ANNUAL REPORT / 2018

CAF

ANNUAL REPORT 2018

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 Shareholder,

Let me first extend you my warmest greeting.

This 2018 Annual Report contains a detailed description of the main activities, events and results at this halfway point in the 2020 strategic cycle. Some of these were pivotal, as they increased our portfolio of activities and strengthened the Group's position in the field of sustainable mobility.

Our investment in Orbital Critical Systems and acquisition of Solaris Bus & Coach stand out as the materialisation of the stated targets of our 2020 strategic cycle, specifically the profitable and sustainable growth of our businesses with a focus on the long term and on the values that set us apart as a company. Orbital Critical Systems specialises in the development and verification of critical systems for the aerospace and rail industries and has considerable prospects for growth in both, and Solaris Bus & Coach is a leading European bus manufacturer that specialises in efficient, environmentally sustainable alternatives.

We acquired Solaris on 5 September 2018, and it was incorporated in the Group's consolidated ratios on the same date. Solaris will constitute a significant business line for us, in an industry whose ample opportunity for growth is evidenced by the unquestionable interest of public authorities and the public itself in reducing the air pollution produced by transport in cities.

We will continue to strengthen the Group's readiness for increasingly globalised and competitive markets, and will seize the opportunities that the rail sector will afford according to UNIFE's most recent projections, which predict sustained, global growth of 2.6% per year in the accessible rail material and services market until 2023. This positive outlook also extends to several regions of special interest to CAF, including Europe, Asia-Pacific and the Americas.

These efforts, along with our competitive position, allowed the CAF Group to close 2018 with contracts amounting to EUR 2,902 million, which contributed to an all-time high in our backlog of EUR 7,716 million; 3.7 times the Group's total sales in the rail and bus industries. These contracts are distinguished by their significant European component, low exposure to foreign currency risk, options for future extension, high rate of repeat customers and improved payment conditions compared to previous years.

A number of rail customers renewed their relationship with CAF, such as the tram services in Budapest, Freiburg, Vitoria-Gasteiz, Luxembourg (the latter fitted to operate catenary-free) and, most notably, Transport for NSW (New South Wales) with the turnkey project for the Parramatta suburb of Sydney, which includes the supply and maintenance of tram and signal units and other additional systems for EUR 300 million. Other contract renewals included the metro services of Amsterdam, Naples and Medellín (the latter to restore old units), the regional operators Northern Ireland Railways, Arriva, Trenitalia (restoration), Saudi Railways Organization (maintenance services) and Dutch railway operator Nederlandse Spoorwegen, the latter through a contract extension for the supply of 88 further Civity trains for EUR 400 million.

The year also brought with it new customers, such as the cities of Lund, Sweden, and Oslo, the latter with the largest tram contract in Europe in 2018 (87 confirmed units for EUR 220 million with options for 60 further units), and the operator KeolisAmey, which will receive 77 Civity DMUs for the Wales & Borders franchise. These units will be assembled in our new factory in Newport, Wales, which came into operation last September and which we hope to use to cover the needs of the growing British rail market.

These projects swelled the Group's contracts for both maintenance and restoration services and construction of new material, and there was also a notable upsurge in the backlog of Wheel Sets and Components (MiiRA) and other business units.

Buses also made a significant contribution to the Group's backlog, owing in large part to Solaris but also to Vectia and its two new electric bus lines for Irún and Pamplona, which are already in operation.

Maintenance of this backlog, double-digit growth in revenue and increased profits were in fact the main economic targets for 2018, which closed with sales of EUR 2,048 million (up 39% on 2017) and increased industrial activity due mainly to the progress made in the various projects that were under way. Noteworthy among these projects were the supply of electric commuter trains of the CAF Civity platform to Dutch operator NS, regional trains to the Northern and TransPennine Express franchises in the UK, and coaches to TransPennine Express and Caledonian Sleepers (also in the UK), as well as the turnkey Toluca-Mexico City commuter train and Canberra tram projects, manufacture of metro units for Algiers and Mexico City and tram units for Utrecht, and the contribution of Solaris following its inclusion in the Group.

EBITDA amounted to EUR 201 million, up 12% year on year, with a margin of 9.8% across the various business lines. Cash flows before tax also rose, hitting EUR 101 million (up 31%), as did pre-tax profit, which increased by 19% to EUR 81 million, while attributed net profit remained stable at EUR 43 million, affected by the new Guipúzcoa tax legislation accounted for in 2018, which will not have a significant impact in subsequent years.

These results were attained due to greater rail activity than in previous years, underpinned by our continuous efforts to optimise the supply, manufacture, delivery and maintenance of vehicles in all our business lines with a view to increasing efficiency in terms of industrial costs and the related LCCs and progressively optimising inventories. This, along with the low collection risk in the projects arranged during the year, allowed us to close 2018 with a strong enough financial position to face potential instability in the bond markets, even after the acquisition of Solaris and the investment in Orbital, which is reflected in the Group's net financial debt of EUR 324 million – 1.6 times its EBITDA for the year.

Considering all the above, we propose to the Annual General Meeting a dividend payment of EUR 26.2 million, which represents a gross amount of EUR 0.765 per share and a 16% increase in compensation for our shareholders over 2017.

We are now at the halfway point of our current strategic cycle. Since the cycle started, we have worked to support the CAF Group's international development in three key areas: rolling stock and its components, customer services (rolling stock maintenance, operation, leasing and restoration, as well as digital services) and other activities related to transport systems (signalling, electrification, EPC, buses, electric bus lines, etc.) across the product life cycle (design, construction, operation, maintenance, financing, etc.).

In order to achieve this, we must continue the investment made in previous years in developing new technologies, products and solutions for customers, for which we are developing the 2019 Innovation Plan. This plan puts a focus on signalling and automation (CBTC and ERTMS), reducing weight and energy consumption, while progressively incorporating alternative energy solutions (capture and recharge, storage, hydrogen, hybridisation of rolling stock and buses), virtual validation environments and the Digital Train initiative. The Digital Train initiative was designed to digitally collect and process useful data for operations, diagnosis and predictive maintenance, and has been successfully applied to our latest rolling stock projects as well as provided to our existing and future customers through the LeadMind platform, which serves as a basis for us to develop new, valuable applications for rail, buses and the transport industry in general. We should also mention the rising use of Industry 4.0 technologies: additive manufacturing (3D printing), the Internet of Things (connecting machines and operators) and augmented reality, which we are applying to our production and training processes to maximise cost and time efficiency.

Added to all this is the investment we have made to accompany the growth of our businesses, the greater part of which has gone to completing and opening the aforementioned plant in Newport, Wales, as well as to renovating a section of ADIF track in Corella, Navarre, which CAF will operate for 20 years under a concession arrangement as a means for testing own products as well as for third parties to do so.

These achievements were made possible by the dedication and commitment of everyone who makes up the CAF Group, to whom I would like to extend my most sincere thanks, and whose continued efforts and contributions are vital for us to meet the targets and challenges that we have set ourselves.

I would also like to extend my appreciation to our shareholders for the support and trust they have demonstrated in our mission over the years.

Many thanks,

Andrés Arizkorreta García
Chairman


CAF

**is an international benchmark company in the design and implementation of comprehensive transit systems. CAF provides comprehensive project and engineering management which includes system design, civil work, signalling, electrification and other electromechanical systems, rolling stock supply and system operation and maintenance.**

## BUSES

Solaris is a global supplier of conventional and electric buses, with projects in over 700 cities and presence in 32 different countries. A highlight is its e-mobility range, boasting the widest range in this particular field on the market.

# RAILWAY PROJECTS

## MAIN LINES

### INTERCITY TRAINS AND PASSENGER CARS

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 Norwa

## CITY

### STREETCARS

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

### SUBWAY TRAINS

Amsterdam
Algiers
Barcelona
Bilbao
Bucharest
Brussels
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

## LOCAL AND 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)
Wales & Borders - KeolisAmey
Zweckverband Schönbuchbahn (Germany)


Exit

# 2018 DIRECTORS' REPORT OF THE CONSOLIDATED GROUP

# CAF GROUP BUSINESS MODEL AND OUTLOOK

**In an increasingly competitive market, the ongoing pursuit of solutions adapted to our customers' needs that increase their satisfaction is part of the Company's DNA.**

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

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

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

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

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

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including, where applicable, taking advantage of joint ventures or alliances.


- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, financing, operation of railway systems, leasing, maintenance and/or refurbishing of trains, trams and locomotives, as a continuation of our most recent successes in Liege (Belgium), Parramatta and New South Wales (Sydney, Australia). Also, the various value propositions to customers that might be derived from the marketing of digital services (fleet management, predictive maintenance, etc. through the Group's LeadMind solution, which has already been installed in various projects in the handover phase).

- Continue making investments in technological development, in relation to technologies and high value-added products in all our lines of business (rolling stock, signalling, energy, data management, inspections, buses, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.

- Achieve further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Solaris, BWB, etc. This strategy aims to increase and diversify the integrated transport offering beyond the railway, thereby responding to new, sustainable social mobility needs. To do so, the technological commitment has been and is a fundamental part of the Group's strategy to gain a competitive advantage.

- Also, to make further progress in the process to integrate operations with Orbital Sistemas Aerospaciales, S.L. (Noain, Navarre), a leader in the development of critical systems in the aeronautical, space and railway industries, of which the CAF Group purchased a 30% ownership interest in 2018, which can be increased based on the performance of certain business parameters. As a result of this ownership interest, the CAF Group expects to contribute to strengthening Orbital's current activities and to benefit from a state-of-the-art development base in critical systems with high security standards (hardware, software and integration, and validation services) in order to develop its own solutions in the railway industry.

- Gradually digitise our operating processes (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0), as a means guaranteeing their long-term competitiveness. Examples of this evolution include technologies such as online data capture, training and execution supported by augmented reality, 3-D printing, etc.

- Systematic and recurring application of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety, environment and management across all Group business activities and areas, within a highly competitive environment. This includes:

  – Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK and Europe, Inneo metros, etc.).

  – Gradual expansion of the Industrial Operations Transformation Plan.

  – Optimisation of the life cost cycle (LCC) of the product, an area that increasingly defines our competitiveness.

- Lastly, making progress in fundamental areas of business management such as, for example, corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

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

# BUSINESS PERFORMANCE AND RESULTS

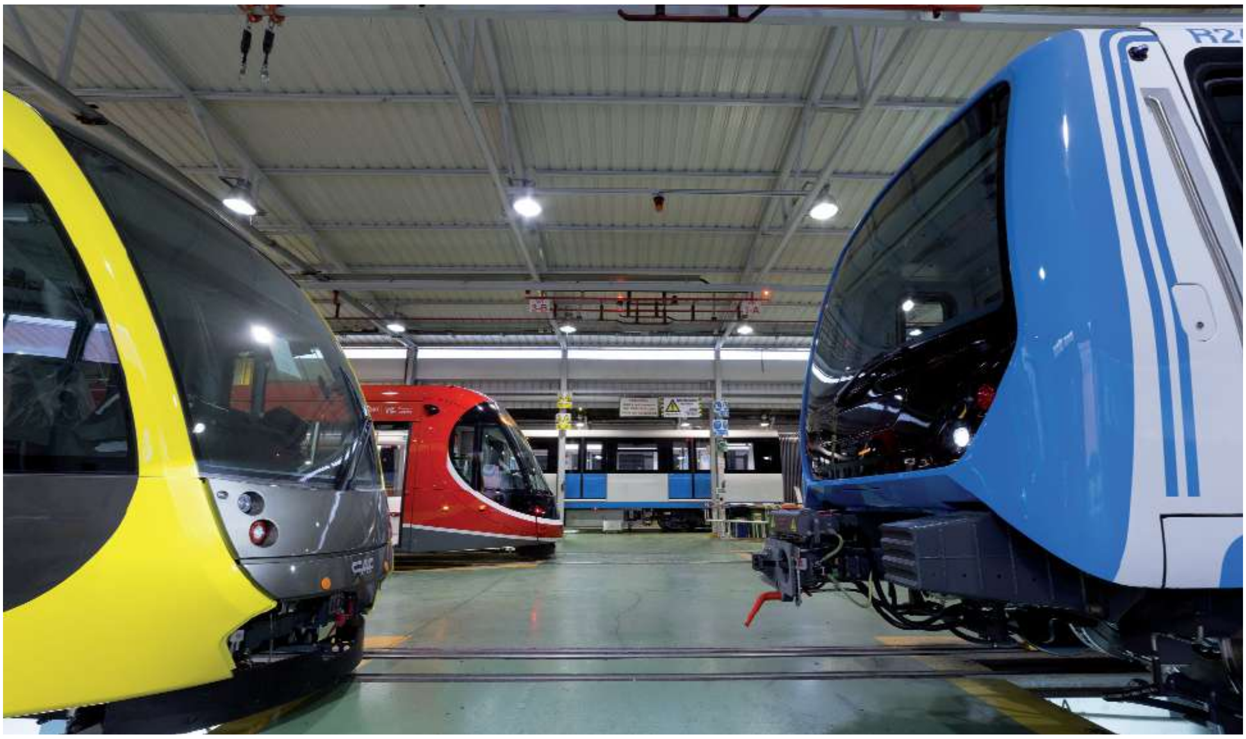
- The high level of new contracts and Solaris's inclusion in the CAF Group means that the Group's backlog is at record highs and continues to guarantee the continuation of the Group's normal business activities.
- EBITDA as a percentage of the Group's revenue stood at 9.8% in 2018, increasing by 12%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

## Main indicators (*)

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

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

The high level of new contracts and Solaris's inclusion in the CAF Group means that the Group's backlog has reached record highs.

# COMMERCIAL ACTIVITY

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

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

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

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

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

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

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

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

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

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


the Urbos, which will enable smooth transit along the city's streets.

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

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

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

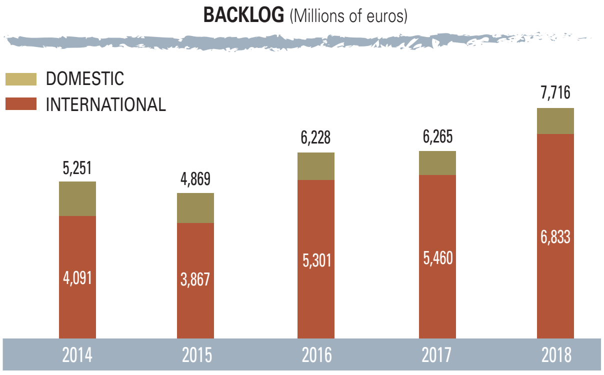
In neighbouring Northern Ireland, Translink renewed the confidence placed in our company by arranging the supply of 21 new cars, thereby extending the agreement entered into in 2009.

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

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

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

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



# INDUSTRIAL ACTIVITY RAILWAY SEGMENT

CAF's various factories manufactured 750 cars in 2018.

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

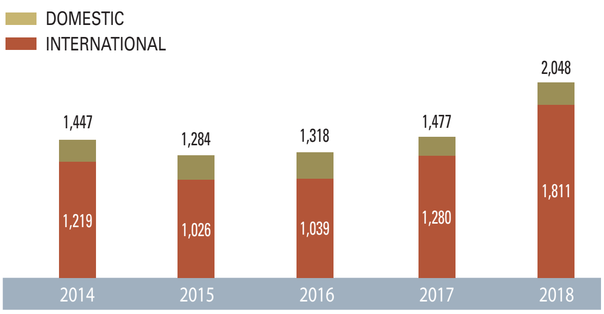
Various projects initiated in prior years continued to form part of the industrial activity in 2018. These projects include the 13 restaurant cars for the US operator Amtrak, 45 cars of various types for Caledonian (Scotland), the last train for the Sao Paulo metro, thus bringing to an end manufacture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

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

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

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

**REVENUE** (Millions of euros)



**CAF's various factories manufactured 750 cars in 2018, which belong to 21 projects that the company is developing worldwide.**

The most important products manufactured in 2018 were as follows:

| NO. OF VEHICLES | |
|---|---|
| High-speed for Flytoget | 8 |
| Long-distance Amtrak cars | 13 |
| Long-distance Caledonian | 45 |
| Medium-distance TransPennine cars and driving cabs | 55 |
| Medium-distance TransPennine EMUs | 20 |
| Medium-distance Northern by Arriva EMUs (three-car units) | 6 |
| Medium-distance Northern by Arriva EMUs (four-car units) | 24 |
| Medium-distance Northern by Arriva DMUs (two-car units) | 4 |
| Medium-distance Northern by Arriva DMUs (three-car units) | 24 |
| CPTM Commuter trains | 80 |
| Sao Paulo commuter trains | 6 |
| Commuter trains for Toluca | 65 |
| Commuter trains for NS (three-car units) | 69 |
| Commuter trains for NS (four-car units) | 88 |
| Chile metro | 5 |
| Quito metro | 18 |
| Medellín metro | 3 |
| Algiers metro | 36 |
| Mexico City metro Line 1 | 27 |
| LRV for Boston | 9 |
| Trams for Saint Etienne | 5 |
| Trams for Utrecht | 50 |
| Trams for Canberra | 65 |
| Trams for Newcastle | 25 |
| **TOTAL** | **750** |

| BOGIES | |
|---|---|
| With mechanic-welded chassis | 1,326 |

| WHEEL SETS AND COMPONENTS UNITS – (MiiRA) | |
|---|---|
| Assembled axles (power car + push-pull car) | 4,934 |
| Loose axle bodies | 8,212 |
| Monoblock wheels | 60,328 |
| Elastic wheels | 1,637 |
| Couplers | 816 |
| Gear units | 2,163 |
| Bandages | 576 |

# R&D+i ACTIVITY
# RAILWAY SEGMENT

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

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

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

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

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

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

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

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

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

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

- SMART-TRAIN, which is part of CAF's strategic digitisation initiative and is aimed at developing a new generation of more competitive trains and services through the digitally secure capture, storage, processing and advanced analysis of all the train operations data.

- UNIMODEL, a joint two-year project aimed at developing a universal cost model (UCM) methodology to calculate the overall cost of running the vehicle on the tracks, reduce and improve life cycle costs (LCCs) and analyse the impact on costs of introducing innovative technologies to the rolling stock.

- STARS to determine the suitability of global satellite positioning in the rolling stock industry.


**The 2018-2019 Technology Plan implemented in 2018 fostered a total of 116 projects involving CAF, CAF I+D and various subsidiaries.**

- AROSS, focused on developing prediction, monitoring and diagnosis solutions for the key components of rolling stock bogie, suspension and braking systems, which will allow for useful-life optimisation and advanced management of these components.

- SHIFT2RAIL. As a founder member of the Shift2Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is involved in various technology development projects (CONNECTA 1, PINTA 2, IMPACT 1, FINE 1, X2RAIL 1, PIVOT, FR8RAIL 1, IMPACT1, IMPACT2, CONNECTA 2, PINTA 2, X2RAIL 1, X2RAIL 2, X2RAIL 3, PLASA 2, FR8RAIL 2) which are scheduled to continue until 2024.

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

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

The following projects entered into service in 2018:

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

## SOLARIS

**The acquisition of Solaris makes the CAF Group one of the leaders in the European urban segment. Also, the complementary nature of Solaris' and the CAF Group's businesses, will aid in the creation of significant synergies.**

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

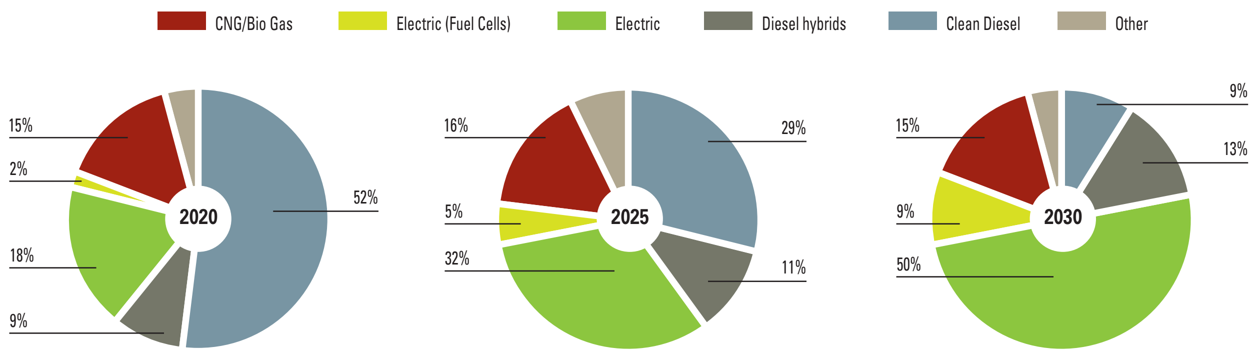
In 2018 (data for 12 months), Solaris delivered 1,226 buses and trolleybuses, of which 402 were delivered to Polish customers. Also, the company became the Polish leader in the low-floor urban bus market for the sixteenth year running, with a market share of 33%.

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

It should be underlined that buses with alternative propulsion systems, in particular hybrid and electrical systems, are becoming an increasingly important part of Solaris' sales and products. In 2018 a total of 36% of all contracts concluded by the company involved the supply of low- or zero-emission vehicles. 107 electric buses were delivered to customers in Belgium, the Czech Republic, Spain, Germany, Norway, Poland, Romania, Slovakia, Sweden and Italy in 2018. Consequently, with a 17%[1] market share , Solaris was one of the leading European companies in the electric mobility segment. In this connection, it should be highlighted that the Solaris Urbino 12 electric bus was crowned "Bus of the Year" as the best city bus in 2017.

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

**PROJECTED MARKET SHARE FOR 2020-2030 BY PROPULSION TECHNOLOGY IN URBAN BUS MARKET IN EUROPE (SOURCE ZeEUS/UITP)**




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

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

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

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

*1. Source: CME Solutions/Solaris*

# INVESTMENTS

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

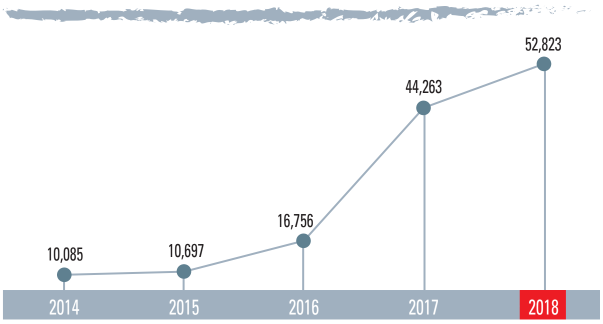
At the Rolling Stock Business Unit, the plan to improve the industrialisation model is under way, with the aim of equipping the Group with the capacity and installations required to provide an efficient response to the projects awarded. This plan included most notably the investment in manufacturing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

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

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

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

**INVESTMENTS** (Thousands of euros)




**Capital expenditure by the CAF Group in 2018 amounted to EUR 52,823 thousand. Among which, mention should be made, due to its volume and significance, of the completion of the new manufacturing plant in the UK.**

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

Outside Spain, mention should be made, due to its volume and significance, of the completion of the new manufacturing plant in the UK, the construction of which commenced in 2017.

The plant is located in Newport (Wales) and was designed for the manufacture of all manner of rolling stock. The plant is expected to be used for vehicle assembly and finishing activities, as well as all necessary pre-commissioning tests. In a similar vein, we can underline the recent investments to extend the Mexican plant and the acquisition of equipment and facilities at the US plant, which were necessary to execute the projects currently under way at that plant.

# MAIN RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

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

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

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

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

**The Integrated Risk Management System adopted by the CAF Group 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.**

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

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

**Operational risks:** these are the risks inherent to all the Group's activities, products, systems and processes that give rise to economic losses arising from human/technological errors, inappropriate/defective internal processes, or the participation of external agents. They include risks of a corporate nature and those related to the execution of projects.

**Corporate governance risks:** arising from potential non-compliance with the Group's corporate governance system, which comprises: (i) the bylaws and other rules governing the corporate governance governing bodies; (ii) the corporate policies and rules approved by the Board of Directors of the Group's Parent; and (iii) the other internal policies, rules and implementing protocols approved by other competent bodies of the Group that govern the design, integration and operation of the governance bodies and their relationship with the Parent's stakeholders and that in turn are based on the commitment to ethical principles, best practices and transparency and are organised around the defence of the company's interests and the creation of sustainable value.

**Compliance and regulatory risks** (including tax risks and contractual requirements): these risks arise from the Group's litigation, contractual requirements, the securities market law, the data protection law, environmental legislation, applicable employment law, the Spanish Criminal Code, local, national and international tax legislation, among others.

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

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

# LIQUIDITY AND CAPITAL RESOURCES

**Availability of liquidity at short term**

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

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

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

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

**Capital structure**

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

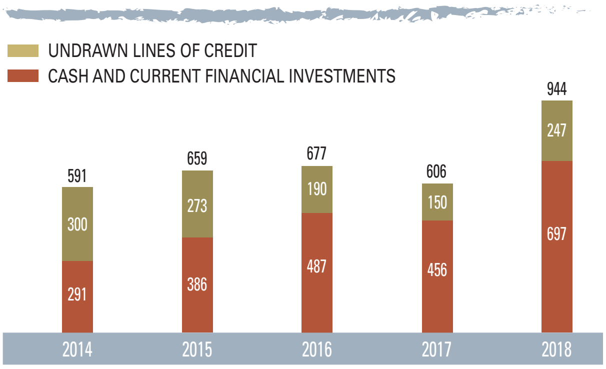
The Group sets as an objective maintaining a leverage ratio and creditworthiness in line with the profile of its businesses.

