragoza	Holding company
Ctrens Companhia de Manutençao, S.A.	100%	Sao Paulo	Lease services
Provetren, S.A. de C.V.	100%	Mexico City	Lease services
Regiotren, S.A. de C.V.	100%	Mexico City	Lease services
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services
Ennera Energy and Mobility, S.L.	100%	Guipúzcoa	Power generation
Ennera Kaihatsu CO, Ltd.	100%	Tokyo	Power generation
Rail Line Components, S.L.U.	100%	Guipúzcoa	Marketing
Sermanbra Serviços de Manutençao Brasil, Ltda.	100%	Sao Paulo	Maintenance
CAF Group UK, Ltd.	100%	Coventry	Holding company
Rifer S.R.L.	51%(*)	Milan	Component maintenance
Construction activity			
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	Mexico City	Equipment
Companies accounted for using the equity method (Note 9)			
Industrial activity			
Compañía de Vagones del Sur, S.A.	35%	Jaén	Manufacturing
Ferrocarril Interurbano, S.A. de C.V.	49.63%	Mexico City	Manufacturing and equipment
Technological activity			
Nuevas Estrategias de Mantenimiento, S.L. (***)	50%	Guipúzcoa	Technology solutions
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automated production
Tumaker, S.L.	24.6%	Guipúzcoa	Printing equipment
Services activity			
Ferrocarriles Suburbanos, S.A. de C.V.	43.35%	Mexico City	Transport services
Plan Metro, S.A.	40%	Guipúzcoa	Lease services
Consorcio Traza, S.A. (****)	25%	Zaragoza	Holding company
Arabia One for Clean Energy Investments PSC.	40%	Ma'an	Power generation
Purple Line Transit Operators, L.L.C.	20%	Delaware	Operation and maintenance

(*) The options described in Note 2-f to the consolidated financial statements are not included.

(**) This company owns all the shares of Quincey Manon Practice, Ltd., BWB Consulting, Ltd. and BWB Regeneration, Ltd.

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

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

Changes in the scope of consolidation

In 2017 the Parent acquired majority ownership interests granting it control over two companies which have been included in the scope of consolidation of the CAF Group. The main information on the acquired companies is as follows:

Company acquired	Location	Line of business	Date of acquisition	% Acquired (2)	Consideration (2) (Thousands of euros)
BWB Holdings, Ltd. (1)	Nottingham (UK)	Engineering services	11/07/17	100%	18,434
Rifer, S.R.L.	Milan (Italy)	Maintenance	18/07/17	100%	4,713
					23,147

(1) Head of a subgroup of companies.
(2) Subject to the options being exercised

The consideration in the transactions includes, in both cases, the estimated value of certain cross call and put options to be exercised in the future. The measurement of these options is linked to certain financial parameters (mainly EBITDA and Net Financial Debt) which have been estimated based on the business plans of both companies.

	Thousands of euros		
Consideration	**Rifer, S.R.L.**	**BWB Holdings, Ltd.**	**Total**
Initial % acquired	51%	60%	
Cash paid	520	9,301	9,821
Cash payable	130	-	130
	650	**9,301**	**9,951**
% Option 1	24%	13%	
Estimated value - Option 1	1,463	2,825	
% Option 2	25%	27%	
Estimated value - Option 2	2,600	6,308	
Total consideration	**4,713**	**18,434**	**23,147**

The options relating to the acquisition of Rifer, S.R.L. are exercisable in 2019 and 2020, respectively, while those relating to the acquisition of BWB Holdings, Ltd. are exercisable in 2018 and 2020, respectively. Consequently, the liabilities associated with the exercise of the options gave rise to the recognition of EUR 2,825 thousand and EUR 10,371 thousand under "Current Financial Liabilities - Other Financial Liabilities" and "Non-Current Financial Liabilities - Other Financial Liabilities", respectively, in the accompanying consolidated balance sheet as at 31 December 2017 (see Note 15).

The costs incurred by the Group in relation to the two transactions were not significant and were recognised as expenses in the accompanying consolidated statement of profit or loss for 2017.

The detail of the assets and liabilities acquired in the aforementioned transactions is as follows:

	Thousands of euros		
	Rifer, S.R.L.	**BWB Holdings, Ltd.**	**Total**
Non-current assets			
Intangible assets	132	120	252
Property, plant and equipment	372	661	1,033
Other non-current assets	22	-	22
Current assets			
Inventories	513	1,688	2,201
Trade and other receivables	1,702	18,070	19,772
Other current assets	8	-	8
Cash and cash equivalents	108	1,384	1,492
Non-current liabilities			
Non-current financial liabilities	-	(94)	(94)
Other non-current liabilities	-	(618)	(618)
Current liabilities			
Bank borrowings	(129)	-	(129)
Current financial liabilities	-	(4,938)	(4,938)
Trade and other payables	(1,882)	(17,670)	(19,552)
Other current liabilities	(398)	-	(398)
Total net assets	**448**	**(1,397)**	**(949)**
% acquired	100%	100%	
Total net assets acquired	448	(1,397)	(949)

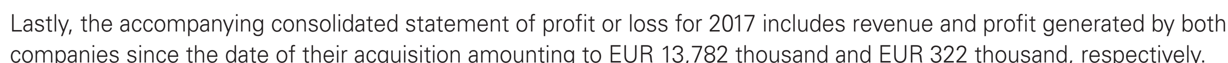
At 31 December 2017, both business combinations had been accounted for and provisionally determined and were within the one-year period provided for under applicable legislation to determine the fair value of the assets and liabilities acquired. The work required to obtain a market measurement of the assets and liabilities acquired will be completed before the end of that period. Pursuant to the foregoing, the entire amount of any goodwill arising has yet to be allocated. The provisional calculation of the goodwill is broken down as follows:

	Rifer, S.R.L.	**BWB Holdings, Ltd.**	**Total**
Consideration	4,713	18,434	23,147
Net assets acquired	448	(1,397)	(949)
Goodwill	4,265	19,831	24,096

The net cash flow generated by the two transactions at 31 December 2017 is broken down in the following table:

	Rifer, S.R.L.	**BWB Holdings, Ltd.**	**Total**
Cash paid in the transaction	520	9,301	9,821
Cash acquired in the transaction	(108)	(1,384)	(1,492)
Net cash transferred	412	7,917	8,329

In addition, at the date of acquisition the Parent granted BWB Holdings, Ltd. financing amounting to EUR 4,823 thousand to cater for certain financial liabilities held by the acquired company.



Lastly, the accompanying consolidated statement of profit or loss for 2017 includes revenue and profit generated by both companies since the date of their acquisition amounting to EUR 13,782 thousand and EUR 322 thousand, respectively.

In 2017 CAF Netherlands, B.V., CAF Group UK, Ltd., CAF Rolling Stock UK Ltd. and Sermanbra Serviços de Manutençao Brasil, Ltd. were incorporated and BASA TMB, S.L. and UPR Argentina, S.A. were liquidated. In addition, changes occurred in the percentage of ownership interests in Vectia Mobility Research & Development, A.I.E., Vectia Mobility, S.L. and CAF Santana, S.A. (2.52%, -9.46% and 16.27%, respectively). The Group already had a controlling interest in these companies, and these changes gave rise to a cash inflow of EUR 2,833 thousand in the Group's scope of consolidation. In 2017 the corporate name of Inversiones en Concesiones Ferroviarias, S.A.U. was changed to CAF Investment Projects, S.A.U.

In 2016 Ennera Kaihatsu Co, Ltd., NEM Solutions, USA, Ltd and Purple Line Transit Operators, L.L.C. 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 the Group lost control over the aforementioned company and adopted 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 Accounted 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 consolidated statement of profit or loss.

Also in 2016, 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.

Consolidation method

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

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

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

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

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

Translation of foreign currency financial statements

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

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

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2016.

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 2017 and 2016 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

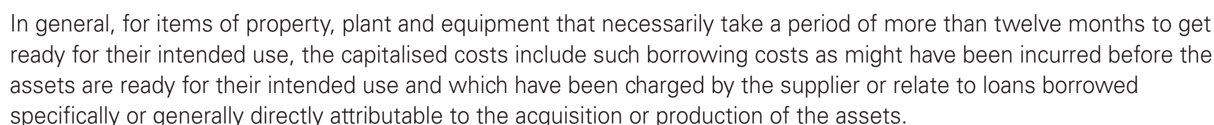
Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996, of 5 December, and the surplus resulting therefrom was treated as part of the cost of these assets, in accordance with IFRSs and pursuant 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 balance sheet date, the CAF Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

d) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at fair value in the consolidated balance sheet 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, suspension of payments, 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 2017, the Group had derecognised receivables amounting to EUR 63,151 thousand (31 December 2016: EUR 107,190 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 debit or credit to "Valuation Adjustments" in the consolidated balance sheet 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.

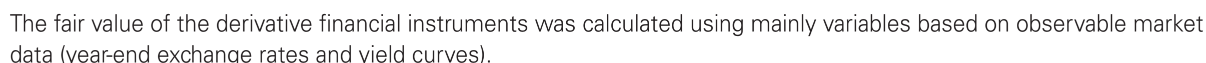
The detail of the CAF Group's assets and liabilities measured at fair value according to the levels indicated above at 31 December 2017 and 2016 is as follows (in thousands of euros):

2017

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	105	105
Derivatives (Note 17)	-	57,706	-	57,706
Held-for-trading financial assets (Note 13)	55,120	-	-	55,120
Total assets	**55,120**	**57,706**	**105**	**112,931**
Liabilities				
Derivatives (Note 17)	-	70,444	-	70,444
Total liabilities	**-**	**70,444**	**-**	**70,444**

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**



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 balance sheet 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 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.

