
CAF
ANNUAL REPORT
2020

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The following English translation is provided by the Company for information purposes only, based on the original and official document in Spanish available on the Company's website (www.caf.net).

In the event of any discrepancy between the English version and the Spanish original document, the latter will prevail.

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,

By means of these brief lines, I first of all wish to greet you one year on and also convey to you the most noteworthy events that took place in relation to the CAF Group in 2020. This was a year in which COVID-19 left its mark on society in terms of both health and the economy.

The CAF Group's response to the pandemic was swift and decisive, and was conducted in close cooperation with its stakeholders. The safeguarding of human health and safety was prioritised at all times through the adoption of measures such as remote working and flexibility. Continuous information channels were established with shareholders in order to give visibility to business performance, and telematic means were adopted to enable voting at the Annual General Meeting. As regards customers and suppliers, schedules were adapted and the effects of the temporary suspension of activities and the mobility restrictions to which we were subject were mitigated. With respect to society, we contributed towards mitigating the effects of the pandemic through various actions, such as donating healthcare material manufactured using a 3D printer to healthcare institutions, and also protecting passenger safety by applying the catalogue of COVID-19 solutions to various CAF fleets (rail or bus) throughout the world.

I want to give special recognition to the exemplary conduct of CAF's team of professionals, who have demonstrated extraordinary commitment and responsibility throughout this difficult and uncertain year. I would like to express my gratitude to everyone for their excellent work.

Although the combined long-term effect of remote working and its repercussion on mobility habits, on the one hand, and the overriding need to reduce polluting emissions and congestion generated by road traffic, on the other, remains to be evaluated, the market has remained stable in terms of volume and no investments have been cancelled in the railway sector as a result of the pandemic, above and beyond a certain slowdown in award processes, particularly in respect of major rail projects. In this context, the CAF Group managed to end the year with order intake worth EUR 2,123 million, arising from contracts in both the railway and bus segments.

The most significant contracts include the award to CAF of the contract for the supply of 37 metre-gauge units marking the beginning of RENFE's ambitious investment plan, added to which was the contract for the supply of diesel-electric units for the Republic of Myanmar, consisting of the manufacture of 246 vehicles, awarded at the end of the year. The contract extensions for additional units by the authorities of various geographical areas such as Helsinki, Naples, Stockholm, Amsterdam and the region of Flanders and Utrecht, who have thus renewed their confidence in CAF, also warrant a special mention. The contracting of new long-term maintenance services in Scandinavia in conjunction with EuroMaint, and the signalling contracts awarded to CAF Signalling by ADIF, as well as other smaller awards from other businesses, completed the rail order intake for the year.

The transformation of mobility in city centres and metropolitan areas throughout the world towards more sustainable models is a fact, an unstoppable trend. Zero-emission buses are now being adopted on a massive scale in the major European cities, resulting once again in 2020 in an increasing number of contracts for alternatively powered buses. Orders for electric buses for Germany, Poland, Romania, Spain and Switzerland, among other countries, have boosted Solaris' leadership in the European market, making it worthy of the Global e-Mobility Leader Award in 2020, which it received at the e-Mobility Leader Awards Gala 2020 in recognition of its contribution to more sustainable mobility solutions. Also, Solaris' long-term commitment to hydrogen has resulted in new success stories in countries such as Germany, the Netherlands, Italy and Sweden. According to market forecasts, hydrogen-fuelled urban buses will experience vigorous growth in the coming decade, with Solaris leading the field.

Consequently, the backlog at year-end stood at EUR 8,807 million, representing a slight decrease on the figure recognised in 2019 but 3.2 times consolidated annual sales, giving visibility to the Group's activities in the medium term.

The pandemic affected business performance, particularly in the first half of the year, but the increase in activity in the second half revealed the robustness of the pillars underpinning the Group and enabled consolidated revenue to grow 6% year-on-year to EUR 2,762 million. There is no doubt that the broad diversification of products and geographical areas in which the CAF Group operates have enabled us to mitigate the effects of COVID-19.