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

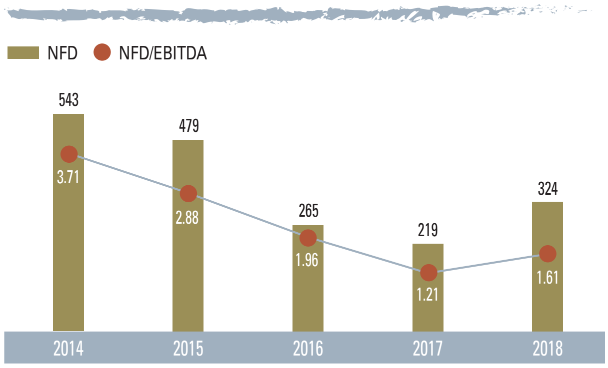
In September 2018 Construcciones y Auxiliar de Ferrocarriles, S.A. acquired all the share capital of the Polish bus manufacturer Solaris. The acquisition cost of the share capital was financed primarily with additional long-term debt of the Group's Parent. This acquisition had a significant impact on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

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

**AVAILABLE LIQUIDITY** (Millions of euros)




**NET FINANCIAL DEBT** (Millions of euros)



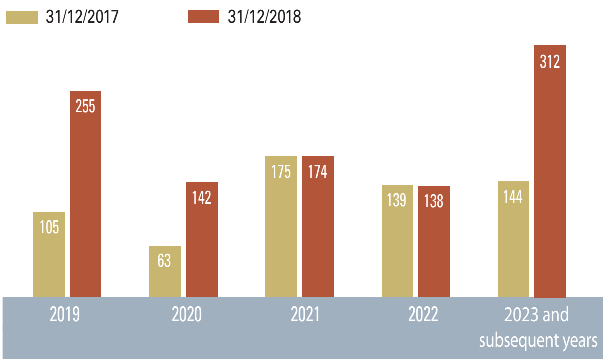
| Millions of euros | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Gross debt - Concessions | 421 | 346 | 364 | 283 | 239 |
| Gross debt - Solaris | - | - | - | - | 145 |
| Gross debt - Corporate | 429 | 531 | 403 | 406 | 650 |
| **Total** | **850** | **877** | **767** | **689** | **1,034**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

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

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

**The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital and ensuring a sound financial position. The Group sets as an objective maintaining a leverage ratio and creditworthiness in line with the profile of its businesses.**

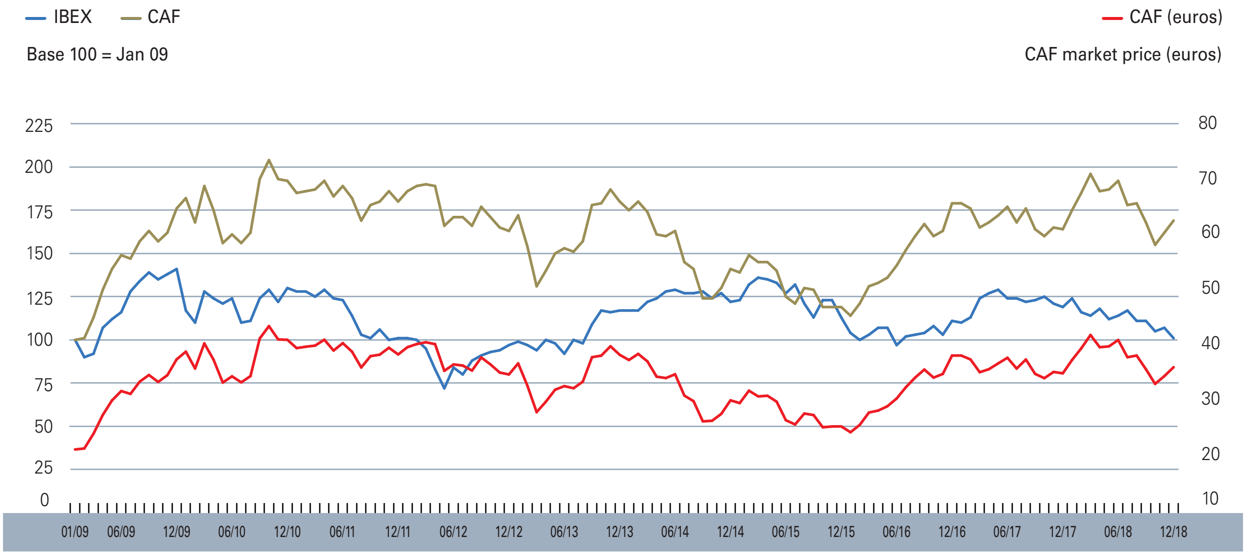
**BANK BORROWINGS BY YEAR OF MATURITY** (Millions of euros)




# STOCK MARKET INFORMATION

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

**EVOLUTION OF CAF GROUP SHARE PRICE (monthly average)**



# OTHER INFORMATION

## EVENTS AFTER THE REPORTING PERIOD

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

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

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

## ACQUISITION AND DISPOSAL OF TREASURY SHARES

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

## PAYMENTS TO SUPPLIERS

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

## ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

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

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

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

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

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

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

# CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT



# INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

# ENVIRONMENTAL ACTIVITY

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

- Offering more efficient and environmentally friendly means of transport, as detailed in the current Corporate Social Responsibility Policy. To this end, the Group channels and coordinates its product and technology innovation initiatives as part of the corporate innovation strategy the purpose of which is to align technological design and product and service activities with the Group's main strategic challenges, to develop and offer our customers efficient, accessible and ecological solutions and, at the same time, guarantee our competitiveness.

- Including the environmental precautionary principle by preventing the environmental impact of the industrial activities carried out. CAF's Environmental Policy indicates that the efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and minimise important areas of environmental concern, such as atmospheric emissions, waste generation and energy consumption, among others.

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

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

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

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

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

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

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

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

- Implementation of the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their lifecycle. As a result of these activities, the Group's Parent already has six Environmental Product Declarations (EPDs) in various segments. In 2018 a preliminary study was performed of whether the locomotive project for RATP could be recycled, and a preliminary lifecycle assessment (LCA) for the HS2 bid.

- Smart management of the energy used by the vehicle, including driver support systems, efficient automatic driving systems and smart systems for the management of the functioning of equipment.

- Development of on-board energy storage systems based on batteries and supercondensers and rapid-loading systems, and research on new propulsion systems, such as hydrogen, with application to the operation of trains using catenary-free infrastructure.

- Development of specific technologies aimed at reducing train energy use, either by improving efficiency (traction equipment based on new silicon carbide components, aerodynamic improvements etc.) or by reducing the weight of the vehicle (new materials, simplifying the architecture or eliminating cabling).

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

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

Following is a summary of the measures taken to control significant environmental matters in the most important production plants and the results obtained in 2018[2].

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

# ENVIRONMENTAL ACTIVITY

### Raw materials

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

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

### Energy

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

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

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

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

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

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

### Emissions and greenhouse gas (GHG)

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

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

**Waste**

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

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

• Reducing the generation of waste at source, e.g. by using returnable machine tools.

• Maximising reuse, recycling and recovery of waste. 54% of waste was recovered in 2018.

• Encouraging awareness campaigns on separating and minimising waste.

• Correct treatment and management of waste.

**Water**

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

• Ensuring and encouraging rational use of water by implementing closed circuits, making employees aware of environmental matters, etc.

• Establishing and controlling the consumption of all water resources.

• Avoiding water catchment in areas of water stress.

• Performing appropriate maintenance on facilities to facilitate lower consumption and impact.

| Water consumption | 2018 |
|---|---|
| Tap water consumption (ML) | 70.208 |

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

# HUMAN RESOURCES

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

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

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

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

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

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

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

This framework is supplemented by a corporate risk management and control system that integrates the

aforementioned risks and establishes a sequence of activities the sole purpose of which is to manage such risks. This process meets the requirement of performing an analysis of the risks and opportunities of the reference framework.

**People are key**

In 2018 the plan to increase resources to respond to the growth initiatives of the various lines of business continued. The Group's average headcount was 9,630 in 2018, and the headcount at 31 December 2018 was 11,433[3]. In this connection, in 2018 the CAF Group increased its average number of employees by 1,682; at year-end the headcount had increased by 3,005. Mention must be made of the effect of the inclusion in the Group of Solaris Bus & Coach, which had 2,432 employees at year-end.

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

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

| Headcount of CAF, S.A. | 31/12/18 | 31/12/17 | Change |
|---|---|---|---|
| Further education college graduates | 1,155 | 1,064 | 91 |
| Middle management and clerical staff | 589 | 558 | 31 |
| Production and services | 2,531 | 2,307 | 224 |
| **Total** | **4,275** | **3,929** | **346** |

The changes in the headcount were consistent with the changes in revenue and corresponded to the need to business and to catering for the challenges included in the plans prepared.

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

| **Distribution by age** (of the headcount at 31/12/18) | % |
|---|---|
| Under 30 | 15% |
| Between 30 and 50 years old | 72% |
| More than 50 years old | 13% |
| **Total** | **11,433** |

| **Distribution by gender** (of the headcount at 31/12/18) | % |
|---|---|
| Men | 85% |
| Women | 15% |
| **Total** | **11,433** |

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

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

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

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

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

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

contracts at year-end. This percentage is 87% in the case of women. In geographical terms, all the countries in which the CAF Group has a significant presence[6], 86% of employees have permanent contracts. Similarly, more than 87% of permanent employees are classified as professionals (employees[7] and manual workers). The changes in the distribution by type of contract correspond to groups or geographic locations whose size increased most in 2018. In this connection, 69% of employees less than 30 years old have permanent contracts. These figures mean that permanent employment at the Group can be considered to be stable. In 2017 90% of employees had permanent contracts.

| **Distribution by contract type** (of the headcount at 31/12/18) | **%** |
|---|---|
| Permanent employees | 89% |
| Temporary employees | 11% |
| **Total** | **11,433** |

However, if we consider the average headcount and take into account the type of contract[8] and criteria representing diversity: namely gender, age and professional group, the data are similar and are shown in the following tables.

**Distribution of the average headcount by type of contract and age**

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

**Distribution of the average headcount by type of contract and gender**

| | Permanent employees | Temporary employees |
|---|---|---|
| Hombre | 88% | 12% |
| Mujer | 89% | 11% |

**Distribution of average headcount by type of contract and professional groupl**

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

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

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

These general criteria have given rise to appropriate remuneration levels and employees'[9] average remuneration[10] in 2018 was EUR 34,903.91. The difference with regard to average remuneration, by professional group, is as follows: employees' remuneration is 18% higher than the average, and other employees' remuneration is 17% below the average.

**Remuneration by professional group**

| | Pay gap by group[11] |
|---|---|
| Employees | (18%) |
| Manual workers | 17% |

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

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

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

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

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

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

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

**Gender pay gap by age**

| | |
|---|---|
| Under 30 | (14%) |
| Between 30 and 50 years old | (1%) |
| More than 50 years old | 6% |
| **Total** | **1%** |

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

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

The treatment of remuneration of the Parent's directors responds to transparency criteria applicable to a listed company. In this connection, the detail and individual breakdown of the directors' remuneration conditions are shown in the Annual Report on Directors' Remuneration, which is prepared for this purpose and published pursuant to current legislation. As regards the remuneration of the Group's executive management in 2018, it is not appropriate to break down the average data by gender as there are no women in the executive management team.

The generation of quality employment also gives rise to the need to organise work in accordance with the legislation in force in each country, such as the workers' statutes and the

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

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

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

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

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

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

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

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

# HUMAN RESOURCES

collective agreements. Thus, each Group company determines matters relating, inter alia, to working hours, rest periods, work calendars, holidays, special leave and leave of absence. This is included in the defined labour relations policy applicable to the Group. Also, each company establishes measures aimed at facilitating the life-work balance, some of which relate to the regulation of the working day, the follow-up of which is generally performed through the register of entry and departure times.

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

**Social dialogue**

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

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

**Training**

The training process is a basic item in people management activities, and this is evidenced both at the Parent and at the domestic and international subsidiaries associated with its main activities[15].

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

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

**Equal opportunities and diversity**

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

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

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

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

In order to obtain full control of these commitments and their respective initiatives, all the Group companies comply with legal regulations relating to the preparation of equality plans[16] and have constituted various management mechanisms such as the action protocol in the event of sexual harassment or gender harassment, and equality committees on which the company and workers are represented. Noteworthy due to its size at the Parent is the existence of an equality committee that is responsible for the preparation, implementation and monitoring of equality plans and analysing possible measures and actions to contribute to the work-life balance. At present, the next equality plan is being prepared. This plan will be in force until 2022 and shows the Group's desire for continuous improvement.

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

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

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

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

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

In the case of railway rolling stock manufactured by CAF, the requirements of the technical specification for interoperability relating to persons with reduced mobility of the European Union of 2014 are adhered to. City buses are built in accordance with the specifications of Annex IV of Directive 2007/46 establishing a framework for the approval of motor vehicles, recently modified by Regulation (EU) 2017/2400. These provisions include the requirements of Regulation No 107 of the United Nations Economic Commission for Europe (ECE) on uniform provisions concerning the approval of category M2 or M vehicles with regard to their general construction and in particular their accessibility for passengers with reduced mobility.

CAF's extensive experience in the implementation of accessibility projects enables the Group to offer maximum

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

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

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

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

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

**Occupational health and safety**

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

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

In 2018 an integrated risk prevention and environmental policy applicable to the main activities[17] was published for the first time, thus adding to the integrated policies at the other significant subsidiaries[18]. Moreover, the company that has recently joined the Group, Solaris Bus & Coach, also has its own occupational risk prevention policy.

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

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

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

With a view to extending CAF's occupational risk prevention management system to the other rolling stock[19] and bus production plants, internal audits were performed of all such plants, in which the situation regarding the implementation of the management system was analysed and actions and objectives were established for each one, such as the certification of Solaris Bus & Coach's management system under ISO 45001:2018 for 2020.

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

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

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

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

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

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

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

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

# RESPECT FOR HUMAN RIGHTS

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

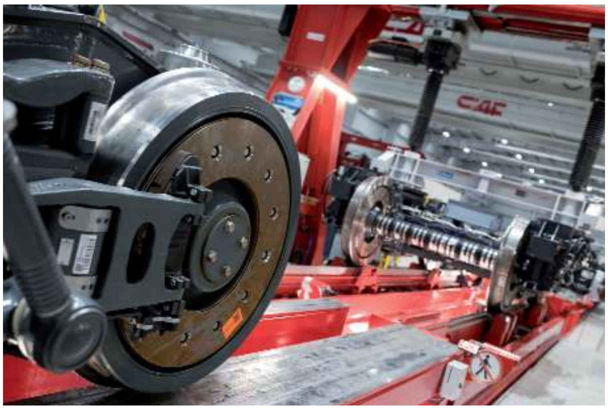
The CAF Group adopts the measures that it considers necessary to ensure that employees can exercise their rights to freedom of association and collective bargaining in all the countries where it operates. It also has the required measures in place to prevent child labour, forced or compulsory labour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

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

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

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

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




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

The CAF Group has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 91% of the personnel included in the training plan established to this end have participated in these activities. In addition, the CAF Group is committed to maintaining the highest standards of professionalism and integrity in its commercial relationships. Specifically, the supplier evaluation process includes the evaluation of human rights matters, as described in greater detail in the "Social Matters" section[21].

Lastly, mention should be made of the existence in this area of the Psychological Harassment Prevention Protocol, which is integrated in the occupational risk prevention system. The purpose of this Protocol is to define situations of psychological harassment in the workplace, establish preventive measures to prevent and avoid these situations, and establish procedures so that, should they arise, the Company's personnel know how to act. No cases of human rights violations were processed by personnel employed directly by the Group or through its business relationships in 2018.

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

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

# FIGHTING CORRUPTION AND BRIBERY

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

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

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

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

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

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

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

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

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

The general principles of CAF's Code of Conduct are obligatory rules of conduct and ethical standards that materialise in the unwavering observance of laws, human rights, public freedoms and fundamental rights, the principles of equal treatment and non-discrimination, the prevention of child labour and any other principle included in the Universal

Declaration of Human Rights and the United Nations Global Compact relating to human rights, labour rights, the environment and fighting corruption.

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

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

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

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

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

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

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

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

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

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

Specific conduct policies

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

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

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

# FIGHTING CORRUPTION AND BRIBERY

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

### Corporate Compliance Handbook dissemination and training

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

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

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

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

### Whistleblowing channel

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

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

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

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

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

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

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

The basic adaptation of the Corporate Compliance Handbook was fully completed in 2017 for all subsidiaries that were already part of the CAF Group and included: (i) the legal formalities relating to the adoption of the CAF Group's

Corporate Compliance Handbook; (ii) the acknowledgement of the Compliance Committee or Unit; and (iii) the training and information provided to governance bodies. Henceforth, that basic adaptation is produced systematically, both when the new subsidiary is incorporated and in the context of the integration plan in the case of a pre-existing company joining the CAF Group.

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

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

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

# SOCIAL MATTERS

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

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

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

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

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

**The Company's commitment to sustainable development**

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

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

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

It should also be noted that CAF promotes the recruitment of personnel from the geographical areas where it carries on its activities. In 2018 nine out of ten workers were local[22].

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

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

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

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

participation in public or private entities focusing on innovation.

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

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

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

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

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

NEW – IG), the leading European industry association working to bring forward the market introduction of these clean technologies in the energy and transport industries.

Similarly, the Group remains committed to training future professionals and with this in mind establishes agreements to collaborate with educational institutions or entities that foster youth employment in the area in which it operates. It has in-force agreements with the main universities and professional schools. Of note in 2018's international activity is the Group's promotion of internships for graduates at CAF Group headquarters in countries such as Sweden, Finland, The Netherlands, France, the UK, Chile, Mexico, Hungary or Saudi Arabia, among others.

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

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

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

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

**Integration of sustainability in the supply chain management strategy**

The CAF Group requires that all its suppliers and subcontractors comply with the ethical principles contained in CAF's Code of Conduct, which is published on the corporate website (www.caf.net), and includes social, gender equality and environmental commitments[24]. Furthermore, in 2018 the rolling stock business, the most important in revenue terms, approved its Procurement Policy and the Suppliers Code of Conduct[25] which implement the commitments already established in the Group's CSR Policy and Code of Conduct.

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

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

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

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

- Collaboration agreement with Ecovadis, which specialises in sustainability assessments.

- Providing Corporate Social Responsibility and Environmental Management training to 36 individuals who are involved in the procurement process, including CAF, S.A.'s middle managers, buyers and supplier accreditation team.

- The rolling stock and wheel sets and components businesses implemented a campaign to evaluate compliance with CAF's Code of Conduct, focusing on suppliers of commodities and equipment with a greater environmental impact, and those transactions in countries presenting social risks. As a consequence of launching this evaluation of suppliers who represent 46% of the purchases made by the aforementioned businesses, three suppliers with adverse social or environmental impacts were identified, whom have been requested by the Group to implement mitigating measures.

**Excellence in customer and user relationships**

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

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

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

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

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

*25. Applicable to both suppliers and subcontractors.*

**Product quality and safety**

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

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

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

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

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

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

**Customer satisfaction**

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

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

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

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

**Tax information**

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

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

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

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

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

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

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

*(1) Profit/Loss before tax in each country includes additional consolidation adjustments to eliminate dividends, internal margins and provisions of investees, among others.*

*(2) Income tax paid in 2018 is drawn from the consolidated statement of cash flows in the consolidated financial statements.*

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

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

## REFERENCE TABLE OF THE NON-FINANCIAL INFORMATION STATEMENT AND GRI DISCLOSURES

| | GRI | Page |
|---|---|---|
| **INTRODUCTION** | | |
| The Group's business model | (1) | 8 - 9 |
| Description of the Group's policies | 103-2 Management Approach (MA) indicated in each chapter | See NFIS chapters |
| Main risks concerning these matters related to the Group's activities | 102-15 | Directors' report of the to the Group's activities consolidated Group "Main risks and uncertainties" (22 - 23), 30, 34, 42, 45, 48, 50, 51 |
| **ENVIRONMENTAL ACTIVITY** | | |
| Current and foreseeable effects of the company's activities on the environment and, where applicable, health and safety | (1) | 30 |
| Environmental assessment or certification procedures | 103-2 MA of GRI 307 102-11 | 31 |
| Resources used to prevent environmental risks | (1) | 30 |
| Application of the precautionary principle | 102.11 | 30 |
| Amount of provisions and guarantees for environmental risks | 307.1 | 30 |
| **Pollution** | | |
| Measures to prevent, reduce or repair CO2 emissions that seriously affect the environment | 103-2 MA of GRI 305 | 30 - 32 |
| Measures to prevent, reduce or repair emissions of any form of atmospheric pollutants | 103-2 MA of GRI 305 | 30 - 32 |
| **Circular economy and waste prevention and management** | | |
| Waste-prevention measures | 103-2 MA of GRI 306 | 33 |
| Waste-recycling measures | 103-2 MA of GRI 306 | 33 |
| Waste-reuse measures | 103-2 MA of GRI 306 | 33 |
| Other forms of waste recovery and reuse | 103-2 MA of GRI 306 | 33 |
| Activities to fight food waste | (2) | (2) |
| **Sustainable use of resources** | | |
| Water consumption and supply in accordance with local limitations | (1) | 33 |
| Consumption of raw materials | 301.1 | 32 |
| Measures adopted to improve efficiency of use raw materials | 103-2 MA of GRI 301 | 30 - 32 |
| Direct and indirect energy consumption | 302.3 | 32 |
| Measures adopted to improve energy efficiency and use of renewable energies | 103-2 MA of GRI 302 | 30 - 32 |
| **Climate change** | | |
| Significant elements of the greenhouse gas emissions resulting from the company's business | 103-2 MA of GRI 305 | 32 |
| Measures adopted to adapt to the consequences of climate change | 103-2 MA of GRI 305 | 32 |
| Medium- and long-term targets to reduce greenhouse gas emissions | 103-2 MA of GRI 305 | 32 |
| Measures implemented to reduce greenhouse gas emissions | 103-2 MA of GRI 305 | 32 |
| **Protection of biodiversity** | (2) | (2) |

| | GRI | Page |
|---|---|---|
| **HUMAN RESOURCES** | | |
| **Employment** | | |
| Total number of employees by gender, age, country and professional category | 102-8 | 35 |
| Total number and distribution of employment contracts by type | 102-8 | 36 |
| Annual average of indefinite-term employment contracts, short-term contracts and part-time contracts by gender, age and professional category | (1) | 36 |
| Number of terminations by gender, age and professional category | (1) | 36 |
| Average remuneration by gender, age and professional category | 102-36 | 36 |
| Pay gap | (1) | 36 - 37 |
| Remuneration of identical job positions or average positions at the company | 103-2 MA of GRI 405 | 36 - 37 |
| Average remuneration of directors and executives | 102-35 | 37 |
| Implementation of policies related to the right to disconnect | 103-2 MA of GRI 401 | 37 - 38 |
| Employees with a disability | | 40 |
| **Organisation of work** | | |
| Organisation of working time | 103-2 MA of GRI 401 | 37 - 38 |
| Number of hours of absenteeism | (1) | 38 |
| Measures to facilitate enjoyment of work-life balance and fostering responsible joint exercise thereof by the parents | 103-2 MA of GRI 401 | 37 - 38 |
| **Health and Safety** | | |
| Healthy and safe working conditions | 103-2 MA of GRI 403 | 40 - 41 |
| Industrial accidents, specifically their frequency and seriousness, and occupational disease | (1) | 41 |
| **Labour/Management relations** | | |
| Organisation of social dialogue | 103-2 MA of GRI 402 | 38 |
| Percentage of employees covered by collective agreements by country | 102-41 | 38 |
| Assessment of collective agreements, particularly in the occupational health and safety area | 403-1 | 40 - 41 |
| **Training** | | |
| Training policies implemented | 103-2 MA of GRI 404 | 38 |
| Total amount of training hours by professional category | 404-1 | 38 - 39 |
| **Accessibility** | | |
| Universal accessibility for disabled people | 103-2 MA of GRI 405 and 406 | 39 |
| **Equality** | | |
| Measures adopted to promote equal treatment and opportunities between men and women | 103-2 MA of GRI 405 | 39 |
| Equality plans | 103-2 MA of GRI 405 and 406 | 39 |
| Measures adopted to promote employment | 404-1 | 39 |
| Protocols against sexual and gender harassment | 103-2 MA of GRI 405 and 406 | 39 |
| The integration of, and universal accessibility for, people with disabilities | 103-2 MA of GRI 405 and 406 | 39 - 40 |
| Anti-discrimination and diversity management policy | 103-2 MA of GRI 405 and 406, 406-1 | 39 |

| | GRI | Page |
|---|---|---|
| **RESPECT FOR HUMAN RIGHTS** | | |
| Application of due diligence review procedures in human rights matters | 103-2 MA of GRI 412 102-16, 412 -2 | 42 - 43 |
| Prevention of risks of human rights violations and, if any, measures to mitigate, manage and redress possible abuses committed | 103-2 MA of GRI 412 | 42 - 43 |
| Complaints of violations of human rights | (1) | 43 |
| Promotion of, and compliance with, provisions of fundamental conventions of the International Labour Organization related to respect for freedom of association and the right to collective bargaining. | 103-2 MA of GRI 407 | 42 - 43 |
| Elimination of forced or compulsory labour | 103-2 MA of GRI 409 | 42 - 43 |
| Effective abolition of child labour | 103-2 MA of GRI 408 | 42 - 43 |
| **FIGHTING CORRUPTION AND BRIBERY** | | |
| Measures adopted to prevent corruption and bribery | 103-2 MA of GRI 205, 102-16 | 44 - 47 |
| Measures to fight money laundering | 103-2 MA of GRI 205, 102-16 | 44 - 47 |
| Contributions to foundations and not-for-profit entities | (1) | 45 |
| **SOCIAL MATTERS** | | |
| **The Company's commitments to sustainable development** | | |
| The impact of the Company's activity on employment and local development | 103-2 MA of GRI 203, 203-2, 204-1 | 48 |
| The impact of the Company's activity on local populations and on the territory | 103-2 MA of GRI 203, 203-2 | 48 |
| Relationships with players in local communities and means of interacting with them | 103-2 MA of GRI 203, 203-2 | 48 - 50 |
| Association or sponsorship activities | 102-13 | 48 - 50 |
| **Subcontracting and suppliers** | | |
| Inclusion in the procurement policy of social, gender equality and environmental matters | 103-2 MA of GRI 308 and 414 | 50 |
| Consideration, in relationships with suppliers and subcontractors, of their social and environmental responsibilities | 103-2 MA of GRI 308 and 414 | 50 - 51 |
| Supervisory systems and audits and the findings thereof | 103-2 MA of GRI 308 and 414 | 50 - 51 |
| **Consumers** | | |
| Consumer health and safety measures | 103-2 MA of GRI 416 | 52 |
| Claim systems, complaints received and the resolution thereof | (1) | 52 |
| **Tax information** | | |
| Country by country profit | (1) | 53 |
| Income tax paid | (1) | 53 |
| Government grants received | (1) | 53 |

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

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

# AUDITOR'S REPORTS

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

Tel: +34 943267800
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 28). In the event of a discrepancy, the Spanish-language version prevails.*

# INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

## Report on the Consolidated Financial Statements

### Opinion

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

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

### Basis for Opinion

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

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

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

### Key Audit Matters

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

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.