– For inventories that require a period of more than twelve months to be ready for sale, cost includes borrowing costs.

f) Recognition of contract revenue and profit

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.

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 balance sheet.

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, in order to take into account the initial margin of uncertainty of the long-term contracts

– 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 balance sheet (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 or settled in more than twelve months, since they form part of the Group's normal cycle as established in the applicable legislation. Considering the items as a whole, the directors' estimates indicate that the current assets will be realised essentially in the short term and, in any event, the current liabilities to be settled in more than twelve months exceed the current assets that would be realised in more than twelve months (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 Group companies' legal and contractual obligations to certain of their employees in relation to supplementary retirement and death benefits are met through premiums under defined benefit plans to external funds deposited, or in the process of being externalised, at independent insurance companies. The contributions made in 2017 for various groups of employees amounted to EUR 6,777 thousand (2016: EUR 3,809 thousand). The impact of these obligations on the consolidated statement of profit or loss for 2017 amounted to EUR 4,085 thousand (2016: EUR 4,799 thousand) with a charge to "Staff Costs". In 2017 a net actuarial loss of EUR 5,525 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2016: a net actuarial gain of EUR 990 thousand).

In accordance with the accrual basis of accounting, the Group recognised a liability of EUR 2,833 thousand under "Current Liabilities" and an asset of EUR 268 thousand under "Current Assets" in the consolidated balance sheet as at 31 December 2017, calculated by an independent valuer. The sum of these amounts is the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as plan assets (31 December 2016: an asset of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (see Notes 15, 18 and 22).

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

In accordance with the applicable collective agreement, the Parent contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (see Notes 22, 23 and 24).

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 2017 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 3,095 thousand and EUR 2,703 thousand, respectively (31 December 2016: EUR 2,788 thousand and EUR 2,391 thousand, respectively) (see Note 20).

k) Early retirements and termination benefits

At 31 December 2017, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR 5,892 thousand and EUR 3,113 thousand, respectively (31 December 2016: EUR 3,165 thousand and EUR 2,529 thousand), relating to the present value estimated

by the Parent's directors of the future payments to be made to employees who in December 2017 were included in the early retirement plan approved in 2013, or with whom hand-over contracts had been entered into. The net provision for 2017 was recognised with a charge of EUR 6,272 thousand (2016: EUR 3,042 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 2017 and 2016, the Group had various outstanding operating leases for which it had recognised an expense of EUR 9,917 thousand in 2017 (2016: EUR 8,027 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 2017 amounted to EUR 30,057 thousand over the next few years, of which EUR 7,908 thousand are due in 2018 (31 December 2016: EUR 17,170 thousand, EUR 5,897 thousand of which were to be paid in 2017).

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 2017 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	10,333
Voluntary reserves	12,292
	22,625
Distribution	
Dividends	22,625
	22,625

5. FINANCIAL RISK MANAGEMENT

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

These risks include financial risks: market risk (inter alia: foreign currency risk, interest rate risk and commodity price risk), credit risk, liquidity risk and financing risk.

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

The Group's Financial Department identifies, analyses, assesses and defines the treatment, and performs the monitoring and control, of the financial risks in accordance with the global risk management policies established by the Board of Directors.

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 borrowing cost structure balanced between fixed and floating interest rates the goal of which is to maintain an adequate balance between the cost of long-term financing and the risk of changes in interest rates.

In this regard, a significant portion of the financial debt at 31 December 2017 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 2017, it has a liability exposure of EUR 103 million in relation to changes in market interest rates (31 December 2016: EUR 62 million) and EUR 263 million in relation to fixed interest rates (31 December 2016: EUR 260 million), of which EUR 13.3 million were fixed as a result of interest rate derivatives (see Notes 16 and 17). The debt of the subsidiary CAF Investment Projects, S.A.U. is tied to market interest rates (see Note 16).

Taking into consideration the balance at 31 December 2017 and 2016, 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 3,125 thousand and EUR 3,695 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 Japanese yen, 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 contracts entered into, so that the Group's results present fairly its industrial and services activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2017 of a 10% depreciation of the Brazilian real against the euro at 31 December 2017 would be a loss of EUR 4,801 thousand (31 December 2016: EUR 3,485 thousand). The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2017 and 2016, 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 2017 and 2016 is as follows:

	Equivalent value in thousands of euros					
	31/12/17			31/12/16		
Currency	**Assets**	**Liabilities**	**Net exposure**	**Assets**	**Liabilities**	**Net exposure**
Chilean peso	20,841	18,569	2,272	18,368	16,837	1,531
Mexican peso	134,198	115,494	18,704	92,402	78,569	13,833
Argentine peso	2,355	1,414	941	3,108	1,818	1,290
Brazilian real	614,174	365,957	248,217	761,873	487,287	274,586
US dollar (Note 3-d) (*)	533,774	309,080	3,433	617,356	393,087	2,733
Pound sterling	84,931	41,212	43,719	8,795	7,777	1,018
Algerian dinar	4,852	3,105	1,747	5,344	2,948	2,396
Turkish lira	3,780	2,937	843	6,432	5,739	693
Venezuelan bolivar	53	50	3	79	70	9
Indian rupee	8,880	88	8,792	9,449	111	9,338
Australian dollar	965	593	372	760	538	222
Colombian peso	2,263	1,729	534	1,587	1,100	487
Saudi riyal	20,613	20,139	474	16,151	15,784	367
New Zealand dollar	5,960	4,844	1,116	5,088	4,338	750
Romanian leu	239	125	114	245	132	113
New Taiwan dollar	27,330	21,302	6,028	29,991	25,146	4,845
Hungarian forint	866	715	151	1,163	1,007	156
Japanese yen	610	538	72	-	-	-
Total	**1,466,684**	**907,891**	**337,532**	**1,578,191**	**1,042,288**	**314,367**

(*) At 31 December 2017, there were hedges of net investments in foreign operations (see Note 17) amounting to EUR 221,261 thousand, applying the year-end exchange rate (31 December 2016: EUR 221,536 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 33,753 thousand at 31 December 2017 (31 December 2016: EUR 31,437 thousand).

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

	Equivalent value in thousands of euros			
	31/12/17		31/12/16	
Nature of the balances	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Intangible assets	236	-	210	-
Goodwill	19,831	-	-	-
Property, plant and equipment	66,778	-	59,910	-
Non-current financial assets and deferred tax assets	565,308	-	668,997	-
Inventories	146,361	-	166,451	-
Trade and other receivables	505,698	-	546,974	-
Other current financial assets	38,825	-	49,781	-
Cash and cash equivalents	123,647	-	85,868	-
Non-current liabilities	-	400,818	-	493,577
Current liabilities	-	507,073	-	548,711
Total	**1,466,684**	**907,891**	**1,578,191**	**1,042,288**

a.3) Commodity price risk

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

b) Credit risk

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

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

At 31 December 2017 and 2016, the Group had insured a portion of its accounts receivable from customers in certain countries abroad, taking into account the risk of each of them, through credit insurance policies (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 14-h 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 be in the same timeframe, which results in financial resources being consumed.

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

– Maintaining a strong short-term liquidity position.

– Maintaining surplus undrawn credit balances.

6. SEGMENT REPORTING

a) Basis of segmentation

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

– By business unit, distinguishing between the “Rolling Stock” and the “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:

	2017 (Thousands of euros)				
Segmentation by business unit	**Rolling stock**	**Wheel sets and components**	**General**	**Inter-segment**	**Total**
REVENUE:					
External sales	1,404,821	72,218	-	-	1,477,039
Inter-segment sales	-	30,031	-	(30,031)	-
Total sales	**1,404,821**	**102,249**	**-**	**(30,031)**	**1,477,039**
PROFIT OR LOSS:					
Profit (Loss) from operations	148,191	(1,192)	(1,289)	-	145,710
Financial loss (*)	(25,550)	(9)	(53,235)	-	(78,794)
Share of net results of associates	594	-	-	-	594
Profit (Loss) before tax	**123,235**	**(1,201)**	**(54,524)**	**-**	**67,510**
Income tax (*)	-	-	(24,993)	-	(24,993)
Profit (Loss) for the year from continuing operations	**123,235**	**(1,201)**	**(79,517)**	**-**	**42,517**
Profit attributable to non-controlling interests	(111)	-	-	-	(111)
Profit (Loss) attributable to the Parent	**123,124**	**(1,201)**	**(79,517)**	**-**	**42,406**
Depreciation and amortisation charge (Notes 7 and 8)	28,862	5,810	18	-	34,690
ASSETS	**2,249,408**	**84,476**	**781,370**	**-**	**3,115,254**
LIABILITIES	**1,554,797**	**28,955**	**771,302**	**-**	**2,355,054**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	60,821	2,633	-	-	63,454
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment-Income (Expense) (Notes 7, 8 and 9)	60	-	88	-	148

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

(*) 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):

	2017	2016
High-speed	40,890	35,681
Regional and commuter	524,737	390,323
Metros	184,273	259,777
Tram and light rail	142,473	111,046
Bogies, refitting and other	40,195	32,220
Trains	**932,568**	**829,047**
Services	**376,792**	**349,521**
Wheel sets and components	**72,218**	**68,328**
Other	**95,461**	**71,304**
Total	**1,477,039**	**1,318,200**

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2017 and 2016, including the most significant countries (those accounting for more than 5% of total sales), is as follows (in thousands of euros):