If we analyse this revenue figure in a little more detail, beginning with the railway segment, vehicle manufacture declined in the first half due to the total or partial mandatory stoppage of production at various plants. The Group was able to recover this activity and even step it up in the final months of the year thanks to the effective implementation of new project programmes and full compliance with the plan to recover unworked hours at the Spanish plants in the first half. A total of 1,024 vehicles were manufactured, one of the best figures in recent years. Of note among the manufacturing projects in progress in 2020 were the units for the Northern Arriva and West Midlands franchises (United Kingdom), the Civity platform suburban trains for NS (the Netherlands) and for Auckland Transport (New Zealand), the metro units for the cities of Barcelona and Manila, as well as various tram compositions for Utrecht, Luxembourg, Amsterdam, Stockholm, Lund and Budapest, among others. Meanwhile, service revenue increased, due mainly to the full consolidation of EuroMaint in 2020 following its acquisition by CAF in 2019, in a context in which maintenance services were affected as a result of the aforementioned mobility restrictions. Revenue associated with the other businesses increased, even though mobility restrictions affected work in progress, particularly

with respect to the integrated projects under way in Australia and EMEA.

Mobility demand, which is so important for operators and public authorities the world over, and also for CAF as a fleet maintainer, was affected by the restrictions applied by the various health authorities in an effort to mitigate the pandemic. However, traffic demonstrated notable resilience once those restrictions eased and recovered significantly in city centres and metropolitan areas, to which our Group has major exposure. This enabled us to substantially improve rolling stock vehicle maintenance activities in the various geographical areas as the year progressed.

With respect to buses, 2020 was historical for Solaris in terms of its sales figure and the number of vehicles sold -1,560 units-, this being the highest figure achieved in its 25-year-long history. Of note is the significant growth experienced in the sale of low- and zero-emission buses, representing 44% of the total buses sold, which ranked Solaris as the leading manufacturer of electric buses in Europe, with a market share of 20%.

The increased sales volume with respect to buses and the greater importance of the e-mobility range, together with the enhanced efficiency of Solaris' operations, contributed to considerably increasing the results for the bus segment despite the pandemic. By contrast, the railway business was hampered by cost inefficiencies arising from COVID-19, the reduction in rail fleet traffic under maintenance and the depreciation of emerging currencies. As a result of all the foregoing, consolidated EBITDA dropped by 18% to EUR 201 million, pre-tax cash flow stood at EUR 90 million, representing a 15% decrease on 2019, and net profit after tax stood at EUR 10 million.

The complex business environment and the uncertainty brought about by the pandemic called for increased attention to, and more active management of, if at all possible, the Group's liquidity. We curbed consumption of existing cash and increased financing facilities, which enabled us to end the year with a solid financial position. Net financial debt stood at EUR 311 million, representing a significant improvement on the 2019 level, while available liquidity totalled EUR 1,115 million. As a result, the Net Financial Debt/EBITDA ratio stood at 1.5.

The exceptional circumstances made it advisable to postpone non-urgent investments, although it was indeed necessary to decisively address the core activities of the Group's Innovation Plan and Investment Plan. Thus, in 2020 we continued with our lines of technological development in the field of digitalisation, the storage and management of vehicle energy, railway signalling (on-board and fixed), self-driving vehicles and also with respect to basic rolling stock technologies such as traction, wheel sets and axles, gear units, control and communications, maintenance, etc. I would like to draw particular attention to the selection of the FCH2RAIL project, led by CAF, for the development and certification of a bi-modal hydrogen-electric train prototype financed by the European Commission's Horizon 2020 framework programme. This project will put CAF at the forefront of this innovative technology, the main challenge of which is to provide a competitive alternative to the diesel trains that still run on unelectrified tracks.

The most noteworthy investments in property, plant and equipment relate to axle forging modernisation, the acquisition of equipment to achieve better efficiency in train manufacturing operations and other investments at the various manufacturing plants to undertake new projects. In the bus segment, investments were aimed at increasing Solaris' production capacity, which was required in order to respond to its high backlog and the growth forecasts for this business, mainly in the zero-emission vehicle area.

The new Sustainability Policy was approved in 2020. The main objective of this Policy was to strike a balance between implementing the Group's mission and satisfying the needs and expectations of the stakeholders, thus creating sustainable, long-term value. CAF's adhesion to the United Nations Global Compact and the progress made with respect to the internal organisational structure to promote our ESG commitments also warrant a special mention. Further information on all the foregoing is provided in the section relating to the Non-Financial Information Statement of the Notes to the Consolidated Financial Statements and in the Sustainability Report.