## Accounting for the business combination effected in the year

### Description

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

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

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

### Procedures applied in the audit

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

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

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

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

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

## Recognition of revenue and margins by reference to stage of completion

### Description

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

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

### Procedures applied in the audit

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

Also, we performed a detailed and case-by-case analysis of the main projects, based on qualitative and quantitative factors, in order to evaluate the reasonableness of the assumptions and hypotheses used by the Group, for which purpose we held meetings with Group personnel. In addition, we reviewed the consistency of the estimates made by the Group in 2017 with the alia, the estimation of the total costs to be incurred in each contract, the percentage of the total budgeted hours allocated to each contract or the estimation of the margin taking into consideration the expected revenue and the expected contract costs. Also, the stage of completion calculated by the Group on the basis of the hours incurred as a percentage of the total hours of the projects entails a significant risk as it is subject not only to the estimates of the total hours envisaged for each of the projects but also to the correct charging of hours by the staff engaged on each of the projects over the year.

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

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

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

## Contingent liabilities arising from commercial agreements

### Description

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

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

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

### Procedures applied in the audit

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

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

| Contingent liabilities arising from commercial agreements | |
|---|---|
| **Description** | **Procedures applied in the audit** |
| process, including the identification of causes not attributable to the Group.<br><br>Accordingly, the situation described was considered to be a key matter in our audit. | |

## Other Information: Consolidated Directors' Report

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

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

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

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

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

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

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

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

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

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

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

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

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

## Report on Other Legal and Regulatory Requirements

### Additional Report to the Parent's Audit Committee

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

### Engagement Period

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

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

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

Pablo Mugica
Registered in ROAC under no. 18694

27 February 2019

**Appendix to our auditor's report**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent limited assurance report on
the non-financial information statement

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

Tel: +34 943267800
www.deloitte.es

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

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

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

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

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

## Responsibilities of the Directors

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

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

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

## Our Independence and Quality Control

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

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

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

## Our Responsibility

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

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

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

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

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

## Conclusion

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

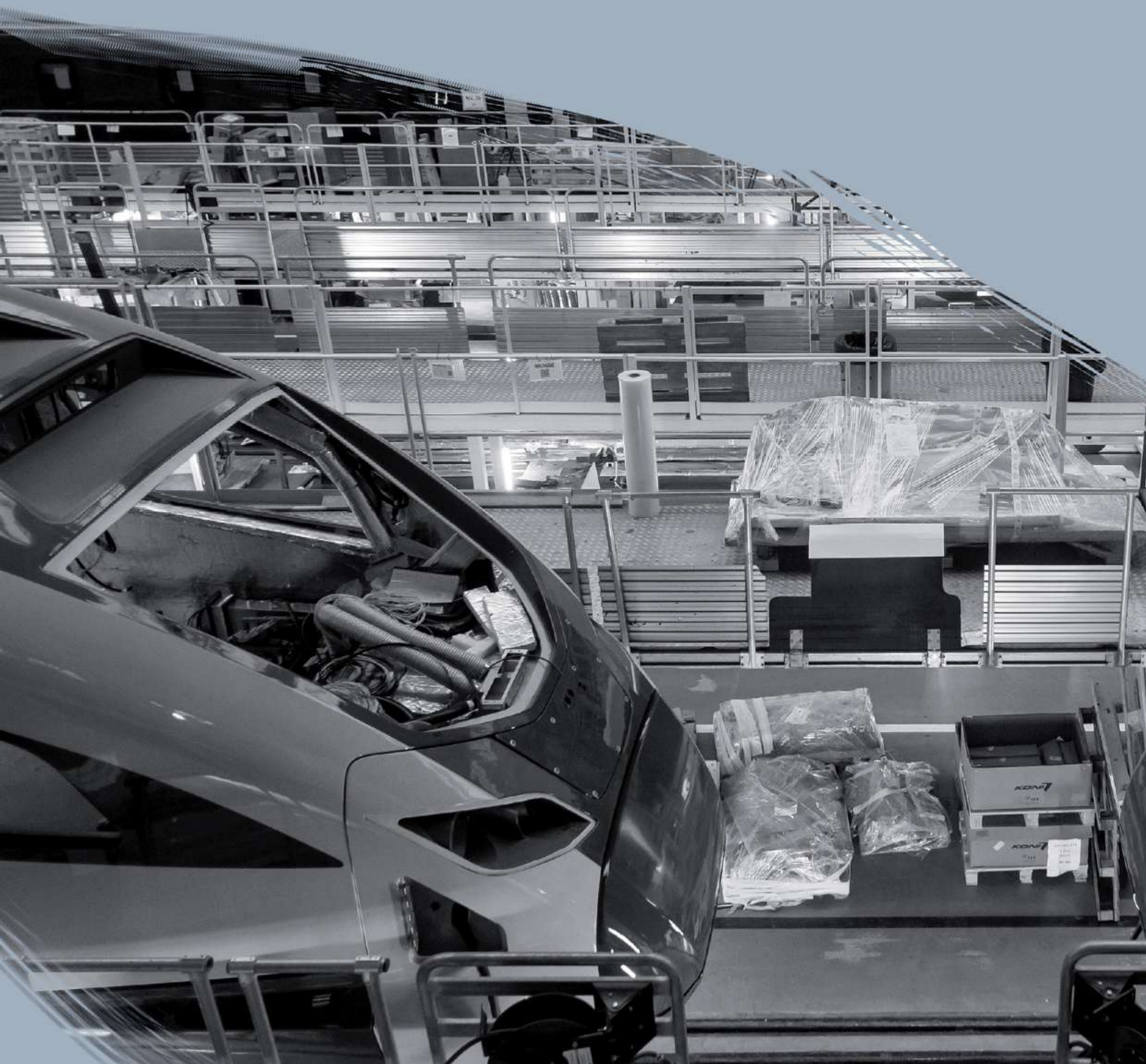
## Use and Distribution

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

DELOITTE, S.L.

Pablo Mugica

27 February 2019



# FINANCIAL STATEMENTS OF THE CONSOLIDATED GROUP
## YEAR 2018

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

# Consolidated Balance Sheets

## as at 31 December 2018 and 2017 (Notes 1, 2 and 3) (Thousands of Euros)

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

| Assets | 31-12-18 | 31-12-17 (*) |
|---|---|---|
| **Non-current assets:** | | |
| **Intangible assets (Note 7)** | | |
| Goodwill (Note 2-f) | 101,827 | 24,124 |
| Other intangible assets | 206,535 | 46,421 |
| | **308,362** | **70,545** |
| **Property, plant and equipment (Notes 6 & 8)** | **365,084** | **244,513** |
| **Investments accounted for using the equity method (Note 9)** | **18,188** | **19,752** |
| **Non-current financial assets (Note 9)** | **537,061** | **560,660** |
| **Non-current hedging derivatives (Note 17)** | **10,720** | **15,842** |
| **Deferred tax assets (Note 18)** | **148,548** | **144,989** |
| **Other non-current assets (Note 21)** | **2,684** | **-** |
| **Total non-current assets** | **1,390,647** | **1,056,301** |
| **Current assets:** | | |
| **Inventories (Note 11)** | **375,426** | **71,654** |
| **Trade and other receivables** | | |
| Trade receivables for sales and services (Notes 10 & 12) | 1,311,835 | 1,277,243 |
| Other receivables (Notes 9, 10 & 19) | 205,122 | 198,470 |
| Current tax assets (Note 19) | 13,633 | 10,030 |
| | **1,530,590** | **1,485,743** |
| **Current financial assets (Note 13)** | **94,293** | **84,838** |
| **Current hedging derivatives (Note 17)** | **5,849** | **41,864** |
| **Other current assets (Note 21)** | **6,343** | **3,229** |
| **Cash and cash equivalents** | **602,813** | **371,625** |
| **Total current assets** | **2,615,314** | **2,058,953** |
| **Total Assets** | **4,005,961** | **3,115,254** |

| Equity and liabilities | 31-12-18 | 31-12-17 (*) |
|---|---|---|
| **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 | 793,755 | 770,489 |
| Profit for the year attributable to the Parent | 43,462 | 42,406 |
| | **898,518** | **874,196** |
| **Valuation adjustments** | | |
| Available-for-sale financial assets (Note 9) | - | 39 |
| Hedges | (5,024) | (6,580) |
| Translation differences | (141,782) | (117,238) |
| | **(146,806)** | **(123,779)** |
| **Equity attributable to the Parent** | **751,712** | **750,417** |
| **Non-controlling interests** | **5,555** | **9,783** |
| **Total equity** | **757,267** | **760,200** |
| **Non-current liabilities:** | | |
| **Long-term provisions (Note 20)** | **6,877** | **7,071** |
| **Non-current financial liabilities (Notes 15 & 16)** | | |
| Bank borrowings and debt instruments or other marketable securities | 766,464 | 625,645 |
| Other financial liabilities | 47,774 | 52,039 |
| | **814,238** | **677,684** |
| **Deferred tax liabilities (Note 18)** | **177,191** | **153,805** |
| **Non-current hedging derivatives (Note 17)** | **11,206** | **18,131** |
| **Other non-current liabilities (Note 3-f & 21)** | **82,186** | **55,821** |
| **Total non-current liabilities** | **1,091,698** | **912,512** |
| **Current liabilities:** | | |
| **Short-term provisions (Note 20)** | **224,970** | **227,939** |
| **Current financial liabilities (Notes 15 & 16)** | | |
| Bank borrowings and debt instruments or other marketable securities | 255,416 | 46,262 |
| Other financial liabilities | 23,356 | 40,725 |
| | **278,772** | **86,987** |
| **Trade and other payables** | | |
| Payable to suppliers (Note 26) | 664,865 | 423,385 |
| Other payables (Notes 12, 15 & 19) | 911,961 | 646,593 |
| Current tax liabilities (Note 19) | 6,447 | 5,009 |
| | **1,583,273** | **1,074,987** |
| **Current hedging derivatives (Note 17)** | **64,167** | **52,313** |
| **Other current liabilities (Note 21)** | **5,814** | **316** |
| **Total current liabilities** | **2,156,996** | **1,442,542** |
| **Total Equity and liabilities** | **4,005,961** | **3,115,254** |

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

The accompanying Notes 1 to 28 are an integral part of the consolidated balance sheet as at 31 December 2018.

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

# Consolidated Statements of Profit or Loss

## for the years ended 31 December 2018 and 2017 (Notes 1, 2 and 3) (Thousands of Euros)

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

| (Debit) Credit | 2018 | 2017 (*) |
|---|---|---|
| **Continuing operations:** | | |
| Revenue (Notes 6, 9 & 10) | 2,048,419 | 1,477,039 |
| +/- Changes in inventories of finished goods and work in progress | 73,250 | (77,035) |
| In-house work on non-current assets | 14,488 | 8,977 |
| Procurements (Note 22) | (1,089,940) | (542,771) |
| Other operating income (Notes 2-b & 22) | 21,339 | 7,886 |
| Staff costs (Note 23) | (518,473) | (446,381) |
| Other operating expenses (Note 22) | (347,605) | (247,463) |
| Depreciation and amortisation charge (Notes 7 & 8) | (46,738) | (34,690) |
| Impairment and gains or losses on disposals of non-current assets (Notes 2-f, 7, 8 & 9) | (10,572) | 148 |
| **Profit from Operations** | **144,168** | **145,710** |
| Finance income (Notes 9, 10 & 13) | 7,627 | 7,309 |
| Finance costs (Notes 9, 16 & 17) | (64,160) | (68,551) |
| Changes in fair value of financial instruments | 7 | 35 |
| Exchange differences | (6,673) | (17,591) |
| Impairment and gains or losses on disposals of financial instruments (Note 9) | 9 | 4 |
| **Financial Loss** | **(63,190)** | **(78,794)** |
| Result of companies accounted for using the equity method (Note 9) | (403) | 594 |
| **Profit before Tax** | **80,575** | **67,510** |
| Income tax (Note 18) | (40,955) | (24,993) |
| **Profit for the year from continuing operations** | **39,620** | **42,517** |
| **Consolidated Profit for the Year** | **39,620** | **42,517** |
| Attributable to: | | |
| The Parent | 43,462 | 42,406 |
| Non-controlling interests | (3,842) | 111 |
| **Earnings per share (euros)** | | |
| Basic | 1.27 | 1.24 |
| Diluted | 1.27 | 1.24 |

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

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of profit or loss for 2018.

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

# Consolidated Statements of Comprehensive Income

## for 2018 and 2017 (Notes 1, 2 and 3) (Thousands of Euros)

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

| | 2018 | 2017 (*) |
|---|---|---|
| **A) Consolidated profit for the year:** | **39,620** | **42,517** |
| **B) Items not reclassified to profit or loss:** | **10,917** | **(4,771)** |
| Arising from actuarial gains and losses (Note 3-j) | (2,403) | (5,525) |
| Equity instruments at fair value through other comprehensive income (Note 9) | 13,320 | - |
| Tax effect (Note 18) | - | 754 |
| **C) Items that may be reclassified subsequently to profit or loss:** | **(22,988)** | **(41,168)** |
| **Cash flow hedges:** | **1,700** | **(2,058)** |
| Revaluation gains/losses (Note 17) | 1,620 | (2,138) |
| Amounts transferred to profit or loss | 80 | 80 |
| **Available-for-sale financial assets:** | **-** | **39** |
| Revaluation gains/losses (Note 9) | - | 39 |
| Amounts transferred to profit or loss | - | - |
| **Translation differences:** | **(24,635)** | **(40,385)** |
| Revaluation gains/losses (Note 14) | (24,635) | (40,385) |
| Amounts transferred to profit or loss | - | - |
| **Share of other comprehensive income recognised for investments in joint ventures and associates:** | **442** | **656** |
| Revaluation gains/losses | | |
| Cash flow hedges (Notes 9 & 17) | 31 | 160 |
| Translation differences | 91 | (150) |
| | 122 | 10 |
| Amounts transferred to profit or loss | | |
| Cash flow hedges (Note 17) | 320 | 646 |
| Translation differences | - | - |
| | 320 | 646 |
| **Tax effect** | **(495)** | **580** |
| **Total comprehensive income (A+B+C)** | **27,549** | **(3,422)** |
| Attributable to: | | |
| The Parent | 31,391 | (3,533) |
| Non-controlling interests | (3,842) | 111 |

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

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of comprehensive income for 2018.

# Consolidated Statements of Changes in Equity

## for 2018 and 2017 (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 2016** | **10,319** | **11,863** | **39,119** | **758,268** | **35,013** | **(5,908)** | **(76,703)** | **11,706** | **783,677** |
| **Total comprehensive income** | - | - | - | **(4,771)** | **42,406** | **(633)** | **(40,535)** | **111** | **(3,422)** |
| **Transactions with shareholders or owners** | - | - | - | **1,862** | **(19,883)** | - | - | **(2,034)** | **(20,055)** |
| Dividends distribution | - | - | - | - | (19,883) | - | - | (3,005) | (22,888) |
| Other transactions with non-controlling interests (Note 2-f) | - | - | - | 1,862 | - | - | - | 971 | 2,833 |
| **Other changes in equity** | - | - | - | **15,130** | **(15,130)** | - | - | - | - |
| Transfers between equity items (Note 14) | - | - | - | 15,130 | (15,130) | - | - | - | - |
| **Balances at 31 December 2017** | **10,319** | **11,863** | **39,119** | **770,489** | **42,406** | **(6,541)** | **(117,238)** | **9,783** | **760,200** |
| Adjustments due to changes in accounting policies (Notes 2-b & 7) | - | - | - | (7,432) | - | (39) | - | - | (7,471) |
| **Adjusted balances at 1 January 2018** | **10,319** | **11,863** | **39,119** | **763,057** | **42,406** | **(6,580)** | **(117,238)** | **9,783** | **752,729** |
| **Total comprehensive income** | - | - | - | **10,917** | **43,462** | **1,556** | **(24,544)** | **(3,842)** | **27,549** |
| **Transactions with shareholders or owners** | - | - | - | - | **(22,625)** | - | - | **(386)** | **(23,011)** |
| Dividends distribution | - | - | - | - | (22,625) | - | - | (1,555) | (24,180) |
| Business Combination | - | - | - | - | - | - | - | 97 | 97 |
| Other transactions with non-controlling interests (Note 2-f) | - | - | - | - | - | - | - | 1,072 | 1,072 |
| **Other changes in equity** | - | - | - | **19,781** | **(19,781)** | - | - | - | - |
| Transfers between equity items (Note 14) | - | - | - | 19,781 | (19,781) | - | - | - | - |
| **Balances at 31 December 2018** | **10,319** | **11,863** | **39,119** | **793,755** | **43,462** | **(5,024)** | **(141,782)** | **5,555** | **757,267** |

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

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2018.

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

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 2018 and 2017 (Notes 1, 2 and 3) (Thousands of Euros)

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

| | 2018 | 2017 (*) |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit before tax | 80,575 | 67,510 |
| Adjustments for | | |
| Depreciation and amortisation charge (Notes 7 & 8) | 46,738 | 34,690 |
| Impairment losses (Notes 7, 8 & 9) | 10,634 | (222) |
| Changes in provisions (Notes 3 & 20) | 40,078 | 8,912 |
| Other income and expenses | 22,389 | 20,734 |
| Gains and losses on disposals of non-current assets (Note 8) | (175) | 108 |
| Investments accounted for using the equity method (Note 9) | 403 | (594) |
| Finance income | (7,627) | (7,309) |
| Finance costs | 64,160 | 68,551 |
| Changes in working capital | | |
| Trade receivables and other current assets (Notes 3-d & 12) | (57,630) | (22,989) |
| Inventories (Note 11) | (105,264) | (25,282) |
| Trade payables (Note 12) | 352,938 | 33,461 |
| Other current liabilities | (3,877) | 45 |
| Other non-current assets and liabilities | (11,087) | (1,263) |
| Other cash flows from operating activities | | |
| Income tax paid (Note 19) | (40,354) | (10,351) |
| Other amounts paid relating to operating activities | (2,575) | (944) |
| **Net cash (used in) / from operating activities (I)** | **389,326** | **165,057** |
| **Cash flows from investing activities:** | | |
| Payments due to investment | | |
| Group companies and associates | - | (61) |
| Business units (Note 2-f) | (171,664) | (8,329) |
| Property, plant and equipment, intangible assets and investment property (Notes 7 & 8) | (90,588) | (51,254) |
| Other financial assets (Notes 9 & 13) | (17,387) | (4,028) |
| Proceeds from investments | | |
| Group companies and associates (Note 9) | 9,081 | 693 |
| Property, plant and equipment, intangible assets and investment property (Notes 7 & 8) | 921 | 182 |
| Other financial assets (Notes 9 & 13) | 24,717 | 35,567 |
| Interest received (Notes 9 & 13) | 6,560 | 5,189 |
| **Net cash (used in) / from investing activities (II)** | **(238,360)** | **(22,041)** |
| **Cash flows from financing activities:** | | |
| Proceeds from issue of equity instruments - non-controlling interests | 1,072 | 4,000 |
| Purchase of equity instruments - non-controlling interests | - | (1,167) |
| Proceeds/(Payments) relating to financial liability instruments | | |
| Issue (Notes 15 & 16) | 544,557 | 76,543 |
| Repayment (Notes 15 & 16) | (376,346) | (128,307) |
| Dividends and returns on other equity instruments paid (Note 14) | (24,180) | (22,888) |
| Other cash flows from financing activities | | |
| Interest paid (Note 16) | (64,539) | (76,862) |
| **Net cash (used in) / from financing activities (III)** | **80,564** | **(148,681)** |
| **Net increase / (decrease) in cash and cash equivalents (I+II+III)** | **231,530** | **(5,665)** |
| Cash and cash equivalents at beginning of year | 371,625 | 392,022 |
| Effect on cash of foreign exchange rate changes | (342) | (14,732) |
| **Cash and cash equivalents at end of year** | **602,813** | **371,625** |

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

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of comprehensive income for 2018.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2018

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

## 1. DESCRIPTION AND ACTIVITIES OF THE PARENT

Construcciones y Auxiliar de Ferrocarriles, S.A. (“CAF” or “the Parent”) was incorporated in 1917 for an indefinite period of time in San Sebastián (Guipúzcoa), and its registered office is in Beasain (Guipúzcoa).

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

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

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

## 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### a) Basis of presentation

The consolidated financial statements for 2018 of the CAF Group were formally prepared by the directors:

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

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

– So that they present fairly the CAF Group’s consolidated equity and consolidated financial position at 31 December 2018 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

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

The CAF Group's consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting of CAF on 2 June 2018. The 2018 consolidated financial statements of the Group and the 2018 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

### b) Adoption of new standards and interpretations issued

Accounting standards IFRS 15, “Revenue from Contracts with Customers”, and IFRS 9, “Financial Instruments”, came into force on 1 January 2018.

In both cases, the transition to these standards was carried out retrospectively as an adjustment to the beginning balance for 2018. Therefore, the comparative information for 2017 was not restated. The cumulative effect of the initial application of the standard is recognised as an initial adjustment to reserves.

The impact, by line item, on the consolidated balance sheet as at 1 January 2018 was as follows:

| | Balance at 01/01/18 | Transition to IFRS 9 | Transition to IFRS 15 | Adjusted balance at 01/01/18 |
|---|---|---|---|---|
| **Non-current assets** | **1,056,301** | **(849)** | **590** | **1,056,042** |
| Intangible assets | 70,545 | - | - | 70,545 |
| Property, plant and equipment | 244,513 | - | - | 244,513 |
| Investments accounted for using the equity method | 19,752 | - | - | 19,752 |
| Non-current financial assets | 576,502 | (3,054) | - | 573,448 |
| Deferred tax assets | 144,989 | 2,205 | 590 | 147,784 |
| **Current assets** | **2,058,953** | **(4,237)** | **(86,069)** | **1,968,647** |
| Inventories | 71,654 | - | 20,815 | 92,469 |
| Trade and other receivables | 1,485,743 | (3,626) | (106,884) | 1,375,233 |
| Other current financial assets | 126,702 | (27) | - | 126,675 |
| Other current assets | 3,229 | - | - | 3,229 |
| Cash and cash equivalents | 371,625 | (584) | - | 371,041 |
| **Total assets** | **3,115,254** | **(5,086)** | **(85,479)** | **3,024,689** |
| **Equity** | **760,200** | **(5,086)** | **(1,867)** | **753,247** |
| **Non-current liabilities** | **912,512** | **-** | **-** | **912,512** |
| Long-term provisions | 7,071 | - | - | 7,071 |
| Non-current financial liabilities | 695,815 | - | - | 695,815 |
| Deferred tax liabilities | 153,805 | - | - | 153,805 |
| Other non-current liabilities | 55,821 | - | - | 55,821 |
| **Current liabilities** | **1,442,542** | **-** | **(83,612)** | **1,358,930** |
| Short-term provisions | 227,939 | - | (83,612) | 144,327 |
| Current financial liabilities | 139,300 | - | - | 139,300 |
| Trade and other payables | 1,074,987 | - | - | 1,074,987 |
| Other current liabilities | 316 | - | - | 316 |
| **Total equity and liabilities** | **3,115,254** | **(5,086)** | **(85,479)** | **3,024,689** |

The summary of the impacts of the transition to IFRS 15 detailed above is as follows:

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

– Distinct products and services are being provided under certain of the Group's contracts that, until the transition date, had been accounted for in aggregate. Under the new standard, the distinct products and services must be recognised separately, giving rise to an impact on the timing of recognition of the Group's income and expenses, as the stage of completion of each product and service is estimated separately.

– In addition, most of the Group’s contracts include penalty clauses which could change the probable transaction price. Under the new standard, these penalties are reclassified as a reduction of revenue (reducing the balance of “Trade and Other Receivables” in the consolidated balance sheet), rather than recognised as an expense item (under “Short-Term Provisions” in the consolidated balance sheet).

– Lastly, the Group changed the method of recognising income from sales of waste and scrap metal and rebillings to suppliers. Since 1 January 2018 this income has been recognised under “Other Operating Income” in the accompanying consolidated statement of profit or loss.

The summary of the impacts of the transition to IFRS 9 detailed above is as follows:

– Impairment losses: a new impairment model based on expected credit losses is established, as opposed to the current incurred loss model. Under the expected credit loss model, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The Group has established an adaptive measurement model in which each customer's degree of solvency and the guarantees the Group has in place to ensure collection therefrom are used as the main calculation assumptions.

The accounting policies and measurement bases used as a result of the entry into force of the new standards are detailed in Notes 3-d and 3-f.