	2017	2016
Spain	**196,672**	**279,372**
The Netherlands	86,370	89,010
United Kingdom	333,481	77,590
Other	97,540	144,440
European Union	**517,391**	**311,040**
Chile	58,831	84,881
Mexico	276,466	132,594
Turkey	26,976	93,204
Other	116,671	102,170
OECD	**478,944**	**412,849**
Brazil	139,294	217,930
Other	144,738	97,009
Rest of the world	**284,032**	**314,939**
Total	**1,477,039**	**1,318,200**

In 2017 one customer represented 12% of the Group's revenue. In 2016 one customer represented 14% of the Group's revenue.

b) The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2017 and 2016 is as follows (in thousands of euros):

Geographical area	2017	2016
Spain	175,647	167,577
Rest of the world	68,866	61,732
Total	**244,513**	**229,309**

7. INTANGIBLE ASSETS

The changes in the years ended 31 December 2017 and 2016 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 31/12/15	**106,979**	**18,981**	**15**	**125,975**
Cost				
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**
Changes in the scope of consolidation	6	599	24,096	24,701
Additions or charge for the year	16,330	2,861	-	19,191
Transfers	-	142	-	142
Transfers to inventories	(1,384)	-	-	(1,384)
Disposals or reductions	-	(8)	-	(8)
Translation differences	1	(71)	13	(57)
Cost at 31/12/17	**133,387**	**25,098**	**24,124**	**182,609**
Accumulated amortisation				
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)**
Changes in the scope of consolidation	(2)	(352)	-	(354)
Additions or charge for the year	(10,170)	(1,606)	-	(11,776)
Transfers	-	(85)	-	(85)
Disposals or reductions	-	6	-	6
Translation differences	(1)	46	-	45
Accumulated amortisation at 31/12/17	**(77,249)**	**(18,174)**	**-**	**(95,423)**
Impairment				
Impairment at 31/12/16	**(16,621)**	**-**	**-**	**(16,621)**
Recognised in 2017	-	(20)	-	(20)
Impairment at 31/12/17	**(16,621)**	**(20)**	**-**	**(16,641)**
Net balance at 31/12/16	**34,737**	**5,392**	**15**	**40,144**
Net balance at 31/12/17	**39,517**	**6,904**	**24,124**	**70,545**

Research and development expenditure incurred in 2017 amounted to EUR 28,054 thousand (EUR 11,724 thousand were recognised in the consolidated statement of profit or loss and EUR 16,330 thousand were capitalised). 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). These amounts do not include basic engineering costs associated with contracts.

The additions to "Development Expenditure" in 2017 and 2016 correspond to the costs incurred in the development of new products, including most notably the high-speed train, the development of critical safety platforms, the development of highly automated signalling systems and the development of an electric bus.

As discussed in Note 3-a, in 2017 the Group transferred approximately EUR 1,384 thousand of development expenditure to various contracts it had won that incorporated the technology developed (2016: EUR 1,305 thousand).

8. PROPERTY, PLANT AND EQUIPMENT

The changes in the years ended 31 December 2017 and 2016 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 31/12/15	**260,914**	**274,462**	**21,405**	**42,071**	**308**	**599,160**
Cost						
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**
Changes in the scope of consolidation	30	1,297	296	690	1	2,314
Additions	17,713	10,252	3,342	2,021	10,935	44,263
Transfers	631	1,714	294	(100)	(2,811)	(272)
Disposals or reductions	(197)	(2,145)	(56)	(17)	(1)	(2,416)
Translation differences	(6,645)	(4,642)	(247)	(181)	(189)	(11,904)
Cost at 31/12/17	**272,406**	**291,516**	**26,077**	**44,528**	**10,695**	**645,222**
Accumulated depreciation at 31/12/15	**(94,387)**	**(218,354)**	**(14,548)**	**(22,600)**	**-**	**(349,889)**
Accumulated depreciation						
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 depreciation at 31/12/16	**(97,799)**	**(234,489)**	**(15,851)**	**(25,046)**	**-**	**(373,185)**
Changes in the scope of consolidation	(3)	(745)	(69)	(462)	-	(1,279)
Additions or charge for the year	(6,492)	(12,770)	(1,202)	(2,450)	-	(22,914)
Transfers	-	(4)	44	41	-	81
Disposals or reductions	19	2,074	20	15	-	2,128
Translation differences	1,652	3,022	135	167	-	4,976
Accumulated depreciation at 31/12/17	**(102,623)**	**(242,912)**	**(16,923)**	**(27,735)**	**-**	**(390,193)**
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)**
Recognised in 2017	182	-	-	-	-	182
Translation differences	46	(1)	-	-	-	45
Impairment at 31/12/17	**(6,231)**	**(4,141)**	**(131)**	**(13)**	**-**	**(10,516)**
Net balance at 31/12/16	**156,616**	**46,411**	**6,466**	**17,056**	**2,760**	**229,309**
Net balance at 31/12/17	**163,552**	**44,463**	**9,023**	**16,780**	**10,695**	**244,513**

In 2017 the Group invested in its plants in order to improve their production capacity. These investments were focused mainly on the construction of a new production plant in the UK, the new buildings for a technical office and MiiRA, and certain facilities and machinery for the improvement and automation of the machining processes.

In prior years the Group transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled. Following an impairment test performed on the locomotives, the Parent's directors considered that they were not impaired. At 31 December 2017, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand (31 December 2016: EUR 9,155 thousand).

At 31 December 2017 and 2016, the Group had firm capital expenditure commitments amounting to approximately EUR 23,768 thousand and EUR 8,189 thousand, respectively, mainly in the UK.

At 31 December 2017, the Group had payables to property, plant and equipment suppliers amounting to EUR 18,979 thousand (31 December 2016: EUR 6,671 thousand) under "Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated balance sheet.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2017 and 2016, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2017, the gross cost of fully depreciated assets in use amounted to approximately EUR 274,410 thousand (31 December 2016: EUR 240,857 thousand).

The losses recognised on property, plant and equipment disposals in 2017 amounted to approximately EUR 106 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 (2016: gain of EUR 9,186 thousand). In 2017 the Group sold items of property, plant and equipment amounting to EUR 182 thousand (2016: EUR 13,867 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 2017, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,267 thousand (31 December 2016: EUR 1,690 thousand). EUR 423 thousand were allocated to profit or loss in this connection in 2017 (2016: EUR 611 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 2017 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 2017 and 2016 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	Impairment losses	Cost	Market value	Cost	Impairment losses	
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**
Changes in the scope of consolidation	-	-	-	12	-	-	-	12
Translation differences	(150)	(4)	-	(2,299)	(152)	(77,447)	2,164	(77,888)
Additions or charge for the year	531	85	(12)	797	5,175	123,454	87	130,117
Disposals or reductions	(7)	-	-	(83)	(2,042)	(2,473)	-	(4,605)
Transfers (Note 3-n)	-	-	-	-	-	(137,179)	-	(137,179)
Hedges (Note 17)	806	-	-	-	-	-	-	806
Balance at 31/12/17	**19,752**	**11,591**	**(2,085)**	**15,624**	**15,842**	**549,196**	**(13,666)**	**596,254**

A detail of the Group's non-current financial assets at 31 December 2017 and 31 December 2016, by type and category, for measurement purposes, is as follows:

	Thousands of euros				
	31/12/17				
Financial assets: type/category	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity investments**	**Hedging derivatives**	**Total**
Equity instruments	9,506	-	-	-	9,506
Hedging derivatives (Note 17)	-	-	-	15,842	15,842
Other financial assets	-	535,530	15,624	-	551,154
Long-term/non-current	**9,506**	**535,530**	**15,624**	**15,842**	**576,502**

Financial assets: type/category	Thousands of euros				
	31/12/16				
	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**

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

2017

	2019	2020	2021	2022 and subsequent years	Total
Loans and receivables	121,655	135,074	109,410	169,391	535,530
Held-to-maturity investments	1,476	25	13	14,110	15,624
Hedging derivatives	13,492	2,256	94	-	15,842
Total	**136,623**	**137,355**	**109,517**	**183,501**	**566,996**

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**

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):

2017

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the parent	Non-controlling interests	Sales	Profit (Loss) of the parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L. (2)	853	5,474	563	1,381	4,383	-	5,021	122	3
Plan Metro, S.A. (3)	376,024	10,232	384,860	30,729	(29,333)	-	54,427	(2,872)	-
Consorcio Traza, S.A. (4)	245,001	54,607	228,365	14,487	53,926	2,830	23,910	22	3,224
Ferrocarriles Suburbanos, S.A. de C.V.	298,571	66,651	319,601	49,198	(3,577)	-	39,552	(7,398)	2,198
Arabia One for Clean Energy Invest. PSC	20,091	2,730	18,806	831	3,184	-	3,280	1,605	(237)

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L. (2)	4,383	50	2,192	4,471	(210)
Plan Metro, S.A. (3)	(29,333)	40	(11,733)	-	-
Consorcio Traza, S.A. (4)	53,926	25	13,481	13,481	5
Ferrocarriles Suburbanos, S.A. de C.V.	(3,577)	43.35	(1,551)	-	-
Arabia One for Clean Energy Investments PSC	3,184	40	1,273	1,172	642
Other investments (5)	-	-	628	628	157
			4,290	**19,752**	**594**

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

(2) Nuevas Estrategias de Mantenimiento, S.L. holds an 100% ownership interest in Nem Solutions USA, Inc.

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

(4) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

(5) Dormant companies or companies with no significant activity: Asyris Vision Technologies, S.A., Compañía de Vagones del Sur, S.L., Tumaker, S.L. and Purple Line Transit Operators, L.L.C.