As you will see, the anticipation and immediate management of the pandemic, the plan to minimise the impact on the business, and the dedication and effort of all those involved have enabled us to overcome the initial impact and close the year with satisfactory results.

We are looking to the coming years with optimism and the aim of recovering profitable growth levels, such as those achieved in the years prior to the pandemic, and of improving our sustainability score by the rating agencies by better communicating our situation with respect to ESG. Our market, namely, the collective mobility market, has favourable medium- and long-term prospects, supported by structural trends such as increasing mobility needs arising from the increase in population and growing urbanisation. However, they are also supported by new European, US and basically global policies in favour of using rail as a more sustainable means of transport, and are underpinned by the emission reduction targets established for city centres, which require fresh investments in rail and buses. In Europe, this commitment is endorsed by the European Green Deal and by the Recovery Plan for Europe, which will mobilise a significant volume of funds for more sustainable transport, both in and outside cities.

The environment demands sustainable, connected, digital and safe mobility. Efficient and competitive systems. It also increasingly requires an alignment of the organisation's policies, objectives and activities with ESG best practices. In response to these challenges, we intend to continue with our drive to invest in the technological development of solutions such as hydrogen or energy storage, thereby shoring up the CAF Group's current leadership position. We will also consolidate our value proposition to customers in terms of integrated solutions and systems. We will secure our international growth in traditional and alternative markets with significant potential. We will make progress in integrated digitalisation and cybersecurity for our processes, products and services. We will systematically apply cost containment and efficiency initiatives. We will seek to improve environmental, sustainability and good governance indicators through the Corporate Management Model, and to be better perceived by external agencies specialised in ESG ratings.

I do not want to bid farewell before first thanking you, dear Shareholder, for your continued support for this great project that is the CAF Group. Your contribution, together with that of the other stakeholders, is essential in order to continue to build an increasingly sustainable CAF Group in the long term.

Thank you once again. My warmest regards,

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, a subsidiary of the CAF Group, is one of Europe's leading bus manufacturers. Having supplied over 20,000 vehicles over the course of 25 years of operations in the sector, Solaris has established itself as the European electric bus market leader in terms of market share. It also offers an extensive range of products featuring cutting-edge zero emission solutions for public transport.

RAILWAY PROJECTS

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
- Myanmar Railways (Myanmar)
- 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)
- Société Nationale de Chemins de Fer Français (France)
- TransPennine-First Group (UK)
- Transport for New South Wales (Australia)
- West Midlands - Abellio, JRE, Mitsui & Co (UK)
- Wales & Borders - KeolisAmey
- Zweckverband Schönbuchbahn (Germany)

CITY

STREETCARS

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

SUBWAY TRAINS

- Amsterdam
- Algiers
- Barcelona
- Bilbao
- Bucharest
- Brussels
- Caracas
- Istanbul
- Helsinki
- Hong Kong
- London
- 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

MAIN LINES

INTERCITY TRAINS

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

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


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706A

2020 DIRECTORS' REPORT OF THE CONSOLIDATED GROUP

CAF GROUP BUSINESS MODEL AND OUTLOOK

The CAF Group aims to extend its offering of solutions and consolidate its position as a benchmark in the most important geographical areas with regard to collective mobility, through actions to make the systems more sustainable, effective and safe.

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 for its customers.

With multiple activities and plants and a leader in the railway industry, the Group offers its customers one of the widest and most flexible product ranges in the market, from integrated transport systems to rolling stock (railway and bus), components, infrastructure, signalling and services (maintenance, refurbishment and financing). All this value offer is available on the corporate website.

- In railway rolling stock, which constitutes its main historical activity, the Group offers a wide range of products that includes, among others, from high-speed trains, to regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

- With regard to buses, the Group offers a wide range of zero-emission full-battery and hydrogen fuel cell powered buses that maintained their leadership position in Europe in 2020 (Solaris received the Global e-Mobility Leader award for its contribution to the development of zero-emission transport across the world). Its product range is completed with low-emission buses powered by conventional combustion engines, although their importance in Solaris' activities is decreasing, a reflection of the market trend.

- In order to increase its value offering in sustainable mobility and contribute to decarbonisation, CAF Group is adopting a significant role in hydrogen solutions, such as the following:

  – Railways: Europe has chosen the consortium led by CAF to develop a hydrogen train prototype

  – Buses: Solaris has joined the European Clean Hydrogen Alliance

The Group provides services to the most diverse customers all over the world: from private or public municipal and regional or national bodies, to other rolling stock manufacturers and private systems operating or maintenance companies, including complex corporate structures in conjunction with entities with a financial profile.