### Standards and interpretations issued but not yet in force

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

| Pronouncement | Effective date IASB | Effective date European Union |
|---|---|---|
| IFRS 16 Leases | 1 January 2019 | 1 January 2019 |
| IFRS 17 Insurance Contracts | 1 January 2021 | Pending |
| Amendments to IFRS 3 - Clarifications of the definition of a business | 1 January 2020 | Pending |
| Amendments to IFRS 9 - Financial Instruments | 1 January 2019 | 1 January 2019 |
| IFRIC 23 - Uncertainty Over Income Tax Treatments | 1 January 2019 | 1 January 2019 |
| Amendment to IAS 1 - Presentation of Financial Statements | 1 January 2020 | Pending |
| Amendment to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors | 1 January 2020 | Pending |
| Amendment to IAS 19 - Plan Amendment, Curtailment and Settlement | 1 January 2019 | Pending |
| Amendments to IAS 28 - Investments in Associates and Joint Ventures | 1 January 2019 | 1 January 2019 |
| Annual Improvements to IFRS Standards - 2015-2017 Cycle | 1 January 2019 | Pending |

The Group performed a preliminary assessment of the impact that the future application of the standards that come into force in annual reporting periods beginning on or after 1 January 2019 will have on the consolidated financial statements. The Group considers that the main impact will arise from the application of IFRS 16.

The Group performed a preliminary analysis of the impact of the application of IFRS 16 and of the additional disclosures so that the consolidated financial statements may be adapted, if required, after the entry into force thereof.

The right of use and corresponding financial liability at 31 December 2018 are estimated to represent around 1.5% of the Group’s total assets at that date, and no significant impacts on the Group’s equity are expected at the date of first application.

Also, in the consolidated statement of profit or loss, operating lease expenses, which are currently recognised under “Other Operating Expenses”, will cease to be recognised under this line item, with the depreciation of the right-of-use asset being recognised under “Depreciation and Amortisation Charge” and the cost associated with the financial liability under “Finance costs”. The amount recognised in relation to operating leases in 2018 was EUR 16,268 thousand (Note 3-m).

**c) Functional currency**

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

**d) Use of estimates**

In the consolidated financial statements of the CAF Group for 2018 estimates were occasionally made. These estimates, which were made on the basis of the best information available, relate basically to the following:

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

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

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

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

– The calculation of provisions (Note 20);

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

– Changes in estimated costs in the budgets for construction projects performed and percentage of completion (Note 3-f).

Although these estimates were made on the basis of the best information available at 31 December 2018 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statement of profit or loss.

There have been no changes in accounting estimates with respect to 2017 that might have had a material impact on these consolidated financial statements.

**e) Comparative information**

As required by IAS 1, the information relating to 2018 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2017.

The 2017 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2018. However, for an appropriate understanding, it should be taken into account that the Group availed itself of the option not to restate information in the transition to the new IFRS 9 and IFRS 15. The main items affected are detailed in Note 2-b to the consolidated financial statements.

In addition, with a view to performing an appropriate comparison between the consolidated financial statements for 2018 and 2017, the changes in scope described in Note 2-f should be taken into account.

**f) Consolidated Group and basis of consolidation**

### Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2018 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - Note 1) at that date and of the subsidiaries and associates listed below:

| Rolling stock segment | % of control or influence | Location | Line of business |
|---|---|---|---|
| **Fully consolidated companies** | | | |
| CAF, S.A. | Parent | Guipúzcoa | Marketing and manufacture of rolling stock equipment and components |
| CAF USA, Inc. | 100% | Delaware | Manufacturing |
| CAF México, S.A. de C.V. | 100% | Mexico City | Manufacturing and maintenance |
| CAF Brasil Industria e Comercio, S.A. | 100% | Sao Paulo | Manufacturing and maintenance |
| CAF Argentina, S.A. | 100% | Buenos Aires | Repairs and maintenance |
| CAF Rail UK, Ltda. | 100% | Belfast | Manufacturing and maintenance |
| CAF Italia, S.R.L. | 100% | Rome | Repairs and maintenance |
| CAF Chile, S.A. | 100% | Santiago de Chile | Manufacturing and maintenance |
| CAF Turquía, L.S. | 100% | Istanbul | Manufacturing and maintenance |
| CAF Argelia, E.U.R.L. | 100% | Algiers | Manufacturing and maintenance |
| Trenes CAF Venezuela, C.A. | 100% | Caracas | Manufacturing and maintenance |
| CAF Rail Australia Pty. Ltd. | 100% | Sydney | Manufacturing and maintenance |
| CAF India Private Limited | 100% | Delhi | Manufacturing and maintenance |
| CAF France, S.A.S. | 100% | Paris | Manufacturing and maintenance |
| Trenes de Navarra, S.A.U. | 100% | Navarre | Manufacturing |
| Construcciones Ferroviarias de Madrid, S.L.U. | 100% | Madrid | Manufacturing |
| CAF Digital & Design Solutions, S.A. (*****) | 100% | Jaén | Manufacturing and engineering |
| Tradinsa Industrial, S.A. | 100% | Lleida | Repairs and maintenance |
| CAF New Zealand, Ltd. | 100% | Auckland | Manufacturing and maintenance |
| CAF Sisteme Feroviare, S.R.L. | 100% | Bucharest | Manufacturing and maintenance |
| CAF Colombia, S.A.S. | 100% | Medellín | Manufacturing and maintenance |
| CAF Arabia, Co. | 100% | Riyadh | Manufacturing and maintenance |
| CAF Deutschland, GmbH | 100% | Munich | Manufacturing and maintenance |
| CAF Taiwan, Ltd. | 100% | Kaohsiung | Manufacturing and maintenance |
| CAF Hungary, K.F.T. | 100% | Budapest | Manufacturing and maintenance |
| CAF Netherlands, B.V. | 100% | Utrecht | Manufacturing and maintenance |
| CAF Rolling Stock UK, Ltd. | 100% | Newport | Manufacturing |
| CAF Track Test Center, S.L. | 100% | Navarre | Track testing |
| Metro CAF Mauritius, Ltd. | 100% | Mauritius | Manufacturing and maintenance |
| CAF Belgium, S.P.R.L. | 100% | Brussels | Manufacturing and maintenance |
| Tram Liége Maintenance, S.A. | 65% | Liége | Maintenance |
| CAF I+D, S.L. (Sole-Shareholder Company) | 100% | Guipúzcoa | R&D |
| CAF Power & Automation, S.L.U. | 100% | Guipúzcoa | Electronic and power equipment |
| Vectia Mobility Research & Development, A.I.E. | 70% | Navarre | R&D |
| Vectia Mobility, S.L. | 70% | Navarre | Solutions for urban transport |
| CAF Turnkey & Engineering, S.L.U. | 100% | Vizcaya | Engineering |
| Centro de Ensayos y Análisis Cetest, S.L. | 100% | Guipúzcoa | Tests |
| Lander Simulation and Training Solutions, S.A. | 57% | Guipúzcoa | Simulators |

| Rolling stock segment | % of control or influence | Location | Line of business |
|---|---|---|---|
| Geminys, S.L. | 100% | Guipúzcoa | Operating manuals |
| CAF Signalling, S.L.U. | 100% | Guipúzcoa | Signalling |
| CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi | 100% | Istanbul | Signalling |
| BWB Holdings, Ltd. (**) | 100% (*) | Nottingham | Engineering |
| Actren, S.A. | 51% | Madrid | Maintenance |
| Sermanfer, S.A. | 100% | Madrid | Maintenance |
| Sefemex, S.A. de C.V. | 100% | Mexico City | Rendering of services |
| Corporación Trainemex, S.A. de C.V. | 100% | Mexico City | Administrative services |
| CAF Investment Projects, S.A.U. | 100% | Guipúzcoa | Business development |
| CAF Diversified Business Development, S.A. (******) | 100% | Guipúzcoa | Holding company |
| Ctrens Companhia de 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. | 100% (*) | Milan | Component maintenance |
| Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V. | 100% | Mexico City | Equipment |
| **Companies accounted for using the equity method (Note 9)** | | | |
| Ferrocarril Interurbano, S.A. de C.V. | 49.63% | Mexico City | Manufacturing and equipment |
| Nuevas Estrategias de Mantenimiento, S.L. (***) | 50% | Guipúzcoa | Technology solutions |
| Asirys Vision Technologies, S.A. | 22.33% | Guipúzcoa | Automated production |
| Tumaker, S.L. | 21.11% | Guipúzcoa | Printing equipment |
| Ferrocarriles Suburbanos, S.A. de C.V. | 43.35% | Mexico City | Transport services |
| Plan Metro, S.A. | 40% | Guipúzcoa | Lease services |
| Consorcio Traza, S.A. (****) | 25% | Zaragoza | Holding company |
| Arabia One for Clean Energy Investments PSC. | 40% | Ma’an | Power generation |
| Purple Line Transit Operators, L.L.C. | 20% | Delaware | Operation and maintenance |
| Orbital Sistemas Aeroespaciales, S.L. | 30% | Navarre | Aeronautical solutions |
| Great River City Light Rail Pty. Ltd. | 30% | Sydney | Operation and maintenance |

(*) Considering the options described in Note 15 to these consolidated financial statements.
(**) This company owns all the shares of Quincey Manon Practice, Ltd., BWB Consulting, Ltd. and BWB Regeneration, Ltd.
(***) This company owns all the shares of NEM Solutions USA, Inc., with registered office in the US.
(****) This company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
(*****) Formerly Construcciones Ferroviarias – CAF Santana, S.A.
(******) Formerly Urbanización Parque Romareda, S.A.

| Buses segment | % of control or influence | Location | Line of business |
|---|---|---|---|
| **Fully consolidated companies** | | | |
| Solaris Bus & Coach, S.A. | 100% | Bolechowo | Solutions for urban transport |
| Openaco Trading Co. Ltd. | 100% | Chipre | Holding company |
| Solaris Deutschland GmbH | 100% | Berlin | Solutions for urban transport |
| Solaris Austria GmbH | 100% | Viena | Solutions for urban transport |
| Solaris Schweiz GmbH | 100% | Hausen | Solutions for urban transport |
| Solaris Italia S.R.L. | 100% | Rome | Solutions for urban transport |
| Solaris Bus & Coach Latvia Ltd. | 100% | Riga | Solutions for urban transport |
| Solaris Czech spol. S.r.o. | 100% | Ostrava | Solutions for urban transport |
| Solaris Norge AS | 100% | Oslo | Solutions for urban transport |
| Solaris Bus Iberica, S.L. | 100% | Madrid | Solutions for urban transport |
| Solaris France SARL | 100% | Ennery | Solutions for urban transport |
| Solaris Sverige AB | 100% | Malmö | Solutions for urban transport |
| Solaris Hellas, S.A. | 70% | Athens | Solutions for urban transport |
| Solaris Slovakia s.r.o. | 100% | Kosice | Solutions for urban transport |
| Solaris Bulgaria EOOD | 100% | Sofia | Solutions for urban transport |
| Solaris Bus Israel Ltd. | 100% | Tel Aviv | Solutions for urban transport |
| Solaris Bus & Coach Romania SRL | 100% | Bucharest | Solutions for urban transport |
| Solaris Danmark Bus A/S | 100% | Padborg | Solutions for urban transport |
| **Companies accounted for using the equity method (Note 9)** | | | |
| JBM Solaris Electric Vehicles Private Limited | 20% | Ballabhgarh, India | Solutions for urban transport |

## Changes in the scope of consolidation

At 4 September 2018, the Parent acquired control of Solaris Bus and Coach S.A. and subsidiaries ("Solaris"), which have been included in the scope of consolidation of the CAF Group. Note 2-f above contains a detail of the companies composing Solaris and the percentage of ownership of each company.

The costs incurred by the Group in relation to this transaction amounted to EUR 3,424 thousand and were recognised as expenses in the accompanying consolidated statement of profit or loss for 2018.

The detail of the fair value assets acquired and liabilities assumed in the aforementioned transaction is as follows:

| | Thousands of euros |
|---|---|
| **Non-current assets** | |
| Intangible assets | 142,068 |
| Property, plant and equipment | 106,207 |
| Investments in Group companies and associates | 1,586 |
| Non-current financial assets | 84 |
| Deferred tax assets | 15,316 |
| Other non-current assets | 2,684 |
| **Current assets** | |
| Inventories | 165,824 |
| Trade and other receivables | 89,232 |
| Current financial assets | 2,725 |
| Other current assets | 3,764 |
| Cash and cash equivalents | 31,939 |
| **Non-current liabilities** | |
| Long-term provisions | (206) |
| Non-current financial liabilities | (111,891) |
| Deferred tax liabilities | (27,016) |
| Other non-current liabilities | (40,976) |
| **Current liabilities** | |
| Short-term provisions | (44,556) |
| Current financial liabilities | (74,388) |
| Trade and other payables | (149,177) |
| Other current liabilities | (8,862) |
| **Total net assets** | **104,357** |
| % acquired | 100% |
| Total net assets acquired | 104,357 |

At 31 December 2018, the business combination had been provisionally accounted for and determined and was within the one-year period provided for under applicable legislation to determine the fair value of the assets acquired and liabilities assumed. The work required to obtain a market measurement of the assets acquired and liabilities assumed will be completed before the end of that period. The provisional calculation of the goodwill is broken down as follows:

| | Thousands of euros |
|---|---|
| Consideration | 197,979 |
| Net assets acquired | 104,357 |
| Goodwill (Note 7) | 93,622 |

The net cash flow generated by this transaction at 31 December 2018 is broken down in the following table:

| | Thousands of euros |
|---|---|
| Cash paid in the transaction | 197,979 |
| Cash acquired in the transaction | 31,939 |
| Net cash transferred | 166,040 |

Had the acquisition of the Solaris Group been completed on the first day of the year, Group revenue for the year would have been EUR 297,059 thousand higher and the profit contributed would not have been material.

Note 6 contains a detail of the contribution of the Solaris Group to the accompanying consolidated statement of profit or loss for 2018.

In 2018 the Parent also acquired a 30% ownership interest in Orbital Sistemas Aeroespaciales, S.L. for EUR 5,500 thousand and incorporated Metro CAF Mauritius, Ltd., CAF Belgium, S.P.R.L., CAF Track Test Center, S.L., Tram Liége Maintenance, S.A. and Great River City Light Rail Pty. Ltd.

Also, in 2018 the company name of Urbanización Parque Romareda, S.A. was changed to CAF Diversified Business Development, S.A. The company name of Construcciones Ferroviarias – CAF Santana, S.A. was also changed, to CAF Digital & Design Solutions, S.L.

Lastly, there was a change in the percentage of ownership of Tumaker, S.L. resulting in a 21.11% holding.

In 2017 the Parent acquired majority ownership interests granting it control over Rifer S.R.L. and BWB Holdings Ltd., which were included in the scope of consolidation of the CAF Group as described in Note 2-f to the consolidated financial statements for 2017.

In 2018, within the periods established by the legislation, the measurement of all the assets acquired and liabilities assumed was reviewed with the assistance of an independent expert (Note 2-e). In relation to the foregoing, the detail of the assets acquired and liabilities assumed in the aforementioned transactions measured at fair value is as follows:

| | Thousands of euros | | |
|---|---|---|---|
| | **Rifer, S.R.L.** | **BWB Holdings, Ltd.** | **Total** |
| **Non-current assets** | | | |
| Intangible assets | 4,142 | 14,298 | 18,440 |
| Property, plant and equipment | 372 | 661 | 1,033 |
| Other non-current assets | 22 | - | 22 |
| **Current assets** | | | |
| Inventories | 513 | 1,688 | 2,201 |
| Trade and other receivables | 1,702 | 18,070 | 19,772 |
| Other current assets | 8 | - | 8 |
| Cash and cash equivalents | 108 | 1,384 | 1,492 |
| **Non-current liabilities** | | | |
| Non-current financial liabilities | - | (94) | (94) |
| Other non-current liabilities | - | (618) | (618) |
| Deferred tax liabilities | (1,123) | (2,694) | (3,817) |
| **Current liabilities** | | | |
| Bank borrowings | (129) | - | (129) |
| Current financial liabilities | - | (4,938) | (4,938) |
| Trade and other payables | (1,882) | (17,670) | (19,552) |
| Other current liabilities | (398) | - | (398) |
| **Total net assets** | **3,335** | **10,087** | **13,422** |
| % acquired | 100% | 100% | |
| Total net assets acquired | 3,335 | 10,087 | 13,422 |

The calculation of the goodwill is broken down as follows (in thousands of euros):

| | Rifer, S.R.L. | BWB Holdings, Ltd. | Total |
|---|---|---|---|
| Consideration | 4,713 | 18,434 | 23,147 |
| Net assets acquired | 3,335 | 10,087 | 13,422 |
| Goodwill | 1,378 | 8,347 | 9,725 |

In 2017, CAF Netherlands, B.V., CAF Group UK, Ltd., CAF Rolling Stock UK Ltd. and Sermanbra Serviços de 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.

## Consolidation method

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

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

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

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

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

## Translation of foreign currency financial statements

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

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

**g) Correction of errors**

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2017.

## 3. ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT BASES APPLIED

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements as at 31 December 2018 and 2017 were as follows:

**a) Intangible assets**

Goodwill

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3-c and, where appropriate, are written down.

Other intangible assets

Intangible assets (internal computer software developments and development projects for which there are no doubts as to their technical and commercial success) are measured at their acquisition cost or accumulated production cost applied in accordance with inventory measurement bases (Note 3-e).

Commercial relationships, customer portfolio and trademarks arise mainly from business combinations (acquisitions of BWB, Rifer and Solaris) and are recognised initially at acquisition-date fair value, which is their deemed cost (Note 2-f).

Other intangible asset items are amortised on a straight-line basis at rates based on the following years of estimated useful life:

| | Years of estimated useful life |
|---|---|
| Commercial relationships and customer portfolio | 1,5 – 18 |
| Patents, licences and trademarks | 20 – indefinite useful life |
| Development expenditure | 5 |
| Computer software and other | 2 – 10 |

Development projects are amortised on a straight-line basis over five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (Note 7).

**b) Property, plant and equipment**

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

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

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

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

| | **Years of estimated useful life** |
|---|---|
| Buildings | 25 – 50 |
| Plant and machinery | 3 – 10 |
| Transport equipment (Leasing) | 5 – 10 |
| Other fixtures, tools and furniture | 3 – 10 |
| Other items of property, plant and equipment | 5 – 20 |

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

**c) Impairment of assets**

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

The recoverable amounts are calculated for each cash-generating unit, although in the case of property, plant and equipment, wherever possible, the impairment tests are performed individually for each asset.

If an impairment loss has to be recognised for a cash-generating unit to which all or part of an item of goodwill has been allocated, the carrying amount of the goodwill relating to that unit is written down first. If the loss exceeds the carrying amount of this goodwill, the carrying amount of the other assets of the cash-generating unit is then reduced, on the basis of their carrying amount, down to the limit of the highest of the following values: fair value less costs to sell; value in use; and zero.

Where an impairment loss subsequently reverses (not permitted in the specific case of goodwill), the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised as income.

**d) Financial instruments**

In accordance with the classification criteria established by IFRS 9, the Group classifies its financial assets in the following categories:

**Financial assets**

The financial assets held by the Group are classified on the basis of the nature of the financial asset's contractual cash flows and the business model for managing its financial assets, in the following categories:

1. Financial assets at amortised cost

This category includes financial assets that are held for the purpose of collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised at fair value and are subsequently measured at amortised cost.

The Group calculates a loss allowance for expected credit losses taking as a reference the expected losses in the next 12 months, unless the credit risk has increased significantly, in which case the Group calculates the loss allowance taking as a reference the expected life of the financial instrument.

In order to calculate this impairment, the Group uses as reference the creditworthiness of the borrowers, which is estimated using information available in the market (ratings) and adjusted following a case-by-case analysis of the collection guarantees available.

The Group derecognises a financial asset when all the risks and rewards of ownership of the asset have been transferred to another entity or when the contractual rights to the cash flows from the asset expire. At 31 December 2018, the Group had derecognised receivables amounting to EUR 28,108 thousand (31 December 2017: EUR 63,151 thousand) as a result of non-recourse factoring agreements.

2. Financial assets measured at fair value through other comprehensive income

Equity instruments that the Group has made the irrevocable election to classify as financial assets at fair value through other comprehensive income are recognised in this category.

The financial assets included in this category are initially recognised at fair value including any transaction costs. These assets are subsequently measured at fair value through other comprehensive income. The cumulative gain or loss is not transferred to profit or loss on disposal of these equity instruments. Dividends are recognised under “Finance Income” in the consolidated statement of profit or loss.

The Group has designated all its investments in equity instruments as measured at fair value through other comprehensive income (Note 9).

3. Financial assets at fair value through profit or loss

Assets that do not meet the requirements to be included in either of the other two categories are included in this category. The financial assets included in this category are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given. Directly attributable transaction costs are recognised in profit or loss. After initial recognition, the assets in this category are measured at fair value through profit or loss.

**Financial Liabilities**

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate. The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

Borrowings are recognised initially at fair value less the transaction costs incurred. They are subsequently measured at amortised cost, and any difference between the funds obtained (net of the costs required to obtain them) and the repayment value is recognised in the statement of profit or loss over the term to maturity of the debt using the effective interest method.

The Group only derecognises financial liabilities when the obligations giving rise to them are cancelled, eliminated or expire.

Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

The detail of the CAF Group's assets and liabilities measured at fair value according to the levels indicated above at 31 December 2018 and 2017 is as follows (in thousands of euros):

**2018**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Equity instruments (Note 9-b) | - | - | 22,834 | 22,834 |
| Derivatives (Note 17) | - | 16,569 | - | 16,569 |
| Other financial assets (*) (Note 13) | 59,281 | - | - | 59,281 |
| **Total assets** | **59,281** | **16,569** | **22,834** | **98,684** |
| **Liabilities** | | | | |
| Derivatives (Note 17) | - | 75,373 | - | 75,373 |
| **Total liabilities** | **-** | **75,373** | **-** | **75,373** |

(*) The amounts recognised as “Other Financial Assets” in 2018 relate to those denominated “Held-for-Trading Financial Assets” in 2017.

**2017**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Equity instruments (Note 9-b) | - | - | 9,506 | 9,506 |
| Derivatives (Note 17) | - | 57,706 | - | 57,706 |
| Held-for-trading financial assets (Note 13) | 55,120 | - | - | 55,120 |
| **Total assets** | **55,120** | **57,706** | **9,506** | **122,332** |
| **Liabilities** | | | | |
| Derivatives (Note 17) | - | 70,444 | - | 70,444 |
| **Total liabilities** | **-** | **70,444** | **-** | **70,444** |

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

To calculate the fair value of equity instruments, the Group uses appropriate measurement techniques based on the circumstances and on the volume of inputs available for each ownership interest, attempting to maximise the use of relevant observable inputs. These investments were measured at fair value using the business model of each one and the contractual terms and conditions thereof, assessing different scenarios and using discount rates checked with independent experts (Note 9-b).

**e) Inventory measurement bases**

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

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

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

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

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

**f) Recognition of contract revenue and profit**

The Group recognises revenue from the following main sources:

Construction and engineering contracts

For train and traction equipment construction contracts, the Group generally recognises the income and profit or loss on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the actual hours incurred in each contract as a percentage of the estimated total hours, which is in keeping with other methods for determining the stage of completion on the basis of the costs incurred compared with the budgeted costs.

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

– With a percentage of completion of between 0% and 10%, no profit or revenue is recognised, in order to take into account the initial margin of uncertainty of the contracts in the long term.

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

For civil engineering construction contracts, signalling and engineering services, revenue and the profit or loss on these contracts are recognised by reference to the estimated stage of completion of the contract, calculated on the basis of the costs incurred compared with the total budgeted costs.

Potential losses on project contracts are recognised in full when they become known or can be estimated.

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

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

Lastly, since the guarantees that are offered on these contract are not higher than those offered in the industry and are not additional guarantees, they are considered to be a single performance obligation together with the construction of the train or traction equipment.

### Sale of buses, wheel sets, replacement parts and lesser refurbishments

Revenue from sales of buses, wheel sets, replacement parts and lesser refurbishments is recognised when control of the asset is transferred to the customer and the entity satisfies a performance obligation deemed to be the point in time when the bus is delivered.

In certain bus contracts there are repurchase options (buybacks) in which a case-by-case analysis is performed to determine whether control has been transferred to the customer. The transfer criterion in these cases is based on whether or not the customer has a significant economic incentive to exercise that right. If it is considered that the customer has a significant economic incentive to exercise that right, the entity shall account for the revenue as an operating lease over the term of the transaction until the date of the repurchase option (Note 21).

The main factor taken into consideration in order to conclude as to whether there is an economic incentive for the client is the relationship of the repurchase price to the expected market value of the bus at the date of the repurchase.

If it is concluded that the customer does not have a significant economic incentive to exercise its right, the revenue is recognised as if it were the sale of a product with a right of return. In this case, a large proportion of the revenue is recognised when the bus is delivered. Also, a liability for the amount to be returned to the customer and an asset for the right of return are recognised in the consolidated balance sheet. If finally the bus is not returned at the right date, the Group recognises the liability as revenue and the asset as an expense (Note 21).

### Maintenance contracts

Maintenance revenue is recognised over the term of the contract. In general, revenue is recognised on a straight-line basis over the aforementioned time interval, unless there is evidence that another method better reflects the stage of completion at any time. That is, in multi-year projects with constant monthly billings where the resources available to perform the service are recognised on a straight-line basis, the billings made are assumed to be equal to the corresponding revenue.

However, when major repairs take place over specific periods of time, the percentage of completion of a contract is postponed and the recognition of a portion of the revenue from the billings received is deferred until the periods when the major repairs take place.

In these cases, this difference is recognised with a charge to "Revenue" in the accompanying consolidated statement of profit or loss and a credit to "Other Non-Current Liabilities" in the accompanying consolidated balance sheet (Note 21).

### Income for financial assets

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

**g) Consolidated balance sheet balances relating to revenue recognition**

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on achievement of the various milestones established in the contract and on acknowledgement thereof by the customer. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to the customer. The difference between revenue recognised on each project (Note 3-f) and the amount billed for the project is recognised as follows:

– If the difference is positive, “Contract Assets” under “Trade and Other Receivables - Trade Receivables for Sales and Services” (Note 12).

– If the difference is negative, “Contract Liabilities” under “Trade and Other Payables – Other Payables” and “Other non-current assets” (Note 12).