2016

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the parent	Non-controlling interests	Sales	Profit (Loss) of the parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L.	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 unifying entries for consolidation purposes (in thousands of euros).

(2) Consorcio Traza, S.A. holds an 80% ownership interest in 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., 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 2017, the fair value adjustments and sales margins reduced the ownership interests by EUR 31,301 thousand (31 December 2016: EUR 39,045 thousand), and no losses exceeding the cost of the ownership interest, amounting to EUR 46,766 thousand (31 December 2016: 51,477 thousand), were recognised.

b) Non-current investment securities

Name	% of ownership	Cost of the investment (Thousands of euros)	
		2017	2016
Alquiler de Trenes, AIE	5%	1,202	1,202
Ferromovil 3000, S.L.	10%	3,181	3,181
Alquiler de Metros, AIE	5%	105	66
Plan Azul 07, S.L.	5.2%	1,381	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	1,908	1,908
Iniciativa FIK, A.I.E.	14.18%	1,040	1,052
FIK Advanlife, S.L.	5.91%	1	1
Albali Señalización, S.A.	3%	398	398
Other		290	248
Total		**9,506**	**9,437**

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 2,085 thousand (31 December 2016: EUR 2,073 thousand) and impairment of EUR 12 thousand was recognised in 2017 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying consolidated statement of profit or loss.

In 2017 the shareholders reached an agreement for the valuation of Alquiler de Metros, A.I.E. which is the best estimate of the fair value of this ownership interest and which gave rise to a gain of EUR 39 thousand recognised under “Valuation Adjustments - Available-for-Sale Financial Assets” in the accompanying consolidated balance sheet.

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 2017, the main item recognised by the Group under "Non-Current Financial Assets - Other Financial Assets" related to guarantees amounting to EUR 13,666 thousand connected with the increase in borrowings taken by 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):

	31/12/17	31/12/16
Loans to employees	4,605	4,687
Share ownership scheme obligations	-	56
Non-current tax receivables (Note 19)	48,357	58,754
Provisions for tax payables (Note 19)	(13,666)	(15,917)
Non-current trade receivables	470,974	554,924
Loans to associates (Note 10)	25,172	24,336
Loans to third parties	88	84
Total	**535,530**	**626,924**

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. At 31 December 2017, all the rights had been transferred to the employees.

At 31 December 2017, Cartera Social, S.A. owned 8,727,191 CAF, S.A. shares, equal to 25.46% of its share capital (see Note 14). At 31 December 2016, the percentage was 25.58% of the capital.

Non-current tax receivables

At 31 December 2017, the Group recognised EUR 48,357 thousand under "Non-Current Financial Assets – Loans and Receivables" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2016: EUR 58,754 thousand). This amount decreased by EUR 7,749 thousand in 2017 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 2017, the Group had recognised impairment losses of EUR 13,666 thousand (31 December 2016: EUR 15,917 thousand) to adjust the face value of these receivables to their recoverable amount, with a reversal of EUR 87 thousand in 2017 (2016: a charge of EUR 291 thousand) recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was a reduction in the impairment losses of EUR 2,164 thousand in 2017.

Non-current trade receivables

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 4,932 thousand at long term (31 December 2016: EUR 6,015 thousand) and EUR 1,245 thousand at short term (31 December 2016: EUR 1,173 thousand)

relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2017 EUR 1,500 thousand (2016: EUR 1,500 thousand) were received and EUR 490 thousand (2016: EUR 564 thousand) were credited to "Finance Income" in the accompanying consolidated statement of profit or loss, based on the interest rate implicit in the transaction.

On 19 March 2010, the Group company 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 18.1 million at 31 December 2017 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 2017, this guarantee amounted to BRL 37,026 thousand (EUR 9,320 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 2017 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 2017 the Group recognised balances of EUR 466,042 thousand under "Non-Current Financial Assets - Loans and Receivables" (31 December 2016: EUR 548,909 thousand) and EUR 115,213 thousand under "Current Assets - Other Receivables" (31 December 2016: EUR 137,601 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2017 or 2016.

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					
	2017			2016		
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.	4	1,734	-	17	2,034	-
Plan Metro, S,A.	13,043	-	1,716	11,594	-	1,860
Ferrocarriles Suburbanos, S.A. de C.V.	13,673	97	-	13,607	63	-
Arabia One for Clean Energy Investments PSC.	-	1	77	-	-	88
Ferrocarril Interurbano, S.A. de C.V.	177,454	-	-	60,361	-	-
Tumaker, S.L.	-	2	5	-	3	6
Total	**204,174**	**1,834**	**1,798**	**85,579**	**2,100**	**1,954**

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 2017, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2017 and 2016 were as follows:

Company	Thousands of euros							
	31/12/17				31/12/16			
	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)
Nuevas Estrategias de Mantenimiento, S.L.	100	244	-	-	115	701	10	-
Plan Metro, S.A.	1,273	-	(167)	24,012	3,745	-	321	22,297
Ferrocarriles Suburbanos, S.A. de C.V.	2,052	23	-	-	10	24	-	-
Arabia One for Clean Energy Investments, PSC.	-	-	-	1,015	-	-	-	1,894
Ferrocarril Interurbano, S.A. de C.V.	25,442	50	(84,723)	-	6,803	10	(18,224)	-
Tumaker, S.L.	1	1	-	145	1	-	-	145
Total	**28,868**	**318**	**(84,890)**	**25,172**	**10,674**	**735**	**(17,893)**	**24,336**

In 2011 the subsidiary CAF Investment Projects, S.A.U. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently guaranteed. Plan Metro, S.A.'s current economic and financial model supports the recovery of the loaned amounts and the interest accrued thereon by the CAF Group. Also, the Group recognised finance income of EUR 1,716 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 (2016: EUR 1,860 thousand).

“Trade and Other Receivables - Other Receivables" in the consolidated balance sheet as at 31 December 2017 includes an account receivable from Cartera Social, S.A. amounting to EUR 145 thousand (31 December 2016: EUR 115 thousand) (see Note 14).

11. INVENTORIES AND CONSTRUCTION CONTRACTS

The detail of "Inventories" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 21)	33,529	23,930
Advances to suppliers	38,125	36,357
Total	**71,654**	**60,287**

At 2017 year-end the Group had recognised write-downs totalling EUR 8,788 thousand (31 December 2016: EUR 6,659 thousand).

At 31 December 2017, the Group had firm raw materials purchase commitments amounting to approximately EUR 721,823 thousand (31 December 2016: EUR 411,719 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2017 and 2016, the insurance policies taken out covered the carrying amount of the inventories at those dates.

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 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	**31/12/16**
Deferred billings (asset) (Notes 3-f and 12)	739,306	841,987
Prebillings (liability) (Note 3-f)	(537,584)	(575,337)
Net balance	**201,722**	**266,650**
Costs incurred plus profits and losses recognised based on stage of completion	2,645,847	2,649,643
Billings made excluding advances	(1,906,541)	(1,807,656)
Advances received	(537,584)	(575,337)
Net balance	**201,722**	**266,650**

12. TRADE AND OTHER RECEIVABLES

The detail of "Trade Receivables for Sales and Services" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	**31/12/16**
Trade receivables - in euros	519,622	588,393
Trade receivables - in foreign currency	766,205	720,899
Write-downs	(8,584)	(2,929)
Total	**1,277,243**	**1,306,363**

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 42% in 2017 (2016: 36%), was billed to customers. The remaining receivable relates to "Amounts to Be Billed for Work Performed" (see Note 11).

At 31 December 2017, the balances billed included EUR 137,790 thousand (31 December 2016: 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 2017, 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 2017 and 2016, 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 2017, 55% of the billed receivables related to the top five customers (31 December 2016: 58%). "Trade Receivables" includes retentions at 31 December 2017 amounting to EUR 5,043 thousand (31 December 2016: EUR 3,752 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2017 and 2016 in addition to the past-due balances with Metro de Caracas are as follows:

	Thousands of euros	
	31/12/17	**31/12/16**
Past due > 90 days	41,193	19,136
Past due > 180 days	121,017	128,118
Total	**162,210**	**147,254**

80% of this balance is concentrated in two countries and ten agreements in relation to which the Group is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

On the basis of a case-by-case analysis of past-due balances, the CAF Group considered that at 31 December 2017, EUR 8,584 thousand (31 December 2016: EUR 2,929 thousand) posed a collection risk and recognised the corresponding write-downs. In 2017 the net changes in the write-downs of trade receivables consisted of an additional write-down of approximately EUR 5,571 thousand (2016: a reversal of approximately EUR 180 thousand) recognised under "Other Operating Expenses" in the accompanying consolidated statements of profit or loss.

The CAF Group is part of a consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date CAF's legal advisers consider that the Consortium has solid arguments to justify its defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could be able to claim the potential losses from such members. At 31 December 2017, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to this contract, net of advances received, amounted to EUR 14.8 million, and no amount had been recognised for additional claims on the original contract.

13. OTHER CURRENT FINANCIAL ASSETS

The detail of "Other Current Financial Assets" at 31 December 2017 and 2016 is as follows:

2017

	Thousands of euros				
Financial assets: type/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	-	-	-	41,864	41,864
Other financial assets	115	29,603	55,120	-	84,838
Short-term/current	**115**	**29,603**	**55,120**	**41,864**	**126,702**

2016

	Thousands of euros				
Financial assets: type/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**

"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 2017 the Group recognised income in this connection and in relation to the cash surpluses amounting to EUR 5,156 thousand (2016: EUR 3,480 thousand).