With a strong presence in the international market and with particular focus on Europe, the Group has various factories in countries such us Spain, Poland, UK, France, the US, Mexico and Brazil. The Group also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents. This information can be found on its corporate website. This close relationship with customers allows the Group to produce more efficiently and provide an excellent range of assistance and maintenance services.

The Management Model, personalised attention and ongoing improvement guide the Group to meet its customers' needs and expectations, and make each delivery into a recommendation for future business; this was evidenced by the more than 200 projects and orders awarded in over 50 countries in recent years, which have translated into a significant backlog and repeat business from our customers.

Experience in global sustainable mobility

> 200 ROLLING STOCK PROJECTS

> 20,000 BUSES

> 50 MARKETS

2020 was a year marked by the pandemic. It should be noted that rapid execution of the contingency plan, combined with the close relationship with stakeholders, enabled CAF to significantly mitigate the impact of COVID-19 in 2020. The measures adopted by the Group are explained in the non-financial information statement (NFIS).

In the next few years, with the reservations concerning the evolution of COVID-19, the Group aims to recover the levels of profitable growth prior to the pandemic and improve its sustainability rating.

The main reasons supporting these expectations are as follows:

- Perspectives for recovery of the railway and urban mobility transport sectors. These perspectives have been ratified by the UNIFE 2020 World Rail Market Study in the case of railways.

- Continuous development of urban e-mobility in which CAF Group is well positioned with its combined offering (railway and bus).

- Inherent sustainability of railway transport in general.

- Firm commitment of authorities to sustainable mobility, through the impetus of the European Green Deal, as part of the European Restructuring Plan, in which the Group aims to maximise its participation.

- CAF Group's positive rating from, and relationship with, all its stakeholders.

- Systematic, recurring application of expense containment programmes, as well as cost and inventory reduction.

- Roll-out of the Corporate Management Model as a tool for obtaining synergies and improving Environmental, Sustainability and Governance (ESG) indicators, following the principles and commitments stated in our Sustainability Policy.

Lastly, CAF Group aims to extend its offering of solutions and consolidate its position as a benchmark in the most important geographical areas with regard to collective mobility, through actions to make mobility systems across the world more sustainable, effective and safe. These actions will include:

- Making progress in integrated digitalisation and cybersecurity for our processes, products and services.

- Continuing investments in the technological development of sustainable mobility solutions such as hydrogen, energy accumulation, eco-design, etc. in which the Group is a leader.

- Consolidating our value proposal for customers through the commercial and technical development plans of our components, signalling and systems businesses (CAF Signalling, CAF Power & Automation, CAF Turnkey & Engineering, CAF MiiRA and CAF Engineering & Modernizations, among others) in order to diversify our integrated mobility offering.

- Consolidating international growth by exploring traditional and alternative markets with significant potential, including, where applicable, taking advantage of joint ventures or alliances.

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

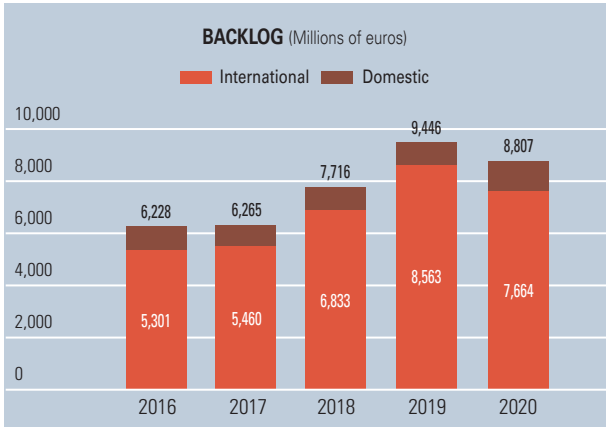
Main indicators (*)