**h) Current/Non-current classification**

Items are classified under "Current Assets" and "Current Liabilities" (contract assets, contract liabilities and short-term provisions) which may be realised or settled in more than twelve months, since they form part of the Group's normal cycle as established in the applicable legislation. Considering the items as a whole, the directors' estimates indicate that the current assets will be realised essentially in the short term and, in any event, the current liabilities to be settled in more than twelve months exceed the current assets that would be realised in more than twelve months (Notes 12 and 21).

**i) Government grants**

The Group companies recognise government grants received as follows:

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

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

**j) Post-employment benefits**

The consolidated Group companies' legal and contractual obligations to certain of their employees in relation to supplementary retirement and death benefits are met through premiums under defined benefit plans to external funds deposited, or in the process of being externalised, at independent insurance companies. The contributions made in 2018 for various groups of employees amounted to EUR 8,543 thousand (2017: EUR 6,777 thousand). The impact of these obligations on the consolidated statement of profit or loss for 2018 amounted to EUR 3,308 thousand (2017: EUR 4,085 thousand) with a charge to "Staff costs". In 2018 a net actuarial loss of EUR 2,403 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2017: a net actuarial loss of EUR 5,525 thousand).

In accordance with the accrual basis of accounting, at 31 December 2018 the Group recognised a current asset of EUR 268 thousand, calculated by an independent valuer, in the consolidated balance sheet. This amount is the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as "plan assets" (31 December 2017: a liability of EUR 2,833 thousand and an asset of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (Notes 15, 18 and 23).

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

In accordance with the applicable collective agreement, the Parent contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (Notes 23, 24 and 25).

Lastly, certain subsidiaries have other obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2018 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 3,946 thousand and EUR 3,456 thousand, respectively (31 December 2017: EUR 3,095 thousand and EUR 2,703 thousand, respectively) (Note 20).

**k) Early retirements and termination benefits**

At 31 December 2018, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR 3,408 thousand and EUR 2,799 thousand, respectively (31 December 2017: EUR 5,892 thousand and EUR 3,113 thousand), relating to the present value estimated by the Parent's directors of the future payments to be made to employees who in December 2018 were included in the early retirement plan approved in 2013, or with whom hand-over contracts had been entered into. The net provision for 2018 was recognised with a charge of EUR 575 thousand (2017: EUR 6,272 thousand) to "Staff costs" in the consolidated statement of profit or loss (Note 23).

**l) Income tax**

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

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

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

**m) Leases**

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

Finance leases

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

Operating leases

As stated in Note 3-f, the Group as the lessor recognises revenue from bus leases under the operating lease model on a straight-line basis until the end of the lease.

The billings received in advance on these contracts are recognised under “Other Non-Current Liabilities” and “Other Current Liabilities” in the accompanying consolidated balance sheet (Note 21). Leased assets are recognised under “Property, Plant and Equipment” in the accompanying consolidated balance sheet.

At 31 December 2018, the Group had various outstanding operating leases for which it had recognised an expense of EUR 16,268 thousand in 2018 (2017: EUR 9,917 thousand) with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Group expects to continue to lease these assets (principally computer hardware and real estate), the costs of which are tied to the CPI.

The payment commitments for future years in relation to outstanding operating leases at 31 December 2018 amounted to EUR 83,195 thousand over the next few years, of which EUR 13,259 thousand are due in 2019 (31 December 2017: EUR 30,057 thousand, EUR 7,908 thousand of which were to be paid in 2018). In estimating the future payment obligations, at 31 December 2018, the Group companies took into account exercisable future extension options.

Expenses arising in connection with leased assets are allocated to “Other Operating Expenses” in the consolidated statement of profit or loss over the term of the lease.

### n) Administrative concessions

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

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

These concession arrangements are accounted for in accordance with IFRIC 12, "Service Concession Arrangements". In general, a distinction must be drawn between two clearly different phases: the first in which the operator provides construction or upgrade services which are recognised as intangible or financial assets by reference to the stage of completion pursuant to IFRS 15 "Revenue from Contracts with Customers", and a second phase in which the operator provides a series of maintenance or operation services for the aforementioned infrastructure, which are recognised in accordance with the same standard.

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

## 4. DISTRIBUTION OF THE PROFIT OF THE PARENT

The proposed distribution of the profit for 2018 that the Parent's directors will submit for approval by the shareholders at the Annual General Meeting is as follows:

| Distribution | Thousands of euros |
|---|---|
| **Distributable profit** | |
| Profit for the year | 4,285 |
| Voluntary reserves | 21,940 |
| | **26,225** |
| **Distribution** | |
| Dividends | 26,225 |

## 5. FINANCIAL RISK MANAGEMENT

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

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

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

The Group's Financial Department identifies, analyses, assesses and defines the treatment, and performs the monitoring and control, of the financial risks in accordance with the General Risk Management and Control Policy and the specific policies for the management of financial risk established by the Board of Directors.

**a) Market risk**

The CAF Group manages market risk in accordance with the principles set out in the Market Risks Policy.

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

The interest rate risk arises from the possibility that changes may occur in the value of the Group's financial assets and liabilities as a result of changes in market interest rates. In accordance with the policy, financing transactions are performed under appropriate cost, term and risk terms and conditions, considering at all times optimal use of the various instruments and sources of financing. Specifically, the Group sets an objective, to the extent permitted by the markets, of maintaining a borrowing structure balanced between fixed and floating interest rates (usually Euribor) the goal of which is to maintain an adequate balance between the cost of financing and the risk of changes in interest rates.

In this regard, a significant portion of the financial debt at 31 December 2018 related, on the one hand, to the concessions obtained in Brazil and Mexico (Notes 9 and 16), and, on the other, to the Parent's debt for the financing of its activity and that of the other Group companies.

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

With regard to the Parent's debt at 31 December 2018, it has a liability exposure of EUR 205.8 million in relation to changes in market interest rates (31 December 2017: EUR 103 million) and EUR 410.2 million in relation to fixed interest rates (31 December 2017: EUR 263 million), of which EUR 31.7 million were fixed as a result of interest rate derivatives (Notes 16 and 17). The debt of the subsidiaries CAF Investment Projects, S.A.U. and Solaris Group are tied to market interest rates (Note 16).

Taking into consideration the balance at 31 December 2018 and 2017, if the average of the market-tied interest rates of third-party borrowings had been 100 basis points higher or lower, with all other variables remaining constant, and considering the hedging policies described above, the finance costs arising from the financial debt would have risen by approximately EUR 5,283 thousand and EUR 3,125 thousand, respectively.

a.2) Foreign currency risk

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

The foreign currency risk to which the Group is exposed as a result of its operations in the international sphere is managed in accordance with the Market Risks Policy, which envisages various strategies aimed at reducing that risk, such as, for example, the arrangement of financial or natural hedges, ongoing monitoring of exchange rate fluctuations and other complementary measures.

In line with the principles of this policy, as a general rule the Group transfers to third parties, provided that the cost is reasonable, the foreign currency risk associated with its contracts denominated in currencies other than the Group's functional currency, which is the euro. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Group's results present fairly its industrial and services activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2018 of a 10% depreciation of the Brazilian real against the euro at 31 December 2018 would be a loss of EUR 3,297 thousand (31 December 2017: EUR 4,801 thousand). In the event of a 10% devaluation of its functional currency (Polish zloty) against the euro with respect to its closing exchange rate at 31 December 2018, the Group company Solaris Bus & Coach, S.A. would obtain a gain of EUR 4,429 thousand. The exchange rate fluctuation described above would have an opposite sign effect on the net investment in a foreign operation denominated in Polish zlotys. The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2018 and 2017, the Group was exposed to the foreign currency risk on the net investment in those subsidiaries whose functional currency is not the euro, except in the case of the US dollar, the exposure to which is partially hedged.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2018 and 2017 is as follows:

| | Equivalent value in thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | | 31/12/18 | | | 31/12/17 | |
| **Currency** | **Assets** | **Liabilities** | **Net exposure** | **Assets** | **Liabilities** | **Net exposure** |
| Chilean peso | 27,615 | 24,547 | 3,068 | 20,841 | 18,569 | 2,272 |
| Mexican peso | 145,372 | 124,414 | 20,958 | 134,198 | 115,494 | 18,704 |
| Argentine peso | 980 | 492 | 488 | 2,355 | 1,414 | 941 |
| Brazilian real | 451,589 | 265,408 | 186,181 | 614,174 | 365,957 | 248,217 |
| US dollar (Note 3-d) (*) | 557,795 | 304,907 | 47,284 | 533,774 | 309,080 | 3,433 |
| Pound sterling | 91,805 | 35,972 | 55,833 | 84,931 | 41,212 | 43,719 |
| Algerian dinar | 4,540 | 2,641 | 1,899 | 4,852 | 3,105 | 1,747 |
| Turkish lira | 4,139 | 2,578 | 1,561 | 3,780 | 2,937 | 843 |
| Venezuelan bolivar | 59 | 59 | - | 53 | 50 | 3 |
| Indian rupee | 8,509 | 83 | 8,426 | 8,880 | 88 | 8,792 |
| Australian dollar | 1,091 | 964 | 127 | 965 | 593 | 372 |
| Colombian peso | 2,126 | 1,589 | 537 | 2,263 | 1,729 | 534 |
| Saudi riyal | 12,134 | 8,388 | 3,746 | 20,613 | 20,139 | 474 |
| New Zealand dollar | 5,675 | 3,896 | 1,779 | 5,960 | 4,844 | 1,116 |
| Romanian leu | 307 | 187 | 120 | 239 | 125 | 114 |
| New Taiwan dollar | 13,224 | 7,409 | 5,815 | 27,330 | 21,302 | 6,028 |
| Hungarian forint | 625 | 380 | 245 | 866 | 715 | 151 |
| Japanese yen | 1,141 | 1,056 | 85 | 610 | 538 | 72 |
| Mauritian rupee | 1,491 | 1,476 | 15 | - | - | - |
| Polish zloty | 659,046 | 419,945 | 239,101 | - | - | - |
| Swiss franc | 4,275 | 1,689 | 2,586 | - | - | - |
| Norwegian krone | 5,545 | 8,606 | (3,061) | - | - | - |
| Swedish krona | 7,047 | 6,070 | 977 | - | - | - |
| **Total** | **2,006,130** | **1,222,756** | **577,770** | **1,466,684** | **907,891** | **337,532** |

(*) At 31 December 2018, there were hedges of net investments in foreign operations (Note 17) amounting to EUR 205,604 thousand, applying the year-end exchange rate (31 December 2017: EUR 221,261 thousand).

In the event of a 10% appreciation or depreciation of all the foreign currencies, the pre-tax impact on the Group's equity would amount to EUR 57,777 thousand at 31 December 2018 (31 December 2017: EUR 33,753 thousand).

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

| | Equivalent value in thousands of euros | | | |
|---|---|---|---|---|
| | 31/12/18 | | 31/12/17 | |
| **Nature of the balances** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Goodwill | 101,620 | - | 19,831 | - |
| Other intangible assets | 156,466 | - | 236 | - |
| Property, plant and equipment | 184,733 | - | 66,778 | - |
| Non-current financial assets and deferred tax assets | 513,249 | - | 565,308 | - |
| Other non-current assets | 2,684 | - | - | |
| Inventories | 314,042 | - | 146,361 | - |
| Trade and other receivables | 544,254 | - | 505,698 | - |
| Other current financial assets | 20,703 | - | 38,825 | - |
| Cash and cash equivalents | 138,379 | - | 123,647 | - |
| Non-current liabilities | - | 503,645 | - | 400,818 |
| Current liabilities | - | 719,111 | - | 507,073 |
| **Total** | **2,006,130** | **1,222,756** | **1,466,684** | **907,891** |

### a.3) Commodity price risk

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

### b) Credit risk

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

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

At 31 December 2018 and 2017, the Group had insured a portion of its accounts receivable from customers in certain countries abroad, taking into account the risk of each of them, through credit insurance policies (Note 12).

### c) Liquidity and financing risk

Prudent liquidity and financing risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations fully and effectively (Notes 14-h and 16).

The CAF Group manages liquidity and financing risk using the following mechanisms:

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

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

– Maintaining a strong short-term liquidity position.

– Maintaining surplus undrawn credit balances.

## 6. SEGMENT REPORTING

### a) Basis of segmentation

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

– By business unit, distinguishing between the "Rolling Stock" and the "Buses" operating activities. The latter is the result of the acquisition of Solaris (Note 2-f).

– Information based on the Group's geographical location and products and services group is also included.

### b) Basis and methodology for segment reporting

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

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

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

– Rolling stock

– Buses

Segment information about the businesses is as follows:

| Segmentation by business unit | Rolling stock | Buses | General | Inter-segment | Total |
|---|---|---|---|---|---|
| | 2018 (Thousands of euros) | | | | |
| External sales | 1,887,731 | 160,688 | - | - | 2,048,419 |
| Inter-segment sales | - | - | - | - | - |
| **Total sales** | **1,887,731** | **160,688** | **-** | **-** | **2,048,419** |
| **EBITDA** | **192,916** | **8,562** | **-** | **-** | **201,478** |
| Depreciation and amortisation charge (Notes 7 and 8) | (38,583) | (8,155) | - | - | (46,738) |
| Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9) | (10,703) | 131 | - | - | (10,572) |
| **EBIT** | **143,630** | **538** | **-** | **-** | **144,168** |
| Financial loss | (47,184) | (4,551) | (11,455) | - | (63,190) |
| Share of net results of associates | (488) | 85 | - | - | (403) |
| **Profit (Loss) before tax** | **95,958** | **(3,928)** | **(11,455)** | **-** | **80,575** |
| Income tax | | | | | (40,955) |
| **Profit (Loss) for the year from continuing operations** | | | | | **39,620** |
| Profit (Loss) attributable to non-controlling interests | | | | | (3,842) |
| **Profit (Loss) attributable to the Parent** | | | | | **43,462** |
| **ASSETS** | **2,734,913** | **674,343** | **596,694** | **11** | **4,005,961** |
| **LIABILITIES** | **2,033,208** | **421,995** | **793,486** | **5** | **3,248,694** |
| Intangible asset and property, plant and equipment additions (Notes 7 and 8) | 78,220 | 2,771 | - | - | 80,991 |

| 2017 (Thousands of euros) | | | |
|---|---|---|---|
| **Segmentation by business unit (*)** | **Rolling stock** | **General** | **Total** |
| External sales | 1,477,039 | | 1,477,039 |
| Inter-segment sales | - | - | - |
| **Total sales** | **1,477,039** | **-** | **1,477,039** |
| **EBITDA** | **180,252** | **-** | **180,252** |
| Depreciation and amortisation charge (Notes 7 and 8) | (34,690) | - | (34,690) |
| Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9) | 148 | - | 148 |
| **EBIT** | **145,710** | **-** | **145,710** |
| Financial loss | (69,126) | (9,668) | (78,794) |
| Share of net results of associates | 594 | - | 594 |
| **Profit (Loss) before tax** | **77,178** | **(9,668)** | **67,510** |
| Income tax | | | (24,993) |
| **Profit (Loss) for the year from continuing operations** | | | **42,517** |
| Profit (Loss) attributable to non-controlling interests | | | 111 |
| **Profit (Loss) attributable to the Parent** | | | **42,406** |
| **ASSETS** | **2,735,957** | **379,297** | **3,115,254** |
| **LIABILITIES** | **1,825,628** | **529,426** | **2,355,054** |
| Intangible asset and property, plant and equipment additions (Notes 7 and 8) | 63,454 | - | 63,454 |

(*) Following the basis of segmentation of 2018.

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

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

| | **2018** | **2017** |
|---|---|---|
| High-speed | 33,121 | 40,890 |
| Regional and commuter | 738,456 | 524,737 |
| Metros | 317,307 | 184,273 |
| Tram and light rail | 174,743 | 142,473 |
| Bogies, refitting and other | 51,541 | 40,195 |
| **Trains** | **1,315,168** | **932,568** |
| **Services** | **362,096** | **376,792** |
| **Buses** | **160,688** | **-** |
| **Wheel sets and components** | **83,821** | **72,218** |
| **Other (*)** | **126,646** | **95,461** |
| **Total** | **2,048,419** | **1,477,039** |

(*) Mainly civil construction, signalling and engineering contract revenue.

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2018 and 2017, including the most significant countries (those accounting for more than 5% of total sales), is as follows (in thousands of euros):

| | 2018 | 2017 |
|---|---|---|
| **Spain** | **236,646** | **196,672** |
| The Netherlands | 249,780 | 86,370 |
| Other | 281,124 | 93,871 |
| **EU – Euro Area** | **530,904** | **180,241** |
| United Kingdom | 480,198 | 333,481 |
| Other | 26,744 | 3,669 |
| **EU – No Euro Area** | **506,942** | **337,150** |
| **European Union** | **1,037,846** | **517,391** |
| Mexico | 239,690 | 276,466 |
| Brazil | 86,172 | 139,294 |
| Other | 448,065 | 347,216 |
| **Rest of the world** | **773,927** | **762,976** |
| **Total** | **2,048,419** | **1,477,039** |

In 2018 two customers represented 11% and 10%, respectively, of the Group's revenue. In 2017 one customer represented 12% of the Group's revenue.

b) The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2018 and 2017 is as follows (in thousands of euros):

| Geographical area | 2018 | 2017 |
|---|---|---|
| Spain | 171,378 | 175,647 |
| Poland (*) | 101,389 | - |
| Rest of the world | 92,317 | 68,866 |
| **Total** | **365,084** | **244,513** |

(*) Including buses leased under the operating lease model not in operation in that country.

## 7. INTANGIBLE ASSETS

### a) Goodwill

The changes in goodwill the years ended 31 December 2018 and 2017 were as follows:

**2018**

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Balance at 31/12/17** | **Adjustments to preliminary goodwill - transfers (Note 2-f)** | **Adjusted balance at 01/01/18** | **Changes in the scope of consolidation (Note 2-f)** | **Impairment** | **Translation differences** | **Balance at 31/12/18** |
| Rifer, S.R.L. | 4,265 | (2,887) | 1,378 | - | (1,186) | - | 192 |
| BWB Holdings, Ltd. | 19,844 | (11,497) | 8,347 | - | - | (309) | 8,038 |
| Solaris | - | - | - | 93,622 | - | (40) | 93,582 |
| Other | 15 | - | 15 | - | - | - | 15 |
| **Total** | **24,124** | **(14,384)** | **9,740** | **93,622** | **(1,186)** | **(349)** | **101,827** |

**2017**

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | **Balance at 31/12/16** | **Changes in the scope of consolidation** | **Impairment** | **Translation differences** | **Balance at 31/12/17** |
| Rifer, S.R.L. | - | 4,265 | - | - | 4,264 |
| BWB Holdings, Ltd. | - | 19,831 | - | 13 | 19,844 |
| Other | 15 | - | - | - | 15 |
| **Total** | **15** | **24,096** | **-** | **13** | **24,124** |

The goodwill of Solaris was allocated in full to the buses segment (Notes 2-f and 6).

In 2018, the Parent tested the recoverability of the goodwill of Rifer, S.R.L. and BWB Holding Ltd. The main parameters used in the recoverability test were as follows:

| | **Rifer S.R.L.** | **BWB Holdings, Ltd.** |
|---|---|---|
| Adjusted carrying amount at 01/01/18 (thousands of euros) | 1,378 | 8,347 |
| Value considered representative to determine the recoverable amount | Value in use | Value in use |
| Estimated number of years covered by cash flow projections | 5 | 2 |
| Long-term growth rate used | 2% | 2% |
| Discount rate used (*) | 12.8% | 10.4% |

(*) Discount rate after tax.

The projections are prepared for each cash-generating unit on the basis of past experience and of the best estimates available, which are consistent with the Company's business plans. The main components are:

– Earnings projections

– Investment and working capital projections

Following this analysis, an impairment loss of EUR 1,186 thousand was recognised in relation to the goodwill of Rifer, S.R.L. with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The estimated enterprise value of BWB Holdings, Ltd. is EUR 1,023 thousand higher than its carrying amount.

Following is a sensitivity analysis of the main assumptions used in the model:

| **Amounts in thousands of euros** | **Rifer S.R.L.** | | **BWB Holdings, Ltd.** | |
|---|---|---|---|---|
| | -100 p.b. | +100 p.b | -100 p.b | +100 p.b. |
| Growth rate: | -239 | +287 | - 2,028 | + 2,577 |
| Discount rate: | +510 | -423 | + 3,027 | - 2,383 |

**b) Other intangible assets**

The changes in the years ended 31 December 2018 and 2017 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Commercial relationships and customer portfolio | Patents, licenses and trademarks | Development expenditure | Computer software and other | Total |
| **Cost** | | | | | |
| **Cost at 31/12/16** | **-** | **63** | **118,434** | **21,512** | **140,009** |
| Changes in the scope of consolidation | - | 5 | 6 | 594 | 605 |
| Additions or charge for the year | - | - | 16,330 | 2,861 | 19,191 |
| Transfers | - | - | - | 142 | 142 |
| Transfers to inventories | - | - | (1,384) | - | (1,384) |
| Disposals or reductions | - | - | - | (8) | (8) |
| Translation differences | - | - | 1 | (71) | (70) |
| **Cost at 31/12/17** | **-** | **68** | **133,387** | **25,030** | **158,485** |
| Changes in the scope of consolidation | 9,537 | 111,215 | 13,931 | 7,385 | 142,068 |
| Additions or charge for the year | - | - | 23,655 | 4,513 | 28,168 |
| Transfers | 16,962 | 1,821 | 80 | (12) | 18,851 |
| Transfers to inventories | - | - | (497) | - | (497) |
| Disposals or reductions | - | - | - | (13) | (13) |
| Translation differences | (143) | (62) | (7) | (42) | (254) |
| **Cost at 31/12/18** | **26,356** | **113,042** | **170,549** | **36,861** | **346,808** |
| **Accumulated amortisation** | | | | | |
| **Accumulated amortisation at 31/12/16** | **-** | **(52)** | **(67,076)** | **(16,131)** | **(83,259)** |
| Changes in the scope of consolidation | - | - | (2) | (352) | (354) |
| Additions or charge for the year | - | (7) | (10,170) | (1,599) | (11,776) |
| Transfers | - | - | - | (85) | (85) |
| Disposals or reductions | - | - | - | 6 | 6 |
| Translation differences | - | - | (1) | 46 | 45 |
| **Accumulated amortisation at 31/12/17** | **-** | **(59)** | **(77,249)** | **(18,115)** | **(95,423)** |
| Changes in the scope of consolidation | (698) | - | - | - | (698) |
| Additions or charge for the year | (1,962) | (1,868) | (12,585) | (2,427) | (18,842) |
| Transfers | - | - | 589 | 2 | 591 |
| Disposals or reductions | - | - | - | - | - |
| Translation differences | 18 | 1 | 1 | 24 | 44 |
| **Accumulated amortisation at 31/12/18** | **(2,642)** | **(1,926)** | **(89,244)** | **(20,516)** | **(114,328)** |
| **Impairment** | | | | | |
| **Impairment at 31/12/17** | **-** | **-** | **(16,621)** | **(20)** | **(16,641)** |
| Recognised in 2018 | - | - | (9,311) | - | (9,311) |
| Transfers in 2018 | - | - | - | 7 | 7 |
| **Impairment at 31/12/18** | **-** | **-** | **(25,932)** | **(13)** | **(25,945)** |
| **Net balance at 31/12/17** | **-** | **9** | **39,517** | **6,895** | **46,421** |
| **Net balance at 31/12/18** | **23,714** | **111,116** | **55,373** | **16,332** | **206,535** |

Research and development expenditure incurred in 2018 amounted to EUR 40,983 thousand (EUR 17,328 thousand were recognised in the consolidated statement of profit or loss and EUR 23,655 thousand were capitalised). Research and development expenditure incurred in 2017 amounted to EUR 28,054 thousand (EUR 11,724 thousand were recognised in the consolidated statement of profit or loss and EUR 16,330 thousand were capitalised). These amounts do not include basic engineering costs associated with contracts.

The additions to "Development Expenditure" in 2018 and 2017 correspond to the costs incurred in the development of new products, including most notably the development of highly automated signalling, the development of the digital train and the development of critical safety platforms.

As discussed in Note 3-a, in 2018 the Group transferred approximately EUR 497 thousand of development expenditure to various contracts it had won that incorporated the technology developed (2017: EUR 1,384 thousand).

Subsequent to the review of the fair value of the assets acquired and liabilities assumed of Rifer, S.R.L. and BWB Holdings, Ltd. (Note 2-f), a transfer was performed mainly between the provisional goodwill recognised at 2017 year-end and the “Commercial Relationships and Customer Portfolio” and “Patents, Licenses and Trademarks” items. The net transfer relates to the deferred tax liability arising on allocation of the fair value. Also, the amount relating to the amortisation charge in 2017 (EUR 479 thousand) was adjusted against reserves, net of tax.

Lastly, in 2018, as a result of the acquisition of Solaris, an impairment loss of EUR 9,311 thousand was recognised with a charge to “Impairment and Gains or Losses on Disposals of Non-Current Assets” in the accompanying consolidated statement of profit or loss in relation to the development expenditure recognised in prior years in which the recoverability and economic and financial feasibility of the projects were not guaranteed.