14. EQUITY

a) Share capital of the Parent

At both 31 December 2017 and 2016, the Parent's share capital was represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities that had notified the Spanish National Securities Market Commission (CNMV) that they held voting rights representing over 3% of the Parent's share capital at 31 December 2017 and 2016 were as follows:

	% 2017	% 2016
Cartera Social, S.A. (Note 9) (1)	25.46%	25.58 %
Kutxabank, S.A. (2)	14.06%	14.06 %
Indumenta Pueri S.L.(3)	5.02%	5.02 %
Bestinver Gestión S.A. S.G.I.I.C.	-	3.09 %
Templeton Investment Counsel, LLC. (4)	3.01%	-
EDM Gestión, S.A. S.G.I.I.C. (5)	3.02%	-

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

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

(3) Indumenta Pueri, S.L. is the indirect holder. The direct holder is Global Portfolio Investments, S.L., a company controlled by Indumenta Pueri, S.L.

(4) Templeton Investment Counsel, LLC. is the indirect holder. As an investment management company it manages the assets of T Global Smaller Co Fd, and others.

(5) EDM Gestión, S.A. S.G.I.I.C is the indirect holder. It controls the voting rights of EDM Inversión FI and others.

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

The Annual General Meeting held on 10 June 2017 resolved to empower the Parent's Board of Directors, with express powers of delegation, for a period of five (5) years from that date, to issue debt instruments and fixed-income or other securities (including warrants) convertible into shares of the Parent or other Group companies, including the power to disapply shareholders' pre-emption rights for a maximum of 20% of the share capital at the authorisation date. This decision rendered null and void the resolution adopted by the Parent's Annual General Meeting held on 7 June 2014. At the date of preparation of these consolidated financial statements no convertible securities had been issued since that resolution.

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

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 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	**31/12/16**
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 2017 and 2016 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 82,813 thousand at 31 December 2017 (31 December 2016: approximately EUR 84,360 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 2017 year-end EUR 39,612 thousand of the reserves were restricted as to their use (2016 year-end: EUR 34,880 thousand).

f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
CAF México, S.A. de C.V.	(2,495)	(1,834)
CAF Brasil Industria e Comercio, S.A.	(34,567)	(17,240)
CAF Argentina, S.A.	(2,323)	(1,987)
CAF USA, Inc.	(106)	(46)
CAF Rail UK, Ltda.	(95)	(54)
CAF Chile, S.A.	67	101
Sefemex, S.A. de C.V.	(60)	(53)
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(2,825)	(1,915)
Corporación Trainemex, S.A. de C.V.	(42)	(39)
CAF Turquia, L.S.	(1,186)	(1,009)
CAF Argelia, E.U.R.L.	(553)	(214)
CAF India Private Limited	(606)	(3)
Ctrens Companhia de Manutençao, S.A.	(73,010)	(53,276)
Trenes CAF Venezuela, C.A.	(647)	(638)
Provetren, S.A. de C.V.	1,532	1,164
CAF Sinyalizasyon Sistemleri Ticaret Ltd Sirket	50	(121)
CAF Rail Australia Pty, Ltd.	(7)	9
CAF Colombia, S.A.S.	(185)	(120)
Sermantren, S.A. de C.V.	(11)	(10)
CAF Arabia, Co.	99	150
CAF New Zealand Ltd.	(63)	40
CAF Taiwan Ltd.	(16)	368
Arabia One for Clean Energy Investments PSC.	(41)	54
Ferrocarril Interurbano, S.A. de C.V.	(83)	(28)
CAF Sisteme Feroviare, SRL.	(5)	(2)
Ennera Kaihatsu CO, Ltd.	(2)	-
Nem Solutions USA, Inc.	2	-
CAF Group UK, Ltd.	(66)	-
Purple Line Transit Operators, L.L.C.	(2)	-
BWB Holdings, Ltd.	8	-
Total	**(117,238)**	**(76,703)**

g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes therein in 2017 and 2016 is as follows:

	Thousands of euros
Balance at 31 December 2015	**11,187**
Profit attributable to non-controlling interests	2,267
Translation differences	13
Loss of control over NEM Solutions, S.L. (Note 2-f)	(537)
Transactions with non-controlling shareholders	711
Dividends	(1,935)
Balance at 31 December 2016	**11,706**
Profit attributable to non-controlling interests	111
Transactions with non-controlling shareholders	971
Dividends	(3,005)
Balance at 31 December 2017	**9,783**

h) Capital management

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

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 31 December 2017 and 2016, 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	
	31/12/17	**31/12/16**
Net financial debt:		
Interest-bearing refundable advances (Note 15)	16,667	15,769
Bank borrowings - Non-current liabilities (Note 16)	625,645	648,145
Bank borrowings - Current liabilities (Note 16)	46,262	103,075
Financial assets - Non-current assets (Note 9-c)	(13,666)	(15,652)
Current financial assets (Note 13)	(84,723)	(94,480)
Cash and cash equivalents	(371,625)	(392,022)
	218,560	**264,835**
Equity:		
Attributable to the Parent	750,417	771,971
Non-controlling interests	9,783	11,706
	760,200	**783,677**

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

The detail of the Group's financial liabilities at 31 December 2017 and 2016, by type and category for measurement purposes, is as follows:

	Thousands of euros		
	31/12/17		
Financial liabilities: type/category	**Accounts payable**	**Hedging derivatives**	**Total**
Bank borrowings (Note 16)	625,645	-	625,645
Other financial liabilities (excluding hedging derivatives)	52,039	-	52,039
Hedging derivatives (Note 17)	-	18,131	18,131
Non-current liabilities/Non-current financial liabilities	**677,684**	**18,131**	**695,815**
Bank borrowings (Note 16)	46,262	-	46,262
Other financial liabilities (excluding hedging derivatives)	40,725	-	40,725
Hedging derivatives (Note 17)	-	52,313	52,313
Current liabilities/Current financial liabilities	**86,987**	**52,313**	**139,300**
Total	**764,671**	**70,444**	**835,115**

	Thousands of euros		
	31/12/16		
Financial liabilities: type/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**

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

	Thousands of euros	
	31/12/17	**31/12/16**
Refundable advances	34,753	43,696
Employee benefit obligations (Notes 3-k and 22)	5,892	3,165
Share purchase liabilities (Note 2-f)	10,371	-
Other liabilities	1,023	993
Total	**52,039**	**47,854**

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

	2017
2019	9,825
2020	17,614
2021	8,286
2022	5,877
2023 and subsequent years	10,437
Total	**52,039**

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

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 2017 and 2016 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/15	**47,172**
Additions	7,936
Adjustments and other	1,890
Transfers to short term	(13,302)
Balance at 31/12/16	**43,696**
Additions	2,386
Adjustments and other	378
Transfers to short term	(11,707)
Balance at 31/12/17	**34,753**

Also, the amount recognised in the short term relating to accounts payable for refundable advances amounted to EUR 18,351 thousand at 31 December 2017 (31 December 2016: EUR 15,482 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 3,113 thousand were recognised under "Other Payables" in the accompanying consolidated balance sheet as at 31 December 2017 (31 December 2016: EUR 2,529 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 2017 and 2016, is as follows (see Note 3-j):

	Thousands of euros	
	31/12/17	31/12/16
Present value of the obligations assumed	45,315	32,424
Less – Fair value of plan assets	(42,750)	(32,692)
Other current (assets) liabilities	**2,565**	**(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	2017	2016
Discount rate	1.68-2.47%	1.77% - 1.82%
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 balance sheet is as follows:

		Thousands of euros					
		31/12/17			31/12/16		
	Nominal currency	Non-current	Current	Total	Non-currente	Current	Total
Loans and credit accounts							
Ctrens - BNDES	BRL	154,411	15,095	169,506	194,106	16,034	210,140
Provetren - Banking syndicate	USD	93,729	18,285	112,014	126,621	25,188	151,809
Parent (CAF SA)	EUR	356,779	9,000	365,779	306,378	15,074	321,452
CAF Brasil	BRL	-	-	-	-	43,177	43,177
CAF Investment Projects, S.A.U.	EUR	19,799	-	19,799	20,000	-	20,000
Other Group companies	EUR	927	740	1,667	1,040	138	1,178
		625,645	**43,120**	**668,765**	**648,145**	**99,611**	**747,756**
Accrued interest payable		-	3,142	3,142	-	3.464	3.464
Total		**625,645**	**46,262**	**671,907**	**648,145**	**103,075**	**751,220**

In 2017 the changes in "Loans and Credit Accounts with Banks" were as follows:

Balance at 31 December 2016	**747,756**
Cash flows	
New drawdowns	72,123
Maturity payments	(111,814)
	(39,691)
Other changes (without cash flows)	
Changes in the scope of consolidation (Note 2-f)	129
Translation differences	(44,825)
Amortised cost adjustments and other	5,396
	(39,300)
Balance at 31 December 2017	**668,765**

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

Ctrens - BNDES

In relation to the CPTM train lease transaction described in Note 9-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.

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). These clauses were met in 2017 and 2016.

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

Provetren - Banking syndicate

In relation to the long-term agreement to provide services for the lease of trains (PPS - Line 12) described in Note 9-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 it 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.

The related agreement contains certain restrictive clauses limiting the ability of Provetren, S.A., de C.V., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends if certain ratios have not been achieved, and establishing the obligation to achieve certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15), these clauses were met in 2017 and 2016.

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.

Loans of the Parent

In 2017 the Parent arranged three new loans with banks for a total of EUR 65 million. These loans had been drawn down in full at 31 December 2017. Also, in 2017 the Parent renegotiated certain loans for a total of EUR 75 million with a principal increase of EUR 5 million, an extension of the maturity date and a reduction in their cost.