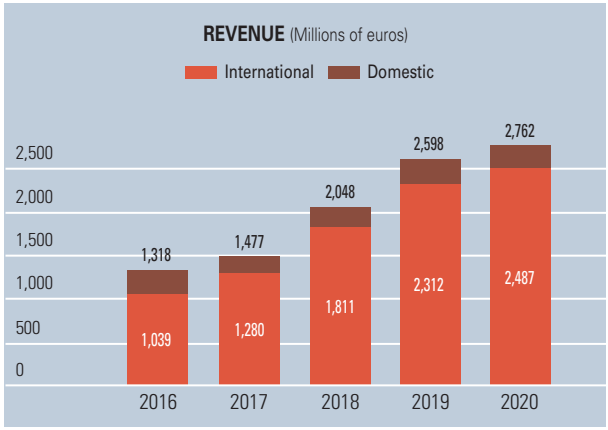
Figures in millions of euros	2020	2019	Change (%)
Contracts			
Backlog	8,807	9,446	-7%
Contracts in the year	2,123	4,066	-48%
Contracts to Revenue ratio	0.77	1.57	-51%
Profit and Cash-Flow			
Revenue	2,762	2,598	6%
EBITDA adjusted	201	244	-18%
Cash-Flow	90	106	-15%
Investment in current assets	52	112	-54%
Investment in P, P & E and R&D+i	49	77	-36%
Capital management and liquidity			
Net financial debt	311	434	-28%
Equity attributable to the Parent	633	733	-14%
Available liquidity	1,115	914	22%
Net financial debt to EBITDA adjusted ratio	1.54	1.78	-13%
Proposed dividend per share	0.000	0.842	-100%

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

The backlog stands at EUR 8,807 million, remaining at high levels despite the increase in revenue and fewer new contracts. This figure guarantees that the Group will be able to continue to carry on its normal activity and consolidate its excellent position to once again reach record highs in terms of the awards of contracts forecast in 2021.

- The comparison of the indicators with respect to 2019 must take into account the changes in the scope of consolidation of the Group; in particular, the inclusion of the Euromaint Group in July 2019.
- EBITDA adjusted as a percentage of the Group's revenue stood at 7.3% in 2020 (2019: 9,4%). The decrease is due mainly to the impact of COVID-19 on the Group, which has given rise to inefficiencies as a result of the activity stoppages.
- With regard to the financial position, the Group's soundness is of particular note, together with the reduction of the Net Financial Debt/EBITDA ratio to 1.54, representing a fall of 13% compared to 2019.
- In difficult circumstances for the Group, it has increased its available liquidity to around EUR 1,115 million, 22% up on 2019, demonstrating the Group's financial strength.
- Working capital expenditure fell by 54% to EUR 52 million, the lowest level in the last decade as a result of the favourable conditions of the projects in the backlog and the Group's focus on cash management during the pandemic.
- Contracts totalled EUR 2,123 million, despite the slowdown in award processes.
- The backlog stands at EUR 8,807 million, remaining at high levels despite the increase in revenue and fewer new contracts. This figure guarantees that the Group will be able to continue to carry on its normal activity and consolidate its excellent position to once again reach record highs in terms of the awards of contracts forecast in the railway market in 2021.





RAILWAY SEGMENT

COMMERCIAL ACTIVITY

Marked by the COVID-19 pandemic on a global level and the restrictions on people's movement, 2020 could be called a "metric year" in our particular railway history. Firstly, in chronological order, this is due to ADIF's award to CAF Signalling of the project to replace the existing telephonic block signalling system on the León-Guardo line between the Asunción Universidad (León Capital) and Guardo (Palencia) stations with a new automated system remotely controlled from the Centralised Traffic Control (CTC) centre. This action will result in an increase in both the line's capacity and the reliability of the facilities. Secondly, the epithet "metric" could also be given to the year as a result of the new contracts with Renfe, Euskotren and Mitsubishi Corporation, involving a total of 82 units, all of which are metric-gauge, and the manufacture of more than 350 cars.

In the only project it awarded for the supply of rolling stock in 2020, Renfe entrusted our company with the development of the two batches of metric-gauge trains, the tender process for which began in 2019. This included a total of 37 trains, of which 31 will increase the available fleet to travel on the lines of the extinct FEVE service, which now form part of the ADIF network, operated by Renfe Viajeros, and 6 will completely replace the existing fleet that provides a captive service on the Cercanías commuter train line C-9 service in the centre of Madrid.

This project is the first to be awarded by the Renfe Group among the almost EUR 5,000 million to be awarded as part of its fleet expansion and renewal plans, and we are extremely proud to have earned its trust to cooperate in its expansion and modernisation plans.