## 8. PROPERTY, PLANT AND EQUIPMENT

The changes in the years ended 31 December 2018 and 2017 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Land and buildings** | **Plant and machinery** | **Transport equipment (leasing) (Note 3.m)** | **Other fixtures, tools and furniture** | **Other items of property, plant and equipment** | **Advances and property, plant and equipment in construction** | **Total** |
| **Cost at 31/12/16** | **260,874** | **285,040** | **-** | **22,448** | **42,115** | **2,760** | **613,237** |
| **Cost** | | | | | | | |
| Changes in the scope of consolidation (Note 2-f) | 30 | 1,297 | - | 296 | 690 | 1 | 2,314 |
| Additions | 17,713 | 10,252 | - | 3,342 | 2,021 | 10,935 | 44,263 |
| Transfers | 631 | 1,714 | - | 294 | (100) | (2,811) | (272) |
| Disposals or reductions | (197) | (2,145) | - | (56) | (17) | (1) | (2,416) |
| Translation differences | (6,645) | (4,642) | - | (247) | (181) | (189) | (11,904) |
| **Cost at 31/12/17** | **272,406** | **291,516** | **-** | **26,077** | **44,528** | **10,695** | **645,222** |
| Changes in the scope of consolidation (Note 2-f) | 46,347 | 13,507 | 39,914 | 3,092 | 2,349 | 998 | 106,207 |
| Additions | 25,855 | 17,120 | - | 5,190 | 2,432 | 2,226 | 52,823 |
| Transfers | 10,521 | (443) | - | 595 | (9,641) | (12,584) | (11,552) |
| Disposals or reductions | (681) | (10,914) | - | (792) | (117) | - | (12,504) |
| Translation differences | (1,821) | (1,049) | (17) | (57) | (28) | (5) | (2,977) |
| **Cost at 31/12/18** | **352,627** | **309,737** | **39,897** | **34,105** | **39,523** | **1,330** | **777,219** |
| **Accumulated depreciation at 31/12/16** | **(97,799)** | **(234,489)** | **-** | **(15,851)** | **(25,046)** | **-** | **(373,185)** |
| Changes in the scope of consolidation (Note 2-f) | (3) | (745) | - | (69) | (462) | - | (1,279) |
| Additions | (6,492) | (12,770) | - | (1,202) | (2,450) | - | (22,914) |
| Transfers | - | (4) | - | 44 | 41 | - | 81 |
| Disposals or reductions | 19 | 2,074 | - | 20 | 15 | - | 2,128 |
| Translation differences | 1,652 | 3,022 | - | 135 | 167 | - | 4,976 |
| **Accumulated depreciation at 31/12/17** | **(102,623)** | **(242,912)** | **-** | **(16,923)** | **(27,735)** | **-** | **(390,193)** |
| Additions | (7,837) | (11,332) | (2,508) | (3,390) | (2,829) | - | (27,896) |
| Transfers | 363 | 167 | - | (23) | 3,025 | - | 3,532 |
| Disposals or reductions | 647 | 10,896 | - | 99 | 116 | - | 11,758 |
| Translation differences | 474 | 897 | - | 51 | 25 | - | 1,447 |
| **Accumulated depreciation at 31/12/18** | **(108,976)** | **(242,284)** | **(2,508)** | **(20,186)** | **(27,398)** | **-** | **(401,352)** |
| **Impairment at 31/12/16** | **(6,459)** | **(4,140)** | **-** | **(131)** | **(13)** | **-** | **(10,743)** |
| Recognised in 2017 | 182 | - | - | - | - | - | 182 |
| Disposals or reductions | - | - | - | - | - | - | - |
| Translation differences | 46 | (1) | - | - | - | - | 45 |
| **Impairment at 31/12/17** | **(6,231)** | **(4,141)** | **-** | **(131)** | **(13)** | **-** | **(10,516)** |
| Recognised in 2018 | - | - | - | (292) | - | - | (292) |
| Translation differences | 26 | (1) | - | - | - | - | 25 |
| **Impairment at 31/12/18** | **(6,205)** | **(4,142)** | **-** | **(423)** | **(13)** | **-** | **(10,783)** |
| **Net balance at 31/12/17** | **163,552** | **44,463** | **-** | **9,023** | **16,780** | **10,695** | **244,513** |
| **Net balance at 31/12/18** | **237,446** | **63,311** | **37,389** | **13,496** | **12,112** | **1,330** | **365,084** |

The most significant investments in 2018 were aimed at improving the Group’s production capacity, including investments in the UK production plant, the robotised bogie facility and the fit-out of the finishing warehouses using the lean methodology at the Parent’s facilities.

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

In prior years the Group transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled. The locomotives were leased to third parties in 2018. At the end of 2018, ownership of 8 of the 9 locomotives was transferred and a carrying amount of EUR 7,154 thousand was transferred to “Inventories”; the sale of the final unit is expected to take place in the coming year. At 31 December 2018, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand.

At 2018 year-end, “Transport Equipment (Leasing)” included buses leased under operating leases (as indicated in Note 3-f) for a carrying amount of EUR 37,389 thousand. Note 21 to the consolidated financial statements details the deferred income that will be recognised on a straight-line basis until the established repurchase date.

At 31 December 2018, the Group had firm capital expenditure commitments amounting to approximately EUR 10,376 thousand mainly in Spain (31 December 2017: EUR 23,768 thousand mainly in the UK).

At 31 December 2018, the Group had payables to property, plant and equipment suppliers amounting to EUR 9,572 thousand (31 December 2017: EUR 18,979 thousand) under “Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated balance sheet.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2018 and 2017, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2018, the gross cost of fully depreciated assets in use amounted to approximately EUR 283,271 thousand (31 December 2017: EUR 274,410 thousand).

The gains recognised on property, plant and equipment disposals in 2018 amounted to approximately EUR 175 thousand and were recognised under “Impairment and Gains or Losses on Disposals of Non-Current Assets” in the accompanying consolidated statement of profit or loss (2017: losses of EUR 106 thousand). In 2018 the Group sold items of property, plant and equipment amounting to EUR 921 thousand (2017: EUR 182 thousand).

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2018, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,055 thousand (31 December 2017: EUR 1,267 thousand). EUR 212 thousand were allocated to profit or loss in this connection in 2018 (2017: EUR 423 thousand), and this amount was recognised under “Depreciation and Amortisation Charge” in the accompanying consolidated statement of profit or loss.

The directors consider that there were no indications of impairment of the Group’s assets at 31 December 2018 other than those described in this Note.

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

### a) Investments accounted for using the equity method

The changes in the years ended 31 December 2018 and 2017 in "Investments Accounted for Using the Equity Method" in the accompanying consolidated balance sheet were as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| **Beginning balance** | **19,752** | **18,572** |
| Amounts charged to profit or loss | (403) | 594 |
| Hedges | 351 | 806 |
| Changes in the scope of consolidation | 1,586 | - |
| Additions (Note 2-f) | 5,500 | - |
| Disposals | (8,689) | (70) |
| Exchange differences | 91 | (150) |
| **Ending balance** | **18,188** | **19,752** |

In 2018 the investee Consorcio Traza, S.A. distributed dividends amounting to EUR 7,524 thousand.

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

**2018**

| Name | Basic financial data (1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-current assets | Current assets | Non-current liabilities | Current liabilities | Equity of the Parent | Non-controlling interests | Sales | Profit (Loss) of the Parent | Other comprehensive income |
| Nuevas Estrategias de Mantenimiento, S.L. (2) | 5,862 | 5,338 | 725 | 1,448 | 9,027 | - | 4,875 | 85 | - |
| Plan Metro, S.A. (3) | 306,043 | 10,303 | 339,305 | 33,288 | (56,247) | - | 55,676 | (3,020) | - |
| Consorcio Traza, S.A. (4) | 218,595 | 36,014 | 225,964 | 5,353 | 21,355 | 1,937 | 24,678 | (3,882) | 1,406 |
| Ferrocarriles Suburbanos, S.A. de C.V. | 94,955 | 60,098 | 112,327 | 42,726 | - | - | 42,998 | 58,606 | 159 |
| Arabia One for Clean Energy Invest. PSC. | 20,026 | 2,395 | 17,890 | 843 | 3,688 | - | 3,050 | 339 | 167 |
| Orbital Sistemas Aeroespaciales, S.L. | 18,894 | 3,867 | 3,018 | 610 | 19,133 | - | 3,376 | 800 | - |

| Name | Equity | % of share capital | Equity attributable to CAF Group | Investment accounted for using the equity method | Recognised profit (loss) |
|---|---|---|---|---|---|
| Nuevas Estrategias de Mantenimiento, S.L. (2) | 9,027 | 50 | 4,513 | 4,513 | 43 |
| Plan Metro, S.A. (3) | (56,247) | 40 | (22,499) | - | - |
| Consorcio Traza, S.A. (4) | 21,355 | 25 | 5,339 | 5,339 | (970) |
| Ferrocarriles Suburbanos, S.A. de C.V. | - | 43.35 | - | - | - |
| Arabia One for Clean Energy Investments PSC. | 3,688 | 40 | 1,475 | 1,475 | 136 |
| Orbital Sistemas Aeroespaciales, S.L. | 19,133 | 30 | 5,740 | 5,740 | 240 |
| Other investments (5) | - | - | 1,121 | 1,121 | 148 |
| | | | **(4,311)** | **18,188** | **(403)** |

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).
(2) Nuevas Estrategias de Mantenimiento, S.L. holds an 100% ownership interest in Nem Solutions USA, Inc.
(3) This company's shares are pledged to certain banks.
(4) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
(5) Dormant companies or companies with no significant activity.

**2017**

| Name | Basic financial data (6) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-current assets | Current assets | Non-current liabilities | Current liabilities | Equity of the Parent | Non-controlling interests | Sales | Profit (Loss) of the Parent | Other comprehensive income |
| Nuevas Estrategias de Mantenimiento, S.L. (7) | 5,412 | 5,474 | 563 | 1,381 | 8,942 | - | 5,021 | 122 | 3 |
| Plan Metro, S.A. (8) | 352,130 | 10,232 | 384,860 | 30,729 | (53,227) | - | 54,427 | (2,872) | - |
| Consorcio Traza, S.A. (9) | 245,001 | 54,607 | 228,365 | 14,487 | 53,926 | 2,830 | 23,910 | 22 | 3,224 |
| Ferrocarriles Suburbanos, S.A. de C.V. | 243,383 | 66,651 | 319,601 | 49,198 | (58,765) | - | 39,552 | (7,398) | 2,198 |
| Arabia One for Clean Energy Invest. PSC. | 20,091 | 2,730 | 18,806 | 831 | 3,184 | - | 3,280 | 1,605 | (237) |

| Name | Equity | % of share capital | Equity attributable to CAF Group | Investment accounted for using the equity method | Recognised profit (loss) |
|---|---|---|---|---|---|
| Nuevas Estrategias de Mantenimiento, S.L. (7) | 8,942 | 50 | 4,471 | 4,471 | (210) |
| Plan Metro, S.A. (8) | (53,227) | 40 | (21,291) | - | - |
| Consorcio Traza, S.A. (9) | 53,926 | 25 | 13,481 | 13,481 | 5 |
| Ferrocarriles Suburbanos, S.A. de C.V. | (58,765) | 43.35 | (25,475) | - | - |
| Arabia One for Clean Energy Investments PSC. | 3,184 | 40 | 1,273 | 1,172 | 642 |
| Other investments (10) | | - | 628 | 628 | 157 |
| | | | **(26,913)** | **19,752** | **594** |

(6) After adjustments and unifying entries for consolidation purposes (in thousands of euros).
(7) Nuevas Estrategias de Mantenimiento, S.L. holds an 100% ownership interest in Nem Solutions USA, Inc.
(8) This company's shares are pledged to certain banks.
(9) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
(10) Dormant companies or companies with no significant activity.

In consolidating the ownership interests, the Group took the necessary fair value adjustments into account and eliminated the sales margins on rolling stock material in proportion to its ownership interest. Since the CAF Group has not incurred any legal or explicit obligations or made payments on behalf of the associates it is not necessary to consolidate the additional losses incurred by these associates valued at zero. At 31 December 2018, the unrecognised losses exceeding the cost of the investment amounted to EUR 22,499 thousand (31 December 2017: EUR 46,766 thousand).

**b) Non-current financial assets**

The detail of "Non-Current Financial Assets" in the accompanying consolidated balance sheet is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | **31/12/18** | | **31/12/17** | |
| | **% of ownership** | **Amount** | **% of ownership** | **Amount** |
| **Equity instruments** | | | | |
| Alquiler de Trenes, A.I.E | 5% | 3,587 | 5% | 1,202 |
| Ferromovil 3000, S.L. | 10% | 9,660 | 10% | 3,181 |
| Alquiler de Metros, A.I.E. | 5% | 107 | 5% | 105 |
| Plan Azul 07, S.L. | 5.20% | 3,158 | 5.20% | 1,381 |
| Arrendadora de Equipamientos Ferroviarios, S.A. | 15% | 4,542 | 15% | 1,908 |
| Iniciativa FIK, A.I.E. | 14.18% | 838 | 14.18% | 1,040 |
| Albali Señalización, S.A. | 3% | 641 | 3% | 398 |
| Other | | 301 | | 291 |
| **Total equity instruments-** | | **22,834** | | **9,506** |
| | | | | |
| **Other financial assets** | | | | |
| **Amortised cost** | | | | |
| Guarantees and other financial assets | | 16,250 | | 15,624 |
| Loans to employees | | 4,238 | | 4,605 |
| Non-current tax receivables (Note 19) | | 42,231 | | 48,357 |
| Non-current trade and other receivables | | 439,761 | | 471,062 |
| Loans to associates (Note 10) | | 26,823 | | 25,172 |
| | | **529,303** | | **564,820** |
| **Provisions** | | | | |
| Provision for tax payables (Note 19) | | (12,176) | | (13,666) |
| Impairment losses | | (2,900) | | - |
| | | **(15,076)** | | **(13,666)** |
| **Total other financial assets** | | **514,227** | | **551,154** |
| **Total** | | **537,061** | | **560,660** |

The changes in the non-current financial assets in 2018 and 2017 were as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | **Equity instruments** | **Other financial assets** | | |
| | | **Amortised cost** | **Provisions** | **Total** |
| **Balance at 31/12/16** | **9,437** | **660,038** | **(15,917)** | **653,558** |
| Changes in the scope of consolidation | - | 12 | - | 12 |
| Translation differences | (4) | (79,746) | 2,164 | (77,586) |
| Additions or charge for the year | 73 | 124,251 | 87 | 124,411 |
| Disposals or reductions | - | (2,556) | - | (2,556) |
| Transfers (Note 3-n) | - | (137,179) | - | (137,179) |
| **Balance at 31/12/17** | **9,506** | **564,820** | **(13,666)** | **560,660** |
| Initial adjustment due to IFRS 9 (Notes 2-b and 2-e) | - | - | (3,054) | (3,054) |
| **Adjusted balance 01/01/18** | **9,506** | **564,820** | **(16,720)** | **557,606** |
| Changes in the scope of consolidation | - | 84 | - | 84 |
| Changes in fair value with a charge to reserves | 13,320 | - | - | 13,320 |
| Translation differences | 2 | (24,745) | 1,522 | (23,221) |
| Additions | 6 | 105,020 | - | 105,026 |
| Charges to profit or loss for the year | - | - | (62) | (62) |
| Transfers (Note 3-n) | - | (114,647) | - | (114,647) |
| Disposals or reductions | - | (1,229) | 184 | (1,045) |
| **Balance at 31/12/18** | **22,834** | **529,303** | **(15,076)** | **537,061** |

**c) Other financial assets**

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

**2018**

| | **2020** | **2021** | **2022** | **2023 and subsequent years** | **Total** |
|---|---|---|---|---|---|
| Assets at amortised cost (*) | 105,533 | 136,587 | 117,410 | 154,697 | 514,227 |
| **Total** | **105,533** | **136,587** | **117,410** | **154,697** | **514,227** |

(*) This heading included mainly the items called "Loans and Receivables" and "Held-to-Maturity Investments" in 2017. The amounts are presented net of the related impairment losses.

**2017**

| | **2019** | **2020** | **2021** | **2022 and subsequent years** | **Total** |
|---|---|---|---|---|---|
| Loans and receivables (*) | 121,655 | 135,074 | 109,410 | 169,391 | 535,530 |
| Held-to-maturity investments | 1,476 | 25 | 13 | 14,110 | 15,624 |
| **Total** | **123,131** | **135,099** | **109,423** | **183,501** | **551,154** |

(*) The amounts are presented net of the related impairment losses.

## Guarantees and other financial assets

These guarantees are related mainly to the increase in borrowings taken by the subsidiary Ctrens Companhia Manutençao (Note 16) amounting to EUR 13,194 thousand (31 December 2017: EUR 13,666 thousand). This guarantee, which bears interest at market rates and relates to six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

## Loans to employees

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

## Non-current tax receivables

At 31 December 2018, the Group recognised EUR 42,231 thousand under “Non-Current Financial Assets – Other Financial Assets” in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2017: EUR 48,357 thousand). This amount decreased by EUR 5,097 thousand in 2018 as a result of translation differences.

The above amounts may be recovered by offsetting them against the output VAT charged to customers or selling them to third parties once they have been claimed from the tax authorities. The Group is currently taking the steps required to claim them and expects to recover them mainly through sale to third parties. At 31 December 2018, the Group had recognised impairment losses of EUR 12,176 thousand (31 December 2017: EUR 13,666 thousand) to adjust the face value of these receivables to their recoverable amount, with a reversal of EUR 42 thousand in 2018 (2017: a charge of EUR 87 thousand) recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was a reduction in the impairment losses of EUR 1,448 thousand in 2018.

## Non-current trade and other receivables

“Non-Current Trade Receivables” includes an account receivable amounting to EUR 3,765 thousand at long term (31 December 2017: EUR 4.932 thousand) and EUR 1,324 thousand at short term (31 December 2017: EUR 1,245 thousand) relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2018 EUR 1,500 thousand (2017: EUR 1,500 thousand) were received and EUR 411 thousand (2017: EUR 490 thousand) were credited to "Finance Income" in the accompanying consolidated statement of profit or loss, based on the interest rate implicit in the transaction.

On 19 March 2010, the Group company 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 18.7 million at 31 December 2018 following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Security Agent and can be used to pay the concession operator in the event of default by CPTM on its payment obligations.

– The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.

– The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (Note 26-a). At 31 December 2018, this guarantee amounted to BRL 38,320 thousand (EUR 8,622 thousand).

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

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

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

– The consideration payable by STC is secondarily guaranteed by a system of trusts with funds from the "Remanentes de las Participaciones Federales" (Federal Participation Surpluses) (Federal District Government payment risk). In 2018 this guarantee comfortably fulfilled STC's payment obligations in the year.

– The concession operator must secure the correct performance of its obligations to STC with a bank guarantee of 10% of the payments expected to be received by it in the current year (Note 26 a).

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

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

Consequently, at 31 December 2018 the Group recognised balances of EUR 433,642 thousand under "Non-Current Financial Assets – Other financial assets" (31 December 2017: EUR 466,042 thousand) and EUR 110,211 thousand under "Trade and Other Receivables – Other Receivables" (31 December 2017: EUR 115,213 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2018 or 2017.

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

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

## 10. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

| | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| **Company** | **Services provided or sales recognised** | **Services received or purchases recognised** | **Finance income** | **Services provided or sales recognised** | **Services received or purchases recognised** | **Finance income** |
| Nuevas Estrategias de Mantenimiento, S.L. | 17 | 2,382 | - | 4 | 1,734 | - |
| Plan Metro, S.A. | 13,611 | 3 | 1,848 | 13,043 | - | 1,716 |
| Ferrocarriles Suburbanos, S.A. de C.V. | 11,363 | 127 | - | 13,673 | 97 | - |
| Ferrocarril Interurbano, S.A. de C.V. | 88,747 | - | - | 177,454 | - | - |
| Other | 247 | 2,083 | 38 | - | 3 | 82 |
| **Total** | **113,985** | **4,595** | **1,886** | **204,174** | **1,834** | **1,798** |

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

As a result of the transactions performed in 2018, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2018 and 2017 were as follows:

| | Thousands of euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31/12/18 | | | | 31/12/17 | | | |
| **Company** | **Accounts receivable/ Short-term loans** | **Accounts payable** | **Net advances based on stage of completion** | **Long-term loans (Note 9-c)** | **Accounts receivable** | **Accounts payable** | **Net advances based on stage of completion** | **Long-term loans (Note 9-c)** |
| Nuevas Estrategias de Mantenimiento, S.L. | 23 | 337 | - | - | 100 | 244 | - | - |
| Plan Metro, S.A. | 1,294 | - | (1,054) | 25,860 | 1,273 | - | (167) | 24,012 |
| Ferrocarriles Suburbanos, S.A. de C.V. | 2,043 | 21 | (800) | - | 2,052 | 23 | - | - |
| Ferrocarril Interurbano, S.A. de C.V. | 26,272 | 856 | (42,362) | - | 25,442 | 50 | (84,723) | - |
| Other | 525 | 159 | - | 963 | 1 | 1 | - | 1,160 |
| **Total** | **30,157** | **1,373** | **(44,216)** | **26,823** | **28,868** | **318** | **(84,890)** | **25,172** |

In 2011 the subsidiary CAF Investment Projects, S.A.U. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently

guaranteed. Plan Metro, S.A.'s current economic and financial model supports the recovery of the loaned amounts and the interest accrued thereon by the CAF Group. Also, the Group recognised finance income of EUR 1,848 thousand in relation to the interest accrued on the loan with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss (2017: EUR 1,716 thousand).

## 11. INVENTORIES

The detail of "Inventories" at 31 December 2018 and 2017 is as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 22) | 339,093 | 33,529 |
| Advances to suppliers | 36,333 | 38,125 |
| **Total** | **375,426** | **71,654** |

At 2018 year-end the Group had recognised write-downs totalling EUR 31,184 thousand (31 December 2017: EUR 8,788 thousand). This increase was due to the inclusion of Solaris in the scope of consolidation.

At 31 December 2018, the Group had firm raw materials purchase commitments amounting to approximately EUR 792,375 thousand (31 December 2017: EUR 721,823 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2018 and 2017, the insurance policies taken out covered the carrying amount of the inventories at those dates.

## 12. TRADE AND OTHER RECEIVABLES

The detail of "Trade Receivables for Sales and Services" at 31 December 2018 and 2017 is as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Trade receivables - in euros | 793,698 | 519,622 |
| Trade receivables - in foreign currency | 534,509 | 766,205 |
| Write-downs | (16,372) | (8,584) |
| **Total** | **1,311,835** | **1,277,243** |

The detail of this heading, by trade receivables and contract assets, is as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Contract assets (Note 3-f) | 856,258 | 739.306 |
| Customers billed | 471,949 | 546.521 |
| Write-downs | (16,372) | (8.584) |
| **Total** | **1,311,835** | **1,277,243** |

### Contract assets and liabilities

The detail of contract assets and liabilities is as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Current contract assets (Note 3-f) | 856,258 | 739,306 |
| Current contract liabilities (Note 3-f) | (763,104) | (537,584) |
| Non-current contract liabilities (Note 21) | (41,228) | (55,821) |
| **Net balance** | **51,926** | **145,901** |

EUR 425,248 thousand of “Current Contract Liabilities” at 31 December 2017 were recognised as revenue in 2018. Moreover, no significant revenue was recognised for performance obligations satisfied in prior periods.

The unrecognised revenue for performance obligations not satisfied at year-end relates to what is usually referred to as backlog (see definition in the Alternative Performance Measures section of the Directors' Report) (Note 27). 30% of that amount is expected to be recognised under “Revenue” in 2019, 21% in 2020 and the remainder in 2021 and subsequent years.

The most significant changes in contract assets arose as a result of the entry into force of IFRSs 9 and 15. As a result of the entry into force of IFRS 15 (Notes 2-b and 2-e) the possible penalties that would change the probable transaction price are recognised as a reduction of revenue rather than as an expense. Therefore, the provisions for third-party liabilities reducing “Contract Assets” amounted to EUR 30,342 thousand at 31 December 2018. At 31 December 2017, EUR 12,348 thousand had been recognised in this connection under “Short-Term Provisions” on the liability side of the consolidated balance sheet, the total balance of which was EUR 83,612 thousand (Note 20). The remaining EUR 71,264 thousand were reclassified to “Customers Billed”.

### Customers billed

“Customers Billed” at the end of 2018 is presented net of provisions for third-party liability as a result of the entry into force of IFRS 15.

EUR 71,264 thousand, which in 2017 were presented under “Short-Term Provisions” in the accompanying consolidated balance sheet, were thus reclassified. The figure at 31 December 2018 reducing the balance of “Customers Billed” amounted to EUR 86,193 thousand. The inclusion of Solaris in the scope of consolidation is the main reason for this increase.

At 31 December 2018, the balances billed included EUR 58,601 thousand in relation to the agreement signed in prior years with Metro de Caracas, the balance of which is past due and relates to work performed, net of contractual provisions, and billed to the customer and the collection of which is considered to be covered by the insurance policy in force.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, keeps arranged a supplier credit policy with credit risk coverage for the Metro de Caracas Line 1 refurbishment project. The insureds under this policy are the venturers in the aforementioned unincorporated temporary joint venture, including CAF. At 31 December 2018, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filling a claim under the aforementioned insurance policy had been met, but no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

In relation to the contract with Metro de Caracas, the Group's accounting policy was to recognise only revenue the collection of which was considered probable, considering as such revenue already collected, revenue insured under credit

policies and revenue that can be offset against other liabilities to the same customer. At 31 December 2018 and 2017, the CAF Group had balances billed to Metro de Caracas amounting to EUR 37 million (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty in relation to their collectability.

At 31 December 2018, 39% of the billed receivables related to the top five customers (31 December 2017: 55%). “Trade Receivables" includes retentions at 31 December 2018 amounting to EUR 7,734 thousand (31 December 2017: EUR 5,043 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2018 and 2017 in addition to the past-due balances with Metro de Caracas are as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Past due > 90 days | 12,445 | 41,193 |
| Past due > 180 days | 161,448 | 121,017 |
| **Total** | **173,893** | **162,210** |

Approximately 62% of this balance is concentrated in two countries and ten agreements in relation to which the Group is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

The CAF Group is part of a Consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date CAF's legal advisers consider that the Consortium has solid arguments to justify its defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could be able to claim the potential losses from such members. At 31 December 2018, the amount, past-due by more than 180 days, recognised under “Trade Receivables for Sales and Services” in relation to this contract, net of advances received, amounted to EUR 13,3 million, and no amount had been recognised for additional claims on the original contract.