In addition, in 2017 the Parent repaid EUR 12 million on maturity and a loan for EUR 14 million early.

At 31 December 2017, total bank borrowings included EUR 263 million tied to a fixed interest rate (EUR 13.3 million through an interest rate swap, see Note 17).

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. Of the amount drawn down, EUR 259,987 thousand are tied to a fixed interest rate (EUR 20,000 thousand through an interest-rate swap, see Note 17).

CAF Brasil

In 2017 the subsidiary CAF Brasil Industria e Comercio, S.A. settled the drawn down credit facilities at their maturity date in order to finance working capital (BRL 148,122 equivalent to EUR 43,177 thousand drawn down at 31 December 2016), which were guaranteed by the Parent.

CAF Investment Projects, S.A.U. and others

In July 2016 the subsidiary CAF Investment Projects, S.A.U. drew down a loan for EUR 20,000 thousand. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by CAF Investment Projects, S.A.U. in foreign companies. At 31 December 2017 and 2016, this ratio was being achieved.

The remaining financial debt relates to loans received by various subsidiaries that are tied to a market interest rate.

Undrawn credit facilities and maturities

In addition to the foregoing, the Group companies have undrawn credit facilities amounting to EUR 149,775 thousand (31 December 2016: 189,775 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

On 21 December 2017, the Parent arranged a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million ("the Programme"), which was registered at the Irish Stock Exchange.

Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF may issue ordinary fixed-income securities with a maturity of less than 364 days, which may be listed on the Irish Stock Exchange, or on any other stock exchange or trading system.

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

	31/12/17
2019	104,961
2020	62,560
2021	175,047
2022	139,485
2023 and subsequent years	143,592
Total	**625,645**

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

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 balance sheets as at 31 December 2017 and 2016 is as follows:

2017

Currency put options at 31/12/17	Maturity (in currency) 2018	2019	2020 and subsequent years
Fair value hedges:			
USD currency forwards (*)	569,473,785	79,313,750	-
GBP currency forwards	184,930,953	112,649,300	95,037,543
EUR currency forwards	10,210,376	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	293,315,120	301,302,732	86,664,170
AUD currency forwards	65,935,494	13,524,295	517,767
TWD currency forwards	401,347,969	-	-
SAR currency forwards	287,127,754	-	-
MXP currency forwards	3,069,543,269	-	-
CAD currency forwards	1,212,495	-	-
TRY currency forwards	4,681,236	-	-
JPY currency forwards	13,642,169,888	3,694,606,739	4,081,705,774
ARS currency forwards	56,000,000	-	-

(*) Including the hedge of a net investment in CAF USA, Inc. and in Provetren amounting to USD 265,366 thousand.

Currency call options at 31/12/17	Maturity (in currency) 2018	2019	2020 and subsequent years
Fair value hedges:			
USD currency forwards	7,019,282	11,598,823	24,289,000
EUR currency forwards	156,717,045	-	-
BRL currency forwards	628,825	-	-
MXP currency forwards	59,767,000	-	-
GBP currency forwards	2,675,136	-	-
Cash flow hedges:			
JPY currency forwards	-	-	4,588,021,500
MXP currency forwards	-	-	591,486,246
GBP currency forwards	-	25,000,000	-

Interest rate derivatives	Loan maturity (in currency) 2018	2019	2020 and subsequent years
Euribor swap	EUR 6,666,666	EUR 6,666,667	-
LIBOR swap	USD 18,598,760	USD 20,494,634	USD 75,138,990

	Thousands of euros			
	Fair value		Cash flow	
	31/12/17	31/12/16	31/12/17	31/12/16
Hedges:				
USD currency forwards	14,419	(36,255)	-	-
GBP currency forwards	(581)	(6,014)	(38)	-
MXP currency forwards	(16,068)	(8,219)	(1,789)	-
BRL currency forwards	(6,409)	(9,115)	-	-
CHF currency forwards	-	(131)	-	-
EUR currency forwards	1,900	(9,134)	-	-
AUD currency forwards	24	47	-	-
SEK currency forwards	(1,066)	(439)	-	-
SAR currency forwards	(2,733)	2,047	-	-
TWD currency forwards	666	900	-	-
JPY currency forwards	(532)	-	(288)	-
Currency forwards in other currencies	(132)	2	-	-
Forward rate agreements	(23)	(54)	(88)	(5,434)
Measurement at year-end (*)	**(10,535)**	**(66,365)**	**(2,203)**	**(5,434)**

(*) Before considering the related tax effect.

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	-	-

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

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

Interest rate derivatives	Loan maturity (in currency) 2017	2018	2019 and subsequent years
Euribor swap	EUR 6,666,667	EUR 6,666,666	EUR 6,666,667
CDI cross-currency-swap	BRL 72,000,000	-	-
LIBOR swap	USD 15,838,944	USD 18,598,760	USD 95,633,624

At 2017 and 2016 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 4,994 thousand at 31 December 2017, net of the related tax effect (31 December 2016: EUR 5,800 thousand). This amount was recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated balance sheet as at 31 December 2017.

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

The reconciliation of the remeasurement at each year-end to the carrying amounts recognised in the consolidated balance sheet is as follows (in thousands of euros):

	2017	2016
Non-current assets (Note 9)	15,842	12,861
Current assets (Note 13)	41,864	45,382
Non-current liabilities (Note 15)	(18,131)	(13,574)
Current liabilities (Note 15)	(52,313)	(116,468)
Balance sheet net total	**(12,738)**	**(71,799)**
Fair value	(10,535)	(66,365)
Cash flow	(2,203)	(5,434)
Total derivatives, remeasured	**(12,738)**	**(71,799)**

In 2017 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 1,933 thousand (2016: expense of EUR 4,988 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 26,827 thousand in 2017 (2016: expense of EUR 18,145 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 2017, 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	
	2017	**2016**
Accounting profit before tax	**67,510**	**59,329**
Tax rate of the Parent	28%	28%
Income tax calculated at the tax rate of the Parent	**18,903**	**16,612**
Effect of the different tax rate of subsidiaries	1,912	1,656
Effect of exempt income and non-deductible expenses for tax purposes	5,008	(1,576)
Effect of tax credits and other tax relief recognised in the year	(3,579)	(148)
Effect of tax assets and deferred taxes not recognised in previous years	3,163	5,606
Adjustments recognised in the year relating to prior years' income tax	(15)	(99)
Change in tax rate	(399)	(2)
Total income tax expense recognised in the consolidated statement of profit or loss	**24,993**	**22,049**
Current tax expense (*)	**17,160**	**12,759**
Deferred tax expense	**7,833**	**9,290**

(*) 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 2017, the Parent had fulfilled all the investment commitments related to this incentive (see Note 14).

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

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

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

	Thousands of euros				
	31/12/16	**Additions (*)**	**Disposals**	**Translation differences**	**31/12/17**
Deferred tax assets:					
Tax credit and tax loss carryforwards (Notes 3-l)	103,623	4,270	(18,642)	(2,691)	86,560
Provisions temporarily not deductible (*)	45,105	15,638	(7,605)	(2,652)	50,486
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,525	11	(427)	-	3,109
Elimination of profits on consolidation and other	6,923	3	(1,584)	(508)	4,834
	159,176	**19,922**	**(28,258)**	**(5,851)**	**144,989**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	133,464	6,200	(8,100)	(16,514)	115,050
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	(55)	55	-	-	-
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Exchange differences	127	-	(64)	(5)	58
Goodwill	19	9	-	-	28
Elimination of profits on consolidation and other	1,643	857	(794)	24	1,730
	172,137	**7,121**	**(8,958)**	**(16,495)**	**153,805**

(*) Including EUR 10 thousand for changes in the scope of consolidation, see Note 2-f.

	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**

In 2017 the Group expects to take tax credits amounting to EUR 15,036 thousand (2016: EUR 10,814 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 2017 amounted to EUR 101,650 thousand (2016: EUR 88,205 thousand), of which EUR 28,909 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2016: EUR 25,970 thousand). The tax loss carryforwards recognised amounted to EUR 57,651 thousand at 31 December 2017 (31 December 2016: EUR 77,653 thousand). The tax loss carryforwards relate mainly to the Parent's tax group -EUR 41,742 thousand (31 December 2016: EUR 41,745 thousand)- and to the subsidiary CAF Brasil Industria e Comercio, S.A. -EUR 13,906 thousand (31 December 2016: EUR 17,610 thousand)- (at 31 December 2016 Provetren, S.A. de C.V. had tax loss carryforwards amounting to EUR 16,151 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 from the Federal Prosecutor's Office for Environmental Protection (PROFEPA)). At 31 December 2017, Provetren, S.A. de C.V. also recognised deferred tax liabilities of EUR 75,002 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation (31 December 2016: EUR 89,352 thousand).

Lastly, at 31 December 2017 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 38,887 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 2016: EUR 38,595 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 103,754 thousand (2016: EUR 81,130 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 12,975 thousand (2016: EUR 11,714 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	
	31/12/17	**31/12/16**
Expiring in 2018	54	366
Expiring in 2019	-	855
Expiring in 2020	15	385
Expiring in 2021	178	577
Expiring in 2022	101	218
Expiring in 2023	-	-
Expiring in 2024	788	-
Expiring in 2025	11,913	-
Expiring in 2026	9,441	7,607
Expiring in 2027	24,070	8,258
Expiring in 2028 and subsequent years	44,774	54,372
Unlimited	25,395	20,206
	116,729	**92,844**

The differences between the estimated income tax for 2017 and the tax return ultimately filed gave rise to income of EUR 15 thousand (2016: income of EUR 99 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 2017 year-end the Group had 2013 and subsequent years open for review by the tax authorities for income tax and 2014 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. In 2017 the stay of the appeal for judicial review filed by the Parent was lifted, with no other changes taking place.