To provide service on its rail network, Euskotren has chosen CAF to manufacture 4 new electric units making up the Series 980, which will operate alongside the Series 900 and Series 950, currently in service and also manufactured by us in the past.

Mitsubishi Corporation has once again shown its trust in CAF, displayed in the past in projects such as Line 1 of the Manila Light Rail Transit System in the Philippines, the Istanbul Metro and the construction of a transport system in Canberra, Australia. On this occasion, the project is backed and financed by the Japanese Government and was formalised by the Ministry of Transport and Communications of the Republic of the Union of Myanmar. Our units will service the circular railway of Yangon, which is the country's most important commercial city, and also on the line that joins the city to the capital, Naypyidaw, and to Mandalay, the second most important commercial centre after Yangon.

Returning to the signalling business, and to the Iberian Peninsula, with the same aim of increasing line capacity and improving the reliability of its systems, ADIF awarded CAF Signalling the construction project for the single-track section automatic clearing block system (BLAU) with Centralised Traffic Control (CTC) for the Arahal-Fuente de Piedra route between the provinces of Seville and Malaga.

Also, CAF Signalling entered into an arrangement with the Bulgarian National Railway Infrastructure Company (NRIC), as a member of the "ERTMS CA Voluyak DZZD" consortium, to refurbish and modernise the signalling and telecommunications systems of the section of line connecting the capital Sofia to the village of Voluyak; this route includes the stations of Sofia Central, Obelya and Voluyak and is a strategic project for Bulgaria, as it involves the renovation of the security and signalling systems at Sofia Central, the country's main station and transport hub.

In Europe, CAF has renewed the trust held with several customers. Accordingly, CAF entered into a framework agreement with Ente Autonomo Volturno, a company from the Italian region of Campania, which is in charge of the regional and urban public railway transport service, for the supply of up to ten metro units and the integral maintenance thereof for a period of three years. These new trains will service the Piscinola-Aversa Centro line of the City of Naples metro network.

In the Netherlands, specifically in relation to the capital Amsterdam, GVB Activa B.V., a public company in charge of the city's transport operations, exercised a first option to expand the current supply in order to increase the number of trams to be provided to 72 units. It should be noted that they are bidirectional low-floor vehicles which combine modern design with state-of-the-art equipment, providing maximum accessibility and comfort as well as top performance and ease

In the only project it awarded for the supply of rolling stock in 2020, Renfe entrusted our company with the development of the two batches of metric-gauge trains.

of use. An agreement was also reached to increase the fleet to 54 units in the province of Utrecht.

A similar situation has occurred in the Swedish capital of Stockholm, where SL AB (Storstockholms Lokaltrafik) exercised a new option to expand the current supply in order to increase the number of trams to be provided, which are specially adapted to the Nordic country's extreme weather conditions, to 52 units.

In the Finnish capital of Helsinki, HKL (Helsingin Kaupungin Liikennelaitos), the company in charge of operating the city's public transport systems, ordered new units from CAF, which will take the total number of suburban line trains manufactured by our Group to 25.

In Belgium, the Flemish bus and tram public operator, De Lijn, exercised one of the extension options included in the contract signed in 2017, increasing to 40 the tram units to service the city of Antwerp and to 88 the total number of trams to be supplied to date.

The various initiatives taken in the maintenance business line have been proven fruitful as contracts have been obtained throughout Europe and in the American continent.

In Norway, the VY Group, which is owned by the Norwegian Government through the Ministry of Transport and Communications and operates the service on the Oslo-Bergen railway line, ordered from CAF, through the latter's subsidiary Euromaint, the maintenance of the rolling stock that provides service on that line, known as Bergensbanen, for the next nine years.

In Northern Ireland, CAF finalised an agreement to extend its maintenance contract for 15 years with Translink, the Northern Ireland public railway operator, for its Series 3000, thereby making us its only maintenance company for this Series in the 30 years it has been in operation.

In Italy, AMAT S.p.A, the Palermo public entity in charge of managing transport in Sicily's capital city, engaged CAF to carry out the maintenance for the next four years of its fleet of trams serving the city, one of the most modern tram systems in Italy.

The Medellín metro awarded CAF the long-cycle maintenance checks for 35 units manufactured by our Company. This contract will mean the continuation of the activity already carried out from the date these units were placed into operation.