### Write-downs

The changes in write-downs were as follows:

| | Thousands of euros |
|---|---|
| **Balance at 31/12/17** | **8,584** |
| Initial adjustment due to IFRS 9 (Notes 2-b and 2-e) | 3,626 |
| **Adjusted balance at 01/01/18** | **12,210** |
| Changes in the scope of consolidation | 5,961 |
| Translation differences | (309) |
| Amount used | (758) |
| Provisions reversed with a credit to “Other Operating Expenses” | (732) |
| **Balance at 31/12/18** | **16,372** |

The increase in provisions is due to the changes in the scope of consolidation, mainly the inclusion of Solaris Bus & Coach, S.A.

## 13. OTHER CURRENT FINANCIAL ASSETS

The detail of "Other Current Financial Assets" at 31 December 2018 and 2017 is as follows:

**2018**

| | Thousands of euros | | |
|---|---|---|---|
| **Financial assets: type/category** | **At amortised cost (*)** | **At fair value through profit or loss (**)** | **Total** |
| Other financial assets | 35,012 | 59,281 | 94,293 |
| **Short-term/current** | **35,012** | **59,281** | **94,293** |

(*) This heading included mainly the items called "Loans and Receivables" and "Held-to-Maturity Investments" in 2017.
(**) This heading included mainly the item called "Held-for-Trading Financial Assets" in 2017.

**2017**

| | Thousands of euros | | | |
|---|---|---|---|---|
| **Financial assets: type/category** | **Loans and receivables** | **Held-to-maturity investments** | **Held-for-trading financial assets** | **Total** |
| Other financial assets | 115 | 29,603 | 55,120 | 84,838 |
| **Short-term/current** | **115** | **29,603** | **55,120** | **84,838** |

"Financial Assets at Amortised Cost" include the cash surpluses invested in government debt securities, repos, short-term deposits and term deposits. "Financial Assets at Fair Value through Profit or Loss" includes the fixed-income investment funds. In both cases, these are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss. In 2018 and 2017 the Group recognised income in this connection and in relation to the cash surpluses amounting to EUR 5,077 thousand (2017: EUR 5,156 thousand).

## 14. EQUITY

### a) Share capital of the Parent

At both 31 December 2018 and 2017, the Parent's share capital was represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities that had notified the Spanish National Securities Market Commission (CNMV) that they held voting rights representing over 3% of the Parent's share capital at 31 December 2018 and 2017 were as follows:

| | % 2018 | % 2017 |
|---|---|---|
| Cartera Social, S.A. (1) | 25.16% | 25.46% |
| Kutxabank, S.A. (2) | 14.06% | 14.06% |
| Indumenta Pueri S.L.(3) | 5.02% | 5.02% |
| Templeton Investment Counsel, LLC. (4) | 3.01% | 3.01% |
| EDM Gestión, S.A. S.G.I.I.C. (5) | 3.02% | 3.02% |

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

(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 2 June 2018, at the Annual General Meeting, the Board of Directors empowered to increase the share capital on one or more occasions, through the issuance of new shares against monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these consolidated financial statements, no capital increase had been performed since that resolution. This resolution renders null and void the powers granted by the General Meeting on 8 June 2013.

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

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

**b) Share premium**

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

**c) Revaluation reserve**

The amount held in this reserve in 2018 and 2017 is as follows:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Revaluation of property, plant and equipment: | | |
| Land (IFRS 1) | 30,418 | 30,418 |
| Revaluation reserve Guipúzcoa Regulation 11/1996 | 8,701 | 8,701 |
| **Total** | **39,119** | **39,119** |

Revaluation reserve Guipúzcoa Regulation 11/1996

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

**d) Legal reserve**

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2018 and 2017 the balance of this reserve had reached the legally required minimum.

**e) Restricted and unavailable reserves**

The individual financial statements of the consolidated companies include reserves amounting to approximately EUR 89,943 thousand at 31 December 2018 (31 December 2017: approximately EUR 82,813 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Guipúzcoa Regulation 2/2014), reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (Note 16).

In addition, until the balance of “Development Expenditure” has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2018 year-end EUR 59,473 thousand of the reserves were restricted as to their use (2017 year-end: EUR 39,612 thousand).

**f) Translation differences**

The breakdown, by company, of “Translation Differences” at 31 December 2018 and 2017 is as follows:

| | **Thousands of euros** | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| CAF México, S.A. de C.V. | (1,998) | (2,495) |
| CAF Brasil Industria e Comercio, S.A. | (45,800) | (34,567) |
| CAF Argentina, S.A. | (2,768) | (2,323) |
| CAF USA, Inc. | 816 | (106) |
| Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V. | (2,282) | (2,825) |
| CAF Turquia, L.S. | (1,510) | (1,186) |
| CAF Argelia, E.U.R.L. | (519) | (553) |
| CAF India Private Limited | (1,008) | (606) |
| Ctrens Companhia de Manutençao, S.A. | (85,565) | (73,010) |
| Trenes CAF Venezuela, C.A. | (650) | (647) |
| Provetren, S.A. de C.V. | 1,480 | 1,532 |
| Other companies | (978) | (452) |
| **Total** | **(141,782)** | **(117,238)** |

### g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes there in 2018 and 2017 is as follows:

| | Thousands of euros |
|---|---|
| **Balance at 31 December 2016** | **11,706** |
| Profit attributable to non-controlling interests | 111 |
| Transactions with non-controlling shareholders | 971 |
| Dividends | (3,005) |
| **Balance at 31 December 2017** | **9,783** |
| Profit attributable to non-controlling interests | (3,842) |
| Business combination | 97 |
| Transactions with non-controlling shareholders | 1,072 |
| Dividends | (1,555) |
| **Balance at 31 December 2018** | **5,555** |

### h) Capital management

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

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 31 December 2018 and 2017, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (Notes 3-n and 9-c). Leverage is taken to be the ratio of net financial debt to equity:

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Net financial debt: | | |
| Interest-bearing refundable advances (Note 15) | 12,451 | 16,667 |
| Bank borrowings - Non-current liabilities (Note 16) | 766,464 | 625,645 |
| Bank borrowings and debt instruments – Current liabilities (Note 16) | 255,416 | 46,262 |
| Financial assets - Non-current assets (Note 9-c) | (13,194) | (13,666) |
| Current financial assets (Note 13) | (94,230) | (84,723) |
| Cash and cash equivalents | (602,813) | (371,625) |
| | **324,094** | **218,560** |
| Equity: | | |
| Attributable to the Parent | 751,712 | 750,417 |
| Non-controlling interests | 5,555 | 9,783 |
| | **757,267** | **760,200** |

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

The detail of the Group's financial liabilities at 31 December 2018 and 2017, by type and category for measurement purposes, is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31/12/18 | | 31/12/17 | |
| | Long-term | Short-term | Long-term | Short-term |
| Refundable advances | 32,929 | 11,620 | 34,753 | 18,351 |
| Employee benefit obligations (Notes 3-k and 23) | 3,408 | - | 5,892 | - |
| Share purchase liabilities (Note 2-f) | 8,465 | 1,137 | 10,371 | 2,825 |
| Payable to non-current asset suppliers | - | 9,572 | - | 18,979 |
| Other liabilities | 2,972 | 1,027 | 1,023 | 570 |
| **Total** | **47,774** | **23,356** | **52,039** | **40,725** |

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

| | 2018 |
|---|---|
| 2020 | 19,726 |
| 2021 | 7,873 |
| 2022 | 6,553 |
| 2023 | 4,804 |
| 2024 and subsequent years | 8,818 |
| **Total** | **47,774** |

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

### Refundable advances

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

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

– Refundable advances in the form of loans which are generally interest-free and which usually have an initial grace period of 3 years and are taken to income in a period of over 10 years.

The changes in 2018 and 2017 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

| | Thousands of euros |
|---|---|
| | **Long-term refundable advances** |
| **Balance at 31/12/16** | **43,696** |
| Additions | 2,386 |
| Adjustments and other | 378 |
| Transfers to short term | (11,707) |
| **Balance at 31/12/17** | **34,753** |
| Changes in the scope of consolidation | 16 |
| Additions | 5,444 |
| Adjustments and other | 244 |
| Transfers to short term | (7,528) |
| **Balance at 31/12/18** | **32,929** |

## Employee benefit obligations

The Group has recognised the future obligations to the employees who have entered into pre-retirement plans (Note 3-k). Short-term obligations of EUR 2,799 thousand were recognised under "Other Payables" in the accompanying consolidated balance sheet as at 31 December 2018 (31 December 2017: EUR 3,113 thousand).

Also, the detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, net of the fair value of the plan assets allocated for the coverage thereof, at the end of 2018 and 2017, is as follows (Note 3-j):

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Present value of the obligations assumed | 44,738 | 45,315 |
| Less – Fair value of plan assets | (45,006) | (42,750) |
| **Other current (assets) liabilities** | **(268)** | **2,565** |

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

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

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

| **Actuarial assumptions** | **2018** | **2017** |
|---|---|---|
| Discount rate | 1.75 - 2.47% | 1.68 - 2.47% |
| Mortality tables | PERM/F/2000P | PERM/F 2000P |
| Annual salary or pension increase rate | 1-2% | 1-2% |
| Retirement age | 65-67 | 65-67 |

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

### Share purchase liabilities

"Share Purchase Liabilities" includes the amounts foreseeably payable for the options to acquire the remaining share capital of Rifer, S.R.L. and BWB Holdings, Ltd.

## 16. BANK BORROWINGS AND DEBT INSTRUMENTS OR OTHER MARKETABLE SECURITIES

The detail of "Bank Borrowings" in the accompanying consolidated balance sheet is as follows:

| | | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|---|
| | | 31/12/18 | | | 31/12/17 | | |
| | Nominal currency | Non-current | Current | Total | Non-currente | Current | Total |
| Loans and credit accounts | | | | | | | |
| Ctrens – BNDES | BRL | 124,343 | 14,689 | 139,032 | 154,411 | 15,095 | 169,506 |
| Provetren - Banking syndicate | USD | 76,539 | 22,298 | 98,837 | 93,729 | 18,285 | 112,014 |
| Parent (CAF, S.A.) | EUR | 463,618 | 76,259 | 539,877 | 356,779 | 9,000 | 365,779 |
| CAF Investment Projects, S.A.U. | EUR | 19,832 | - | 19,832 | 19,799 | - | 19,799 |
| Solaris Group | PLN/EUR | 81,319 | 63,847 | 145,166 | - | - | - |
| Other Group companies | EUR | 813 | 391 | 1,204 | 927 | 740 | 1,667 |
| | | **766,464** | **177,484** | **943,948** | **625,645** | **43,120** | **668,765** |
| Debt instruments or other marketable securities | | | | | | | |
| Commercial paper issue | EUR | - | 75,000 | 75,000 | - | - | - |
| Accrued interest payable | | - | 2,932 | 2,932 | - | 3,142 | 3,142 |
| **Total** | | **766,464** | **255,416** | **1,021,880** | **625,645** | **46,262** | **671,907** |

In 2018 the changes in "Bank borrowigs and debt instruments or other marketable securities" were as follows (in thousands of euros):

| | |
|---|---|
| **Balance at 31 December 2017** | **668,765** |
| **Cash flows** | |
| New drawdowns | 533,844 |
| Maturity payments | (355,655) |
| | **178,189** |
| **Other changes (without cash flows)** | |
| Changes in the scope (Note 2-f) | 184,822 |
| Translation differences | (13,041) |
| Amortised cost adjustments and other | 213 |
| | **171,994** |
| **Balance at 31 December 2018** | **1,018,948** |

The bank borrowings are presented in the consolidated balance sheet adjusted by the costs incurred in the arrangement of the loans.

**Ctrens - BNDES**

In relation to the CPTM train lease transaction described in Note 9-c, on 10 May 2011, the subsidiary Ctrens-Companhia de 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 was 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, distribute dividends, and establishing the obligation to achieve certain financial conditions from January 2013 onwards, including a debt service coverage ratio (which must be over 1.2) and minimum capital structure ratio (which must be over 0.24). These clauses were met in 2018 and 2017.

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

**Provetren - Banking syndicate**

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

The loan principal will be repaid in 39 consecutive quarterly instalments, in line with the collection profile under the PPS, the first maturity date being October 2013.

The related agreement contains certain restrictive clauses limiting the ability of Provetren, S.A., de C.V., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends if certain ratios have not been achieved, and establishing the obligation to achieve certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15). These clauses were met in 2018 and 2017.

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

The shares of the subsidiaries Ctrens-Companhia de 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 2018 the Parent arranged five new loans with banks for a total of EUR 175 million. These loans had been drawn down in full at 31 December 2018.

Besides, in 2018 the Parent repaid EUR 6.5 million on maturity.

At 31 December 2018, total bank borrowings included EUR 410.2 million tied to a fixed interest rate (EUR 31.7 million through an interest rate swap, Note 17).

In 2017 the Parent arranged three new loans totalling EUR 65 million, which have been drawn down in full, and renegotiated certain loans for a total of EUR 75 million, increasing the amount drawn down by EUR 5 million. In 2017 EUR 12 million were repaid and a loan of EUR 14 million was repaid early. These loans were arranged on an arm's length basis. Of the amount drawn down, EUR 263 thousand are tied to a fixed interest rate (EUR 13.3 thousand through an interest-rate swap, Note 17).

**Solaris**

On 28 October 2016, Solaris Bus & Coach, S.A. (Solaris) was granted financing by a consortium of banks. This financing has two tranches (A and B). Tranche A's financing is limited to PLN 400 million and Tranche B's is limited to PLN 100 million. Both tranches mature in October 2020 and at 31 December 2018 PLN 349 million (EUR 81 million at the closing exchange rate) had been drawn down against them. The financing is secured mainly by Solaris' assets and receivables (property, plant and equipment, trademarks, current accounts and accounts receivable, among others).

The loan accrues interest at market rates and is subject to fulfilment of certain financial conditions, which include maintaining a debt/equity ratio lower than 3.5, a debt service coverage ratio equal to or higher than 1.25, an equity-to-asset ratio equal to or higher than 20%, positive equity and a maximum investment amount.

On 21 December 2018, the agreement of 28 October 2016 was amended, whereby the banks released the company from fulfilling the financial conditions on the reporting date.

Solaris also has a current payable amounting to PLN 240 million (EUR 56 million at the closing exchange rate) relating to discounted drafts, which accrue interest at market rates.

Lastly, there are current payables amounting to EUR 8 million drawn down by Solaris Norge AS, Solaris France SARL and Solaris Sverige AB mainly, which accrue interest at a market rate and are secured by Solaris Bus & Coach, S.A.

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

In July 2016 the subsidiary CAF Investment Projects, S.A.U. drew down a loan for EUR 20,000 thousand. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by CAF Investment Projects, S.A.U. in foreign companies. At 31 December 2018 and 2017, this ratio was achieved.

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

**Commercial paper issue**

On 21 December 2017, the Parent arranged a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million ("the Programme"), which was registered at the Irish Stock Exchange. In 2018 EUR 230 million were issued with a charge to this programme, which were repaid on maturity. This programme was renewed for a period of 12 months with the same aggregate maximum principal amount. Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF is able to issue ordinary fixed-income securities with a maturity of less than 364 days, which may be listed on the regulated market of the Irish Stock Exchange, or on any other stock exchange or trading system. At 31 December 2018, EUR 75 million had not yet matured. This amount is related to issues maturing in the first few months of 2019.

**Undrawn credit facilities and maturities**

In addition to the foregoing, the Group's companies have undrawn credit facilities amounting to EUR 246,525 thousand (31 December 2017: 149,775 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

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

| | 31/12/18 | | 31/12/17 |
|---|---|---|---|
| 2020 | 142,152 | 2019 | 104,961 |
| 2021 | 173,723 | 2020 | 62,560 |
| 2022 | 138,249 | 2021 | 175,047 |
| 2023 | 77,149 | 2022 | 139,485 |
| 2024 and subsequent years | 235,191 | 2023 and subsequent years | 143,592 |
| **Total** | **766,464** | **Total** | **625,645** |

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

**2018**

| | Maturity (in currency) | | |
|---|---|---|---|
| **Currency put options at 31/12/18** | **2019** | **2020** | **2021 and subsequent years** |
| **Fair value hedges** | | | |
| USD currency forwards (*) | 471,705,519 | 13,714,275 | - |
| GBP currency forwards | 244,987,890 | 183,117,700 | 249,852,362 |
| EUR currency forwards | 3,218,940 | 159,470 | - |
| BRL currency forwards | 158,048,888 | - | - |
| SEK currency forwards | 583,657,791 | 86,664,170 | - |
| AUD currency forwards | 50,561,761 | 10,516,460 | 106,827,784 |
| TWD currency forwards | 103,345,637 | - | - |
| SAR currency forwards | 100,632,687 | - | - |
| MXN currency forwards | 2,940,465,872 | 15,934,685 | - |
| CAD currency forwards | 47,047 | - | - |
| TRY currency forwards | 11,565,720 | - | - |
| JPY currency forwards | 13,589,382,335 | 4,081,705,774 | - |
| ARS currency forwards | 76,866,717 | - | - |
| ZAR currency forwards | 3,984,534 | - | - |

(*) Including the partial hedge of a net investment in CAF USA, Inc. amounting to USD 22,300 thousand and the hedge of a net investment in Provetren amounting to USD 213,106 thousand.

| | Maturity (in currency) | | |
|---|---|---|---|
| **Currency call options at 31/12/18** | **2019** | **2020** | **2021 and subsequent years** |
| **Fair value hedges** | | | |
| USD currency forwards | 40,544,900 | 31,873,000 | - |
| EUR currency forwards | 77,998,398 | - | - |
| BRL currency forwards | 7,020,251 | - | - |
| MXN currency forwards | 59,767,000 | 1,382,694,596 | - |
| JPY currency forwards | - | 3,297,090,500 | - |
| GBP currency forwards | 1,389,063 | 76,400,000 | - |
| **Cash flow hedges** | | | |
| COP currency forwards | - | 48,000,000,000 | - |
| GBP currency forwards | 24,397,052 | - | - |

| Interest rate derivatives | Loan maturity (in currency) 2019 | 2020 | 2021 subsequent years |
|---|---|---|---|
| Euribor swap | EUR 6,666,667 | - | EUR 25,000,000 |
| LIBOR swap | USD 20,494,634 | USD 16,150,923 | USD 58,988,067 |

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Fair value | | Cash flow | |
| | 31/12/18 | 31/12/17 | 31/12/18 | 31/12/17 |
| **Hedges:** | | | | |
| USD currency forwards | (23,945) | 14,419 | 31 | - |
| GBP currency forwards | (19,552) | (581) | - | (38) |
| MXN currency forwards | (14,962) | (16,068) | - | (1,789) |
| BRL currency forwards | (2,766) | (6,409) | - | - |
| EUR currency forwards | (1,071) | 1,900 | - | - |
| SEK currency forwards | (2,331) | (1,066) | - | - |
| SAR currency forwards | 1,218 | (2,733) | - | - |
| TWD currency forwards | 798 | 666 | - | - |
| JPY currency forwards | 4,295 | (532) | - | (288) |
| Currency forwards in other currencies | 35 | (108) | (29) | - |
| Forward rate agreements | - | (23) | (525) | (88) |
| **Measurement at year-end (*)** | **(58,281)** | **(10,535)** | **(523)** | **(2,203)** |

(*) Before considering the related tax effect.

**2017**

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

(*) Including the hedge of a net investment in CAF USA, Inc. amounting to USD 67,766 thousand and in Provetren amounting to USD 265,366 thousand.

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

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

At 2018 and 2017 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (Note 9-a) had arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 4,643 thousand at 31 December 2018, net of the related tax effect (31 December 2017: EUR 4,994 thousand). This amount was recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated balance sheet as at 31 December 2018.

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

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

| | **2018** | **2017** |
|---|---|---|
| Non-current assets | 10,720 | 15,842 |
| Current assets | 5,849 | 41,864 |
| Non-current liabilities | (11,206) | (18,131) |
| Current liabilities | (64,167) | (52,313) |
| **Balance sheet net total** | **(58,804)** | **(12,738)** |
| Fair value | (58,281) | (10,535) |
| Cash flow | (523) | (2,203) |
| **Total derivatives, remeasured** | **(58,804)** | **(12,738)** |

In 2018 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 3,618 thousand (2017: expense of EUR 1,933 thousand) mainly as a result of changes in the estimated amounts of the hedged items.

Also, the settlement and the change in the value of the fair value derivatives resulted in an expense of EUR 4,861 thousand in 2018 (2017: expense of EUR 26,827 thousand), which is similar to the changes in value of the hedged items.

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

## 18. CURRENT AND DEFERRED TAXES

The Group calculated the provision for income tax at 31 December 2018 in accordance with the applicable tax legislation. On 10 May 2018, Guipúzcoa Income Tax Regulation 1/2018 was approved, which substantially changed the tax regime applicable to the Tax Group headed by the Parent. Therefore, as a result of the reduction in the tax rate from 28% to 26% in 2018 and to 24% in 2019, and of changes in the limit on the use of tax credits and the offset of prior years' tax losses, the amount of the deferred tax assets and liabilities was adjusted, which gave rise to an income tax expense of EUR 13,753 thousand. However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof.

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

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

| | Thousands of euros | |
|---|---|---|
| | **2018** | **2017** |
| **Accounting profit before tax** | **80,575** | **67,510** |
| Tax rate of the Parent | 26% | 28% |
| **Income tax calculated at the tax rate of the Parent** | **20,950** | **18,903** |
| Effect of the different tax rate of subsidiaries | 3,168 | 1,912 |
| Effect of exempt income and non-deductible expenses for tax purposes | 4,069 | 5,008 |
| Effect of tax credits and other tax relief recognised in the year | (2,269) | (3,579) |
| Effect of tax assets and deferred taxes not recognised in previous years | 1,027 | 3,163 |
| Adjustments recognised in the year relating to prior years' income tax | 257 | (15) |
| Change in tax rate | 13,753 | (399) |
| **Total income tax expense recognised in the consolidated statement of profit or loss** | **40,955** | **24,993** |
| **Current tax expense (*)** | **36,130** | **17,160** |
| **Deferred tax expense** | **4,825** | **7,833** |

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

In 2013 the Parent availed itself of the tax incentive provided for in Article 39 of Guipúzcoa Income Tax Regulation 7/1996. At 31 December 2018, the Parent had fulfilled all the investment commitments related to this incentive (Note 14).

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

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

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

| | Thousands of euros | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 31/12/17 | Initial adjustments (Notes 2-b, 2-f and 7) | Adjusted opening balance at 01/01/18 | Inclusions in the scope of consolidation | Additions | Disposals | Translation differences | Regularisations and changes in rates | 31/12/18 |
| **Deferred tax assets:** | | | | | | | | | |
| Tax credit and tax loss carryforwards (Note 3-l) | 86,560 | - | 86,560 | 2,366 | 22,046 | (27,157) | (1,060) | (12,671) | 70,084 |
| Provisions temporarily not deductible | 50,486 | 2,795 | 53,281 | 12,728 | 23,510 | (12,801) | (1,399) | (4,523) | 70,796 |
| Effect of asset revaluation Guipúzcoa Regulation 1/2013 | 3,109 | - | 3,109 | - | - | (215) | - | (443) | 2,451 |
| Elimination of profits on consolidation and other | 4,834 | - | 4,834 | 222 | 885 | (29) | (348) | (347) | 5,217 |
| | **144,989** | **2,795** | **147,784** | **15,316** | **46,441** | **(40,202)** | **(2,807)** | **(17,984)** | **148,548** |
| **Deferred tax liabilities:** | | | | | | | | | |
| Unrestricted and accelerated depreciation (Notes 7, 8 and 9) | 115,050 | - | 115,050 | 363 | 5,153 | (6,380) | (842) | (4) | 113,340 |
| Investment valuation provisions | 25,110 | - | 25,110 | - | - | - | - | (2,511) | 22,599 |
| Cash flow hedges (Note 17) | - | - | - | - | - | - | - | - | - |
| Revaluation of intangible and material assets (Notes 2-f and 14) | 11,829 | 3,684 | 15,513 | 26,515 | - | (1,167) | (37) | (1,690) | 39,134 |
| Exchange differences | 58 | - | 58 | 138 | 12 | (135) | 1 | - | 74 |
| Goodwill | 28 | - | 28 | - | - | (2) | - | (10) | 16 |
| Elimination of profits on consolidation and other | 1,730 | - | 1,730 | - | 324 | - | (10) | (16) | 2,028 |
| | **153,805** | **3,684** | **157,489** | **27,016** | **5,489** | **(7,684)** | **(888)** | **(4,231)** | **177,191** |

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

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

In 2018 the Group expects to take tax credits amounting to EUR 13,279 thousand (2017: EUR 15,036 thousand) mainly in relation to tax credits for R&D expenditure and international double taxation tax credits. Unused tax credits after projected income tax for 2018 amounted to EUR 113,250 thousand (2017: EUR 101,650 thousand), of which EUR 32,293 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2017 EUR 28,909 thousand). The tax loss carryforwards recognised amounted to EUR 37,791 thousand at 31 December 2018 (31 December 2017: EUR 57,651 thousand). The tax loss carryforwards relate mainly to the Parent's tax group EUR 36,708 thousand (31 December 2017: EUR 41,742 thousand). At 31 December 2018, Provetren, S.A. de C.V. also recognised deferred tax liabilities of EUR 72,148 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation (31 December 2017: EUR 75,002 thousand).

Lastly, at 31 December 2018 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 38,820 thousand as a result of the difference between the tax base and the carrying amount of the concession's financial asset caused by differences in the timing of recognition of amortisation (31 December 2017: EUR 38,887 thousand).

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

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 133,760 thousand (2017: EUR 103,754 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets, with no defined last year for deduction, amounting to EUR 11,182 thousand (2017: EUR 12,975 thousand).