Also, on 20 June 2017, the Parent was notified by the provincial tax authorities of Guipúzcoa of the commencement of partial tax audits in relation to the income tax of the Parent and of Tax Group no. 03/07/G for 2012 to 2015. The Group's directors do not expect any liabilities to arise as a result of these audits.

19. RECEIVABLES FROM AND PAYABLES TO PUBLIC AUTHORITIES

The detail of the receivables from and payables to public authorities at 31 December 2017 and 2016 is as follows:

	Thousands of euros							
	31/12/17				31/12/16			
	Assets		Liabilities		Assets		Liabilities	
Concepto	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Accrued social security taxes	-	6	-	9,662	-	6	-	9,338
Regular taxes								
VAT (Note 9)	34,691	65,206	-	32,647	42,837	54,675	-	14,892
Other	-	2,767	-	72	-	624	-	176
Personal income tax withholdings	-	-	-	8,954	-	-	-	8,609
Income tax (Note 3-l)	-	10,030	-	5,009	-	13,426	-	969
Grants receivable	-	1,391	-	-	-	658	-	-
Total	**34,691**	**79,400**	**-**	**56,344**	**42,837**	**69,389**	**-**	**33,984**

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 2017 and 2016 were as follows (in thousands of euros):

	Long-term provisions	Short-term provisions				
		Contractual liability	Warranty and support services	Litigation	Other provisions	Total short-term provisions
Balance at 31/12/15	**4,526**	**121,096**	**101,608**	**4,160**	**1,902**	**228,766**
Net charge for the year (Notes 3-j 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**
Changes in the scope of consolidation	618	398	-	-	-	398
Net charge for the year (Notes 3-j and 18)	2,678	8,016	44,792	646	(1,605)	51,849
Amounts used charged to profit or loss	(945)	(3,930)	(43,831)	(409)	(137)	(48,307)
Translation differences	(300)	(498)	(2,692)	(117)	(495)	(3,802)
Transfers	374	(52)	(84)	-	-	(136)
Balance at 31/12/17	**7,071**	**128,531**	**93,288**	**1,900**	**4,220**	**227,939**

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 an expense of EUR 3,542 thousand under "Other Operating Expenses" in the accompanying consolidated statement of profit loss for 2017 (2016: income of EUR 3,874 thousand) relating to the difference between the provisions required in this connection at 2017 year-end and the provisions recognised at 2016 year-end.

The expenses incurred in 2017 and 2016 in connection with the provision of contractual warranty services (approximately EUR 43,831 thousand and EUR 39,792 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated statements of profit or loss for 2017 and 2016.

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 2017 and 2016, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2017 the Group had recognised a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2016: EUR 66,535 thousand), which is recognised under "Contractual Liability" in the table above (see Note 12). These is no litigation relating to this agreement.

21. INCOME AND EXPENSES

a) Procurements

	Thousands of euros	
	2017	**2016**
Materials used (*)	445,676	511,382
Work performed by other companies	97,095	97,287
Total	**542,771**	**608,669**

(*) 75% in euros, and the remainder mainly in US dollars and Brazilian reals (2016: 79% in euros).

b) Other operating expenses

	Thousands of euros	
	2017	**2016**
Outside services	233,144	187,046
Taxes other than income tax	3,273	3,381
Change in operating provisions and allowances and other (Notes 12 and 20)	8,552	(9,519)
Other current operating expenses	2,494	5,815
Total	**247,463**	**186,723**

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 838 thousand in 2017 (2016: EUR 778 thousand). From this amount, EUR 568 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2016: EUR 524 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 275 thousand were billed in 2017 (2016: EUR 387 thousand): EUR 41 thousand for audit-related attest services including six-monthly reviews (2016: EUR 58 thousand), EUR 2 thousand for tax services (2016: EUR 47 thousand) and the remainder for other services.

c) Information on the environment

In 2017 and 2016 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

The Group did not receive any environmental grants in 2017.

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 allocating 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. At the beginning of 2017, the discontinuation of steel mill activities at the Beasain plant was notified to the Ministry and the allocation of allowances for 2018 and subsequent years was cancelled.

In 2017 the Group emitted 1,425 tonnes of CO_2 (2016: 15,572 tonnes), whereas it had been allocated allowances for the emission of 18,770 tonnes (2016: 19,133 tonnes). As a result, the Group did not recognise any liability at year-end. In 2017 the Group sold emission allowances for 82,027 tonnes of CO_2 , in relation to surpluses arising in prior years, for EUR 397 thousand (in 2016 no emission allowances were sold).

At 31 December 2017 and 2016, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2017 the Group incurred environmental expenses amounting to EUR 225 thousand (2016: EUR 710 thousand).

d) Grants related to income

Most of the grants transferred to profit or loss in 2017 and 2016 related to grants awarded under various Spanish ministerial and European programme calls, in respect of which all the costs to be supported were incurred.

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

The grants related to income recognised in 2017 under “Other Operating Income” in the accompanying consolidated statement of profit or loss amounted to EUR 5,351 thousand (2016: EUR 2,585 thousand).

22. AVERAGE HEADCOUNT AND STAFF COSTS

The average headcount in 2017 and 2016 was as follows:

	Average number of employees	
Professional category	**2017**	**2016**
Board members	2	2
Senior executives	10	11
Employees	3,711	3,224
Manual workers	4,225	4,246
Total (*)	**7,948**	**7,483**

(*) At 31 December 2017, there were 8,428 employees (31 December 2016: 7,587 employees).

The breakdown, by gender, of the average headcount in 2017 and 2016 is as follows:

	2017		2016	
Professional category	**Men**	**Women**	**Men**	**Women**
Board members	1	1	1	1
Senior executives	9	1	10	1
Employees	2,718	993	2,376	848
Manual workers	4,081	144	4,096	150
Total	**6,809**	**1,139**	**6,483**	**1,000**

At 31 December 2017, the Parent's Board of Directors comprised seven men and three women. At 31 December 2016, the Parent's Board of Directors comprised seven men and two women.

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

	2017	2016
Wages and salaries (Note 3-k)	331,131	292,784
Social security costs	94,991	86,056
Other expenses (Note 3-j)	20,259	18,794
Total	**446,381**	**397,634**

23.INFORMATION ON THE BOARD OF DIRECTORS

a) Remuneration and other benefits of directors

In 2017 additional to the portion relating to the note 3-j description, the total remuneration of the Parent's Board of Directors amounted to approximately EUR 1,721 thousand (2016: EUR 1,495 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. During 2017 the Parent made contributions to long-term savings plans totalling EUR 140 thousand (2016: EUR 90 thousand). At 31 December 2017 and 2016, neither the Board of Directors of the Parent nor the boards of the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

In 2017 EUR 47 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2016: EUR 33 thousand).

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

In 2017 and 2016 neither the members of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the other members of the Board of any direct or indirect conflict of interest that they might have with the Parent.

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 2,075 thousand in 2017 (2016: EUR 2,041 thousand).

In 2017 and 2016 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 2017, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 2,512,263 thousand (31 December 2016: EUR 2,328,875 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 17,459 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 2016: EUR 23,342 thousand).

At 31 December 2017, the Group was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and, therefore, it is difficult to assess its possible impact; however, the Parent's directors consider that the likelihood of this situation giving rise to losses for the Group is low, since there are causes that have given rise to delays that can in no case be attributed to the consortium, the amounts claimed are greater than the damage caused to the customer, and there are claims for cost overruns incurred by the consortium attributable to the customer.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these consolidated financial statements there were no economic claims filed against this subsidiary. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 227 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, have initiated court proceedings. At the date of formal preparation of these consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have yet to be summoned. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleas in the first half of 2016. Subsequent to the ruling of the Court of Auditors which considered the existence of irregularities of any kind to be unproven, a request was made for these proceedings to be closed and dismissed. This request is awaiting a decision.

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.

	2017	2016
	Days	**Days**
Average period of payment to suppliers	80.91	76.60
Ratio of transactions settled	85.40	81.82
Ratio of transactions not yet settled	67.00	60.27
	Thousands of euros	**Thousands of euros**
Total payments made	546,477	462,120
Total payments outstanding	176,709	147,542

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

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

The statutory maximum payment period applicable to the Parent in 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 2017, the firm backlog, net of progress billings, amounted to approximately EUR 6,264,780 thousand (31 December 2016: EUR 6,227,931 thousand) (see Note 11). At 31 January 2018, the total was EUR 6,158,860 thousand (31 January 2017: EUR 6,176,967 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. JAVIER MARTINEZ OJINAGA	Director
Ms. CARMEN ALLO PÉREZ	Director
Mr. JULIÁN GRACIA PALACÍN	Director
Ms. ANE AGIRRE ROMARATE	Director
Ms. MARTA BAZTARRICA LIZARBE	Director-Secretary of the Board

Certificate issued by the Secretary of the Board of Directors attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (consolidated) for the year ended 31 December 2017 by the Board of Directors at its meeting on 27 February 2018, the directors have signed this document, consisting of 150 sheets numbered sequentially from 6285 to 6434, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2018.

Approved by	Signed
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 2 June 2018 at 12:00 pm at first call and, if necessary, on 3 June 2018 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 2017, and of the management of the Board of Directors.

Two: Approval of the proposed distribution of profit for 2017, paying a dividend of a gross amount of EUR 0.66 per share.

Three: Re-election of auditors.