In Spain, the Malaga Metro engaged us to provide the maintenance service for the next five years, and Ferrocarriles de la Generalitat Valenciana chose CAF to undertake the average-life maintenance service for the motor bogies and push-pull cars of the units of Metrovalencia's 4300 Series trains.

Lastly, but by no means less importantly, the Fuel Cells and Hydrogen Joint Undertaking (FCH JU), the European Commission agency charged with boosting development of fuel cell and hydrogen energy, selected the proposal led by CAF, together with a large group of companies of the calibre of Renfe and Adif, to name just two, to develop a hydrogen train prototype (H2020). In its various phases, this project will encompass the design and manufacture of an innovative prototype, as well as the testing required for its validation and approval. The aim is to obtain a zero-emission product that can compete, in terms of operating performance, with current diesel trains, both new design and refurbished vehicles.

Enterprising initiatives, such as the initiative recognised by the European Commission, are a source of pride and recognise our role as an active force in the fight for decarbonisation and our efforts to provide sustainable mobility solutions that respect the environment.

RAILWAY SEGMENT

INDUSTRIAL ACTIVITY

With a total of 1,024 cars manufactured, 2020 ended with remarkable figures for the CAF Group's industrial business. Together with the more than 54,000 wheels and other rolling stock components dispatched to more than 20 countries worldwide, the figures were among the best in recent years.

Several manufacturing projects were completed in 2020. These included the two projects with the UK operator Northern Arriva which took delivery of the last 6 DMU (Diesel Multiple Unit) trains, plus the 6 EMU (Electric Multiple Unit) trains of the 58 trains of the first type and the 43 of the second type that had been ordered. The list also includes the contract for 24 LRVs (Light Rail Vehicles) entered into with the US city of Boston, to which the last 7 trains were delivered, as well as the 27 trains completing the 118 of the first contract signed with the Dutch operator, Nederlandse Spoorwegen, the 2 trains completing the 8 ordered under the contract with the Norwegian customer, Flytoget, and the 11 trains completing the order of 15 units for the Auckland commuter train network in New Zealand.

The 13 trams for Stockholm, in the three-module and four-module formats included in the order for 20, the 7 units for the city of Lund and the 5 LRVs for Mauritius completing the contract for 18 trains also make up this group.

These are some of the 25 projects that were carried out in 2020 at the Group's various production plants. The rest began the early phases of manufacture in 2020 or continued, having commenced in prior years, as is the case of the 12 push-pull cars built for the US operator Amtrak, 3 trains for the Brussels Metro of the 22 ordered, the first 5 trains manufactured for

Naples, the first 5 trains of the 30 ordered, in the eight-car format for Manila, 11 medium distance trains for the West Midlands area of the UK, 27 trams, making 33 manufactured of the total 72 ordered by the city of Amsterdam, 11 trams completing the first delivery batch for Luxembourg and 14 trams of the contract for 22 trams for the city of Utrecht.

Also at this stage is the contract for 12 trains for Schönbuchbahn, with the manufacture of the first 4 trains completed, or the first 17 Civity trains for the extension of 88 units ordered by the Dutch operator NS mentioned above.

Lastly, although they are still at an early stage of manufacture, preliminary operations having commenced, there are other projects, such as the project for Maryland in the US for a total of 26 units, the first structural substructures for the contract for 30 units for the Amsterdam Metro or the first manufacturing stages of the project for 20 trams for the city of Liège, as well as the first phases of construction of the push-pull cars for the contract with the Northern Ireland operator NIR.

With a total of 1,024 cars manufactured, 2020 ended with remarkable figures for the CAF Group's industrial business. Together with the more than 54,000 wheels and other rolling stock components dispatched to more than 20 countries worldwide, the figures were among the best in recent years.