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

| | Thousands of euros | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Expiring in 2020 | 7 | 15 |
| Expiring in 2021 | 1,994 | 178 |
| Expiring in 2022 | 8 | 101 |
| Expiring in 2023 | 712 | - |
| Expiring in 2024 | 788 | 788 |
| Expiring in 2025 | 380 | 11,913 |
| Expiring in 2026 | 352 | 9,441 |
| Expiring in 2027 | 1,399 | 24,070 |
| Expiring in 2028 and subsequent years | 89,442 | 44,774 |
| Unlimited | 49,860 | 25,395 |
| | **144,942** | **116,675** |

The differences between the estimated income tax for 2017 and the tax return ultimately filed gave rise to income of EUR 257 thousand (2017: income of EUR 15 thousand).

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2018 year-end the Group had 2014 and subsequent years open for review by the tax authorities for income tax and 2015 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and, at the foreign companies, in accordance with local legislation. The Parent’s directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Parent of the commencement of its general audit of various taxes for the years 2009-2013 (Trade tax and tax on erection and installation projects and construction work). In May 2015, as a result of the tax assessments received, a payment of EUR 266 thousand was made, EUR 235 of which against a provision recognised in 2014, and another of EUR 223 thousand was made, of which EUR 192 thousand were capitalised to property, plant and equipment. The Parent filed pleadings against these tax assessments in 2015. Also, in relation to the tax on business activity, on 15 January 2018 the Group received the decisions of the Beasain Municipal Council dismissing the appeals for reconsideration lodged. In May 2018 the Group submitted its pleadings to the Guipúzcoa Economic-Administrative Tribunal. No decision has been handed down to date. An appeal for judicial review was filed in relation to the tax on erection and installation projects and construction work, with no further developments taking place.

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

## 19. PUBLIC AUTHORITIES

The detail of the receivables from and payables to public authorities at 31 December 2018 and 2017 is as follows:

| | Thousands of euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31/12/18 | | | | 31/12/17 | | | |
| | Assets | | Liabilities | | Assets | | Liabilities | |
| | Non-current | Current | Non-current | Current | Non-current | Current | Non-current | Current |
| Accrued social security taxes | - | 3 | - | 15,260 | - | 6 | - | 9,662 |
| Regular taxes | | | | | | | | |
| VAT (Note 9-b) | 30,055 | 80,802 | - | 45,785 | 34,691 | 65,206 | - | 32,647 |
| Other | - | 3,335 | - | 382 | - | 2,767 | - | 72 |
| Personal income tax withholdings | - | - | - | 11,358 | - | - | - | 8,954 |
| Income Tax (Note 3-l) | - | 13,633 | - | 6,447 | - | 10,030 | - | 5,009 |
| Grants receivable | - | 1,729 | - | - | - | 1,391 | - | - |
| **Total** | **30,055** | **99,502** | **-** | **79,232** | **34,691** | **79,400** | **-** | **56,344** |

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

## 20. SHORT AND LONG-TERM PROVISIONS

The changes in "Short-term Provisions" and "Long-term Provisions" in 2018 and 2017 were as follows (in thousands of euros):

| | | Short-term provisions | | | | |
|---|---|---|---|---|---|---|
| | Long-term provisions | Contractual liability | Warranty and support services | Litigation | Other provisions | Total short-term provisions |
| **Balance at 31/12/16** | **4,646** | **124,597** | **95,103** | **1,780** | **6,457** | **227,937** |
| Changes in the scope of consolidation | 618 | 398 | - | - | - | 398 |
| Net charge for the year (Notes 3-j and 18) | 2,678 | 8,016 | 44,792 | 646 | (1,605) | 51,849 |
| Amounts used charged to profit or loss | (945) | (3,930) | (43,831) | (409) | (137) | (48,307) |
| Translation differences | (300) | (498) | (2,692) | (117) | (495) | (3,802) |
| Transfers | 374 | (52) | (84) | - | - | (136) |
| **Balance at 31/12/17** | **7,071** | **128,531** | **93,288** | **1,900** | **4,220** | **227,939** |
| Adjustment due to IFRS 15 (Notes 2-b and 12) | - | (83,612) | - | - | - | (83,612) |
| **Adjusted balance at 01/01/18** | **7,071** | **44,919** | **93,288** | **1,900** | **4,220** | **144,327** |
| Changes in the scope of consolidation | 206 | 478 | 42,018 | 284 | 1,776 | 44,556 |
| Net charge for the year (Notes 3-j and 18) | 1,834 | 13,703 | 73,473 | 1,550 | 1,751 | 90,477 |
| Amounts used charged to profit or loss | (2,574) | (236) | (50,309) | (848) | (1,180) | (52,573) |
| Translation differences | (1) | (258) | (552) | (88) | (300) | (1,198) |
| Transfers | 341 | (294) | (279) | - | (46) | (619) |
| **Balance at 31/12/18** | **6,877** | **58,312** | **157,639** | **2,798** | **6,221** | **224,970** |

### Long-term provisions

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

### Contractual liability and warranty and support services

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

– Contractual liability: 1-2 years

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

The consolidated companies recognised an expense of EUR 37,733 thousand under “Other Operating Expenses” in the accompanying consolidated statement of profit or loss for 2018 (2017: expense of EUR 3,542 thousand) relating to the difference between the provisions required in this connection at 2018 year-end and the provisions recognised at 2017 year-end.

The expenses incurred in 2018 and 2017 in connection with the provision of contractual warranty services (approximately EUR 50,309 thousand and EUR 43,831 thousand, respectively) were recognised under “Procurements” and “Staff Costs” in the accompanying consolidated statements of profit or loss for 2018 and 2017.

## 21. OTHER NON-CURRENT/CURRENT ASSETS AND LIABILITIES

The detail of the Group's “Other Assets” at 31 December 2018 and 2017 is as follows:

| | **Thousands of euros** | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Assets for the right to recover (Note 3-f) | 2,684 | - |
| **Other non-current assets** | **2,684** | **-** |
| Prepayments | 6,203 | 3,229 |
| Assets for the right to recover (Note 3-f) | 140 | - |
| **Other current assets** | **6,343** | **3,229** |

The detail of the Group's “Other Liabilities” at 31 December 2018 and 2017 is as follows:

| | **Thousands of euros** | |
|---|---|---|
| | **31/12/18** | **31/12/17** |
| Advances received on sales or services rendered (Note 12) | 41,228 | 55,821 |
| Advances received on operating leases (Note 8) | 37,993 | - |
| Refund liabilities | 2,965 | - |
| **Other non-current liabilities** | **82,186** | **55,821** |
| Advances received on operating leases (Note 8) | 4,964 | - |
| Unearned revenue | 631 | 316 |
| Refund liabilities | 219 | - |
| **Other current liabilities** | **5,814** | **316** |

As detailed in Note 3-f, certain bus sale agreements grant a right to recover to the customers. If it is determined that the contract is an operating lease, the billings received in advance are recognised under "Advances Received on Operating Leases". If, on the other hand, it is concluded that the contract is a sale with a right of return, the value of the asset to be repurchased by the company is recognised under "Assets for the Right of Return" and the amount expected to be paid to recover the asset is recognised under "Refund Liabilities".

## 22. INCOME AND EXPENSES

### a) Procurements

| | Thousands of euros | |
|---|---|---|
| | **2018** | **2017** |
| Materials used (*) | 948,354 | 445,676 |
| Work performed by other companies | 141,586 | 97,095 |
| **Total** | **1,089,940** | **542,771** |

(*) 78% in euros, and the remainder mainly in US dollars, pounds sterling and Polish zlotys (2017: 75% in euros).

### b) Other operating expenses

| | Thousands of euros | |
|---|---|---|
| | **2018** | **2017** |
| Outside services | 305,499 | 233,144 |
| Taxes other than income tax | 4,739 | 3,273 |
| Change in operating provisions and allowances and other (Notes 12 and 20) | 35,279 | 8,552 |
| Other current operating expenses | 2,088 | 2,494 |
| **Total** | **347,605** | **247,463** |

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 1,112 thousand in 2018 (2017: EUR 838 thousand). Of this amount, EUR 726 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2017: EUR 568 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 230 thousand were billed in 2018 (2017: EUR 275 thousand), EUR 146 thousand for audit-related attest services including six-monthly reviews (2017: EUR 41 thousand), EUR 38 thousand for tax services (2017: EUR 2 thousand) and the remainder for other services.

### c) Information on the environment

In 2018 and 2017 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

The Group did not receive any environmental grants in 2018.

At 31 December 2018 and 2017, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' Directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2018 the Group incurred environmental expenses amounting to EUR 436 thousand (2017: EUR 225 thousand).

### d) Grants related to income

Most of the grants transferred to profit or loss in 2018 and 2017 related to grants awarded under various Spanish ministerial and European programme calls, in respect of which all the costs to be supported were incurred.

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

The grants related to income recognised in 2018 under “Other Operating Income” in the accompanying consolidated statement of profit or loss amounted to EUR 4,495 thousand (2017: EUR 5,351 thousand).

## 23. AVERAGE HEADCOUNT AND STAFF COSTS

The average headcount in 2018 and 2017 is as follows:

| | Average number of employees | |
|---|---|---|
| **Professional category** | **2018** | **2017** |
| Board members | 2 | 2 |
| Senior executives | 10 | 10 |
| Employees | 4,590 | 3,711 |
| Manual workers | 5,028 | 4,225 |
| **Total (*)** | **9,630** | **7,948** |

(*) At 31 December 2018, there were 11,433 employees (31 December 2017: 8,428 employees).

The breakdown, by gender, of the average headcount in 2018 and 2017 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Professional category** | **Men** | **Women** | **Men** | **Women** |
| Board members | 1 | 1 | 1 | 1 |
| Senior executives | 9 | 1 | 9 | 1 |
| Employees | 3,364 | 1,226 | 2,718 | 993 |
| Manual workers | 4,852 | 176 | 4,081 | 144 |
| **Total** | **8,226** | **1,404** | **6,809** | **1,139** |

At 31 December 2018, the Parent's Board of Directors comprised 7 men and 3 women. At 31 December 2017, the Parent's Board of Directors comprised 7 men and 3 women.

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

| | 2018 | 2017 |
|---|---|---|
| Wages and salaries (Note 3-k) | 389,987 | 331,131 |
| Social security costs | 107,248 | 94,991 |
| Other expenses (Note 3-j) | 21,238 | 20,259 |
| **Total** | **518,473** | **446,381** |

## 24. INFORMATION ON THE BOARD OF DIRECTORS

### a) Remuneration and other benefits of directors

In 2018 additional to the portion relating to the note 3-j description, the total remuneration of the Parent's Board of Directors amounted to approximately EUR 1,902 thousand (2017: EUR 1,721 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. During 2018 the Parent made contributions to long-term savings plans totalling EUR 1,000 thousand (2017: EUR 140 thousand). At 31 December 2018 and 2017, neither the Board of Directors of the Parent nor the boards of the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

In 2018 EUR 59 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2017: EUR 47 thousand).

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

In 2018 and 2017 neither the members of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the other members of the Board of any direct or indirect conflict of interest that they might have with the Parent.

## 25. REMUNERATION OF SENIOR EXECUTIVES

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, additional to the remuneration that may be payable to them as described in Note 3-j, amounted to EUR 2,613 thousand in 2018 (2017: EUR 2,075 thousand).

In 2018 and 2017 there were no other transactions with senior executives outside the ordinary course of business.

## 26. OTHER DISCLOSURES

### a) Guarantees and other contingent assets and liabilities

At 31 December 2018, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 3,259,219 thousand (31 December 2017: EUR 2,512,263 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 12,973 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (Note 15) and other government agencies (31 December 2017: EUR 17,459 thousand).

At 31 December 2018, the Group was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and, therefore, it is difficult to assess its possible impact; however, the Parent's directors consider that the likelihood of this situation giving rise to losses for the Group is low, since there are causes that have given rise to delays that can in no case be attributed to the consortium, the amounts claimed are greater than the damage caused to the customer, and there are claims for cost overruns incurred by the consortium attributable to the customer.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. At present, following the issue of the report in December 2018 by the Superintendence of the CADE, a decision has not yet been handed down by the Court of the CADE. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these consolidated financial statements there were no economic claims filed against this subsidiary. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 203 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, have initiated court proceedings. At the date of formal preparation of these consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have yet to be summoned. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleas in the first half of 2016. Subsequent to the ruling of the Court of Auditors which considered the existence of irregularities of any kind to be unproven, a request was made for these proceedings to be closed and dismissed. This request is awaiting a decision. Lastly, also as a result of CADE's investigations, an administrative proceeding was initiated by the São Paulo Court of Auditors in relation to which the subsidiary submitted its initial pleadings in the second half of 2018.

On 27 August 2018, the Spanish National Markets and Competition Commission (“CNMC”) instituted penalty proceedings in connection with purported anti-competitive practices against various companies, which included CAF Signalling, S.A. and its parent Construcciones y Auxiliar de Ferrocarriles, S.A. as it is jointly and severally liable.

CAF is employing the legal actions to which it is entitled to defend its interests, and is at present unaware of the conduct and practices of which CAF Signalling, S.A. and Construcciones y Auxiliar de Ferrocarriles, S.A. are accused. The investigation is ongoing and the CNMC’s period for handing down a decision has been interrupted and no decision by the CNMC is expected in 2019.

**b) Disclosures on the average period of payment to suppliers**

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

| | 2018 | 2017 |
|---|---|---|
| | **Days** | **Days** |
| Average period of payment to suppliers | 80.77 | 80.91 |
| Ratio of transactions settled | 84.41 | 85.40 |
| Ratio of transactions not yet settled | 69.95 | 67.00 |
| | **Thousands of euros** | **Thousands of euros** |
| Total payments made | 731,817 | 546,477 |
| Total payments outstanding | 246,651 | 176,709 |

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

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

The statutory maximum payment period applicable to the Parent in 2018 under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, was 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

## 27. EVENTS AFTER THE REPORTING PERIOD

At 31 December 2018, the firm backlog, net of progress billings, amounted to approximately EUR 7,716,487 thousand (31 December 2017: EUR 6,264,780 thousand) (Note 11). At 31 January 2019, the total was EUR 8,071,641 thousand (31 January 2018: EUR 6,158,860 thousand).

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

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

## 28. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

# Approval by the Board of Directors

| | |
|---|---|
| Mr. ANDRÉS ARIZKORRETA GARCÍA | Chairman |
| Mr. JUAN JOSÉ ARRIETA SUDUPE | Director |
| Mr. JAVIER MARTINEZ OJINAGA | Director |
| Mr. LUIS MIGUEL ARCONADA ECHARRI | Director |
| Ms. CARMEN ALLO PÉREZ | Director |
| Mr. JOSÉ ANTONIO MUTILOA IZAGUIRRE | Director |
| Ms. ANE AGIRRE ROMARATE | Director |
| Mr. ALEJANDRO LEGARDA ZARAGÜETA | Director |
| Mr. JULIÁN GRACIA PALACÍN | 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 2018 by the Board of Directors at its meeting on 27 February 2019, the directors have signed this document, consisting of 197 sheets numbered sequentially from 1 to 197, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2019.

| | |
|---|---|
| Approved by | Signed |
| THE CHAIRMAN OF THE BOARD | THE SECRETARY OF THE BOARD |
| D. ANDRÉS ARIZKORRETA GARCÍA | DÑA. 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 15 June 2019 at 12:00 pm at first call and, if necessary, on 16 June 2019 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 financial statements and directors' report of its consolidated group of companies for 2018, and of the management of the Board of Directors.

**Two:** Approval of the consolidated non-financial information statement for 2018.

**Three:** Approval of the proposed distribution of profit for 2018, paying a dividend of a gross amount of EUR 0.765 per share.

**Four:** Re-election of auditors for 2019 and 2020.

**Five:** Re-election and appointment of directors:
5.1. Re-election of Javier Martínez Ojinaga as independent director.
5.2. Appointment of Ignacio Camarero García as independent director.

**Six:** Advisory vote on the 2018 Annual Report on Directors' Remuneration.

**Seven:** Information to the General Meeting regarding the amendments to the Regulations of the Board of Directors approved by CAF's Board.

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

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

# Proposed distribution of income

Allocate EUR 26,225 thousand to the distribution of dividends, EUR 4,285 thousand paid out of profit for the year and EUR 21,940 thousand charged to voluntary reserves.

# Board of Directors

| | |
|---|---|
| Mr. ANDRÉS ARIZKORRETA GARCÍA | Chairman |
| Mr. JUAN JOSÉ ARRIETA SUDUPE | Director |
| Mr. JAVIER MARTINEZ OJINAGA | Director |
| Mr. LUIS MIGUEL ARCONADA ECHARRI | Director |
| Ms. CARMEN ALLO PÉREZ | Director |
| Mr. JOSÉ ANTONIO MUTILOA IZAGUIRRE | Director |
| Ms. ANE AGIRRE ROMARATE | Director |
| Mr. ALEJANDRO LEGARDA ZARAGÜETA | Director |
| Mr. JULIÁN GRACIA PALACÍN | 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 2019, date on which the Financial Statements of the Company and its consolidated group for financial year 2018 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 2014-2018

## Consolidated Statements of Financial Position
## Consolidated Income Statements

# Consolidated Statements of Financial Position

## as of December 31st 2018, 2017, 2016, 2015, 2014 (Thousands of Euros)

| Assets | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Non-current assets:** | | | | | |
| **Intangible assets** | | | | | |
| Goodwill | 101,827 | 24,124 | 15 | 15 | 15 |
| Other intangible assets | 206,535 | 46,421 | 40,129 | 34,719 | 37,673 |
| | **308,362** | **70,545** | **40,144** | **34,734** | **37,688** |
| **Property, plant and equipment** | **365,084** | **244,513** | **229,309** | **240,787** | **271,839** |
| **Investments accounted for using the equity method** | **18,188** | **19,752** | **18,572** | **14,308** | **12,257** |
| **Non-current financial assets** | **537,061** | **560,660** | **653,558** | **590,829** | **651,956** |
| **Non-current hedging derivatives** | **10,720** | **15,842** | **12,861** | **22,068** | **17,593** |
| **Deferred tax assets** | **148,548** | **144,989** | **159,176** | **161,108** | **163,842** |
| **Other non-current assets** | **2,684** | **-** | **-** | **-** | **-** |
| **Total non-current assets** | **1,390,647** | **1,056,301** | **1,113,620** | **1,063,834** | **1,155,175** |
| **Current assets:** | | | | | |
| **Inventories** | **375,426** | **71,654** | **60,287** | **86,253** | **180,504** |
| **Trade and other receivables** | | | | | |
| Trade receivables for sales and services | 1,311,835 | 1,277,243 | 1,306,363 | 1,120,483 | 1,107,006 |
| Other receivables | 205,122 | 198,470 | 204,033 | 169,306 | 188,410 |
| Current tax assets | 13,633 | 10,030 | 13,426 | 8,451 | 6,493 |
| | **1,530,590** | **1,485,743** | **1,523,822** | **1,298,240** | **1,301,909** |
| **Current financial assets** | **94,293** | **84,838** | **95,098** | **89,559** | **96,595** |
| **Current hedging derivatives** | **5,849** | **41,864** | **45,382** | **32,864** | **27,350** |
| **Other current assets** | **6,343** | **3,229** | **3,206** | **5,939** | **4,591** |
| **Cash and cash equivalents** | **602,813** | **371,625** | **392,022** | **297,440** | **197,111** |
| **Total current assets** | **2,615,314** | **2,058,953** | **2,119,817** | **1,810,295** | **1,808,060** |
| **Total Assets** | **4,005,961** | **3,115,254** | **3,233,437** | **2,874,129** | **2,963,235** |

| Equity and liabilities | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **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 | 39,119 |
| Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method | 793,755 | 770,489 | 758,268 | 734,288 | 691,777 |
| Profit for the year attributable to the Parent | 43,462 | 42,406 | 35,013 | 41,041 | 59,679 |
| | **898,518** | **874,196** | **854,582** | **836,630** | **812,757** |
| **Valuation adjustments** | | | | | |
| Available-for-sale financial assets | - | 39 | - | - | - |
| Hedges | (5,024) | (6,580) | (5,908) | (5,142) | (6,212) |
| Translation differences | (141,782) | (117,238) | (76,703) | (127,748) | (70,336) |
| | **(146,806)** | **(123,779)** | **(82,611)** | **(132,890)** | **(76,548)** |
| **Equity attributable to the Parent** | **751,712** | **750,417** | **771,971** | **703,740** | **736,209** |
| **Non-controlling interests** | **5,555** | **9,783** | **11,706** | **11,187** | **12,704** |
| **Total equity** | **757,267** | **760,200** | **783,677** | **714,927** | **748,913** |
| **Non-current liabilities:** | | | | | |
| **Long-term provisions** | **6,877** | **7,071** | **4,646** | **4,526** | **5,075** |
| **Non-current financial liabilities** | | | | | |
| Bank borrowings and debt instruments or other marketable securities | 766,464 | 625,645 | 648,145 | 662,168 | 683,062 |
| Other financial liabilities | 47,774 | 52,039 | 47,854 | 51,833 | 57,848 |
| | **814,238** | **677,684** | **695,999** | **714,001** | **740,910** |
| **Deferred tax liabilities** | **177,191** | **153,805** | **172,137** | **156,817** | **152,426** |
| **Non-current hedging derivatives** | **11,206** | **18,131** | **13,574** | **23,091** | **18,557** |
| **Other non-current liabilities** | **82,186** | **55,821** | **58,039** | **63,996** | **66,880** |
| **Total non-current liabilities** | **1,091,698** | **912,512** | **944,395** | **962,431** | **983,848** |
| **Current liabilities:** | | | | | |
| **Short-term provisions** | **224,970** | **227,939** | **227,937** | **228,766** | **265,329** |
| **Current financial liabilities** | | | | | |
| Bank borrowings and debt instruments or other marketable securities | 255,416 | 46,262 | 103,075 | 203,722 | 158,039 |
| Other financial liabilities | 23,356 | 40,725 | 23,059 | 18,202 | 19,034 |
| | **278,772** | **86,987** | **126,134** | **221,924** | **177,073** |
| **Trade and other payables** | | | | | |
| Payable to suppliers | 664,865 | 423,385 | 376,531 | 352,153 | 463,067 |
| Other payables | 911,961 | 646,593 | 657,056 | 355,596 | 293,197 |
| Current tax liabilities | 6,447 | 5,009 | 969 | 647 | 3,513 |
| | **1,583,273** | **1,074,987** | **1,034,556** | **708,396** | **759,777** |
| **Current hedging derivatives** | **64,167** | **52,313** | **116,468** | **35,498** | **27,699** |
| **Other current liabilities** | **5,814** | **316** | **270** | **2,187** | **596** |
| **Total current liabilities** | **2,156,996** | **1,442,542** | **1,505,365** | **1,196,771** | **1,230,474** |
| **Total Equity and liabilities** | **4,005,961** | **3,115,254** | **3,233,437** | **2,874,129** | **2,963,235** |

# Consolidated Statements of Profit or Loss

## as of December 31st 2018, 2017, 2016, 2015, 2014 (Thousands of Euros)

| (Debit) Credit | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Continuing operations:** | | | | | |
| Revenue | 2,048,419 | 1,477,039 | 1,318,200 | 1,283,591 | 1,447,141 |
| +/- Changes in inventories of finished goods and work in progress | 73,250 | (77,035) | (15,474) | (126,137) | 7,690 |
| In-house work on non-current assets | 14,488 | 8,977 | 9,778 | 6,490 | 9,840 |
| Procurements | (1,089,940) | (542,771) | (608,669) | (435,014) | (743,140) |
| Other operating income | 21,339 | 7,886 | 15,792 | 4,245 | 5,289 |
| Staff costs | (518,473) | (446,381) | (397,634) | (402,164) | (406,236) |
| Other operating expenses | (347,605) | (247,463) | (186,723) | (164,996) | (174,159) |
| **Ebitda** | **201,478** | **180,252** | **135,270** | **166,015** | **146,425** |
| Depreciation and amortisation charge | (46,738) | (34,690) | (34,669) | (38,399) | (42,398) |
| Impairment and gains or losses on disposals of non-current assets | (10,572) | 148 | 11,239 | (833) | 10,958 |
| **Profit from Operations** | **144,168** | **145,710** | **111,840** | **126,783** | **114,985** |
| Finance income | 7,627 | 7,309 | 13,643 | 10,476 | 10,187 |
| Finance costs | (64,160) | (68,551) | (72,819) | (56,632) | (47,252) |
| Changes in fair value of financial instruments | 7 | 35 | 870 | 3 | 373 |
| Exchange differences | (6,673) | (17,591) | 5,916 | (19,632) | (2,394) |
| Impairment and gains or losses on disposals of financial instruments | 9 | 4 | (594) | (589) | 4,357 |
| **Financial Loss** | **(63,190)** | **(78,794)** | **(52,984)** | **(66,374)** | **(34,729)** |
| Result of companies accounted for using the equity method | (403) | 594 | 473 | - | 200 |
| **Profit before Tax** | **80,575** | **67,510** | **59,329** | **60,409** | **80,456** |
| Income tax | (40,955) | (24,993) | (22,049) | (17,795) | (18,327) |
| **Profit for the year from continuing operations** | **39,620** | **42,517** | **37,280** | **42,614** | **62,129** |
| **Consolidated Profit for the Year** | **39,620** | **42,517** | **37,280** | **42,614** | **62,129** |
| **Attributable to:** | | | | | |
| The Parent | 43,462 | 42,406 | 35,013 | 41,041 | 59,679 |
| Non-controlling interests | (3,842) | 111 | 2,267 | 1,573 | 2,450 |
| **Earnings per share (euros)** | | | | | |
| Basic | 1.27 | 1.24 | 1.02 | 1.20 | 1.74 |
| Diluted | 1.27 | 1.24 | 1.02 | 1.20 | 1.74 |

# OFFICES


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

**MADRID OFFICES**
José Ortega y Gasset, 29 - 5º
28006 MADRID
Spain
Tel.: +34 91 436 60 00
Fax: +34 91 436 03 96
caf@caf.net

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**CAF RAIL AUSTRALIA PTY LTD**
Level 20, Suite 2002, 321 Kent St
2000 Sydney NSW
Australia
Tel.: +61 (0) 2 8084 5119

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

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