Four: Re-election and ratification of directors:

4.1. Re-election of Andrés Arizkorreta García as Executive Director.

4.2. Re-election of Luis Miguel Arconada Echarri as director in the Other External category.

4.3. Re-election of Juan José Arrieta Sudupe as Independent Director.

4.4. Ratification of Ane Agirre Romarate as Independent Director.

Five: Amendment of the bylaws:

5.1. Amendment of Article 16 of the bylaws and inclusion of a new Article 22 bis for the purpose of regulating remote participation in the Annual General Meeting, pursuant to Articles 182, 184, 189, 515 and 521 of the Spanish Limited Liability Companies Law.

5.2. Amendment of Article 34 of the bylaws for the purpose of adjusting the non-delegable powers of the Board of Directors, pursuant to Articles 249 bis and 529 ter of the Spanish Limited Liability Companies Law.

5.3. Amendment of Article 37 bis of the bylaws for the purpose of adapting this article to the changes to Article 529 quaterdecies of the Spanish Limited Liability Companies Law, introduced by Spanish Audit Law 22/2015, of 20 July.

Six: Amendment of the Regulations of the General Meeting:

6.1. Should the resolution submitted for consideration by the General Meeting under point 5.1 of the agenda be approved, amendment of Article 6 and inclusion of a new Article 9 bis of the Regulations of the General Meeting for the purpose of regulating and carrying out remote participation in the General Meeting.

6.2. Amendment of Articles 12 and 13 of the Regulations of the General Meeting in order to include improvements relating to the preparation of the list of attendees and the establishment of the General Meeting.

6.3. Amendment of Article 15 of the Regulations of the General Meeting in order to enable the delegation of certain powers relating to the activities of the General Meeting.

6.4. Amendment of Article 16 of the Regulations of the General Meeting in order to facilitate the formalities prior to voting on resolutions.

Seven: Delegation to the Board of Directors of the power to increase the share capital pursuant to the limits and terms established in Article 297.1.b) of the Spanish Limited Liability Companies Law.

Eight: Advisory vote on the 2017 Annual Report on Directors' Remuneration.

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

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

Proposed distribution of income

Allocate EUR 22,625 thousand to the distribution of dividends, EUR 10,333 thousand paid out of profit for the year and EUR 12,292 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. JAVIER MARTINEZ OJINAGA	Director
Ms. CARMEN ALLO PÉREZ	Director
Mr. JULIÁN GRACIA PALACÍN	Director
Ms. ANE AGIRRE ROMARATE	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 2018, date on which the Financial Statements of the Company and its consolidated group for financial year 2017 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 2013-2017

Consolidated Statements of Financial Position
Consolidated Income Statements

Consolidated Statements of Financial Position

as of December 31st 2017, 2016, 2015, 2014, 2013 (Thousands of Euros)

Assets	2017	2016	2015	2014	2013
Non-current assets:					
Intangible assets					
Goodwill	24,124	15	15	15	15
Other intangible assets	46,421	40,129	34,719	37,673	35,172
	70,545	**40,144**	**34,734**	**37,688**	**35,187**
Property, plant and equipment, net	**244,513**	**229,309**	**240,787**	**271,839**	**286,593**
Investments accounted for using the equity method	**19,752**	**18,572**	**14,308**	**12,257**	**14,902**
Non-current financial assets	**576,502**	**666,419**	**612,897**	**669,549**	**657,233**
Deferred tax assets	**144,989**	**159,176**	**161,108**	**163,842**	**162,283**
Total non-current assets	**1,056,301**	**1,113,620**	**1,063,834**	**1,155,175**	**1,156,198**
Current assets:					
Inventories	**71,654**	**60,287**	**86,253**	**180,504**	**159,857**
Trade and other receivables					
Trade receivables for sales and services	1,277,243	1,306,363	1,120,483	1,107,006	1,040,576
Other receivables	198,470	204,033	169,306	188,410	206,739
Current tax assets	10,030	13,426	8,451	6,493	17,604
	1,485,743	**1,523,822**	**1,298,240**	**1,301,909**	**1,264,919**
Other current financial assets	**126,702**	**140,480**	**122,423**	**123,945**	**97,703**
Other current assets	**3,229**	**3,206**	**5,939**	**4,591**	**2,022**
Cash and cash equivalents	**371,625**	**392,022**	**297,440**	**197,111**	**127,150**
Total current assets	**2,058,953**	**2,119,817**	**1,810,295**	**1,808,060**	**1,651,651**
Total Assets	**3,115,254**	**3,233,437**	**2,874,129**	**2,963,235**	**2,807,849**

Equity and Liabilities	2017	2016	2015	2014	2013
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	39,119	58,452
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	770,489	758,268	734,288	691,777	618,264
Profit for the year attributable to the Parent	42,406	35,013	41,041	59,679	90,181
	874,196	**854,582**	**836,630**	**812,757**	**789,079**
Valuation adjustments					
Available-for-sale financial assets	39	-	-	-	3,704
Hedges	(6,580)	(5,908)	(5,142)	(6,212)	(2,882)
Translation differences	(117,238)	(76,703)	(127,748)	(70,336)	(70,789)
	(123,779)	**(82,611)**	**(132,890)**	**(76,548)**	**(69,967)**
Equity attributable to the Parent	**750,417**	**771,971**	**703,740**	**736,209**	**719,112**
Non-controlling interests	**9,783**	**11,706**	**11,187**	**12,704**	**10,249**
Total equity	**760,200**	**783,677**	**714,927**	**748,913**	**729,361**
Non-current liabilities:					
Long-term provisions	**7,071**	**4,646**	**4,526**	**5,075**	**4,785**
Non-current financial liabilities					
Bank borrowings	625,645	648,145	662,168	683,062	477,934
Other financial liabilities	70,170	61,428	74,924	76,405	73,590
	695,815	**709,573**	**737,092**	**759,467**	**551,524**
Deferred tax liabilities	**153,805**	**172,137**	**156,817**	**152,426**	**147,020**
Other non-current liabilities	**55,821**	**58,039**	**63,996**	**66,880**	**52,366**
Total non-current liabilities	**912,512**	**944,395**	**962,431**	**983,848**	**755,695**
Current liabilities:					
Short-term provisions	**227,939**	**227,937**	**228,766**	**265,329**	**335,027**
Current financial liabilities					
Bank borrowings	46,262	103,075	203,722	158,039	232,705
Other financial liabilities	93,038	139,527	53,700	46,733	39,074
	139,300	**242,602**	**257,422**	**204,772**	**271,779**
Trade and other payables					
Payable to suppliers	423,385	376,531	352,153	463,067	460,652
Other payables	646,593	657,056	355,596	293,197	252,808
Current tax liabilities	5,009	969	647	3,513	1,866
	1,074,987	**1,034,556**	**708,396**	**759,777**	**715,326**
Other current liabilities	**316**	**270**	**2,187**	**596**	**661**
Total current liabilities	**1,442,542**	**1,505,365**	**1,196,771**	**1,230,474**	**1,322,793**
Total Equity and Liabilities	**3,115,254**	**3,233,437**	**2,874,129**	**2,963,235**	**2,807,849**

Consolidated Statements of Profit or Loss

as of December 31st 2017, 2016, 2015, 2014, 2013 (Thousands of Euros)

(Debit) Credit	2017	2016	2015	2014	2013
Continuing operations:					
Revenue	1,477,039	1,318,200	1,283,591	1,447,141	1,535,240
+/- Changes in inventories of finished goods and work in progress	(77,035)	(15,474)	(126,137)	7,690	(149,530)
In-house work on non-current assets	8,977	9,778	6,490	9,840	7,106
Procurements	(542,771)	(608,669)	(435,014)	(743,140)	(560,010)
Other operating income	7,886	15,792	4,245	5,289	4,117
Staff costs	(446,381)	(397,634)	(402,164)	(406,236)	(394,460)
Other operating expenses	(247,463)	(186,723)	(164,996)	(174,159)	(219,535)
Ebitda	**180,252**	**135,270**	**166,015**	**146,425**	**222,928**
Depreciation and amortisation charge	(34,690)	(34,669)	(38,399)	(42,398)	(42,552)
Impairment and gains or losses on disposals of non-current assets	148	11,239	(833)	10,958	(29,065)
Profit from Operations	**145,710**	**111,840**	**126,783**	**114,985**	**151,311**
Finance income	7,309	13,643	10,476	10,187	13,974
Finance costs	(68,551)	(72,819)	(56,632)	(47,252)	(47,687)
Changes in fair value of financial instruments	35	870	3	373	(275)
Exchange differences	(17,591)	5,916	(19,632)	(2,394)	(3,645)
Impairment and gains or losses on disposals of financial instruments	4	(594)	(589)	4,357	1,013
Financial Loss	**(78,794)**	**(52,984)**	**(66,374)**	**(34,729)**	**(36,620)**
Result of companies accounted for using the equity method	594	473	-	200	(392)
Profit before Tax	**67,510**	**59,329**	**60,409**	**80,456**	**114,299**
Income tax	(24,993)	(22,049)	(17,795)	(18,327)	(23,262)
Profit for the year from continuing operations	**42,517**	**37,280**	**42,614**	**62,129**	**91,037**
Consolidated Profit for the Year	**42,517**	**37,280**	**42,614**	**62,129**	**91,037**
Attributable to:					
The Parent	42,406	35,013	41,041	59,679	90,181
Non-controlling interests	111	2,267	1,573	2,450	856
Earnings per share (euros)					
Basic	1.24	1.02	1.20	1.74	2.63
Diluted	1.24	1.02	1.20	1.74	2.63

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