The most important products manufactured in 2020 were as follows:

NO. OF VEHICLES	
High-speed for Flytoget	8
Long-distance Amtrak cars	12
Medium-distance Northern by Arriva DMUs (two-car units)	6
Medium-distance Northern by Arriva DMUs (three-car units)	9
Medium-distance Northern by Arriva EMUs (three-car units)	18
Medium-distance West Midlands (two-car units)	14
Medium-distance West Midlands (four-car units)	16
Commuter trains for NS (three-car units)	69
Commuter trains for NS (four-car units)	16
Extension of commuter trains for NS (three-car units)	27
Extension of commuter trains for NS (four-car units)	32
Commuter trains for Auckland	33
Napoles metro	30
Barcelona s/5000 metro	30
Barcelona s/6000 metro	15
Bruselas metro	18
LRV for Boston	21
LRV for Schönbuchbahn	12
LRV for Mauricio	35
LRV for Manila	40
Trams for Budapest (five-module units)	60
Trams for Budapest (nine-module units)	9
Trams for Utrecht	98
Trams for Luxembourg	77
Trams for Amsterdam	135
Trams for Stockholm (three-module units)	33
Trams for Stockholm (four-module units)	8
Trams for Freiburg	14
Trams for Lijn	65
Trams for Oslo	15
Trams for Lund	35
Trams for Vitoria-Gasteiz	14
TOTAL	1,024

BOGIES	
With mechanic-welded chassis	1,308

WHEEL SETS AND COMPONENTS UNITS – (MiiRA)	
Assembled axles (power car + push-pull car)	5,445
Loose axle bodies	8,387
Monoblock wheels	54,882
Elastic wheels	2,997
Couplers	706
Gear units	2,790
Bandages	718

RAILWAY SEGMENT

R&D+i ACTIVITY

The CAF Group's new Innovation Plan for 2020-2021 was defined in the first months of 2020, which is aligned with the Strategic Plan.

The Innovation Plan of the CAF Group rail segment envisages a total of 166 projects, 115 of which are in the Corporate R&D Plan and 51 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 Economic Affairs and Digital Transformation
- Spanish Ministry of Science and Innovation
- European Commission

Projects in which CAF, CAF I + D and different subsidiaries participate have been promoted in the Plan implemented, having continued to collaborate very intensively with different technology centers and universities.

The projects included in the 2020-2021 Innovation Plan encompassed the following fields:

- Specific rolling stock products.
- Digitalisation: projects using Big Data, artificial intelligence and digital twin technology to gather and process data obtained in service for use in product and maintenance enhancements.
- Sustainable vehicles and energy management, which include projects related to the reduction and optimisation of consumption on trains and in the global system, and the development of alternative propulsion systems to diesel, such as those based on battery energy storage and hydrogen fuel cells.
- Signalling (on-board and fixed).
- Development of technologies for autonomous driving.
- Virtual validation and approval environments.
- Specific products and developments using basic rolling stock technologies, traction, wheel sets and axles, gear units, control and communications, maintenance, etc.

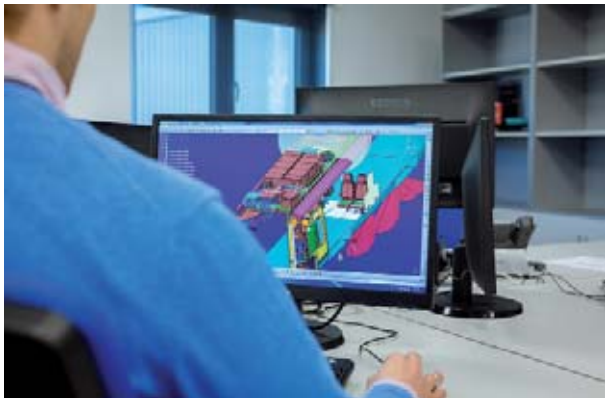
All of the above combined the execution of projects aimed at assimilating technologies with the development of products based on such technologies and strategic projects.

The CAF Group participates in joint projects at state level and also as part of the European Union's Framework Programme (H2020). Noteworthy projects included:

- 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 (PIVOT 2, IMPACT1, IMPACT2, CONNECTA 2, PINTA 2, X2RAIL 1, X2RAIL 2, X2RAIL 3, X2RAIL 4, PLASA 2, FINE 2, IN2STEMPO, IN2SMART2, FR8HUB, FR8RAIL 2, FR8RAIL 3, IMPACT 2, LINX4RAIL) which are scheduled to continue until 2022.

- CLUG, a project promoted by the infrastructure managers that aims to demonstrate an autonomous train positioning system up to a SIL4 safety level through sensors such as GNSSs, IMUs, Tachometers and Digital Maps.

The CAF Group's new Innovation Plan for 2020-2021 was defined, which is aligned with the Strategic Plan. The aforementioned Plan fostered projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.



- iRel40, a project promoted by the European electronics industry with the general aim of making reliability a differentiating factor for electronic components and systems manufactured in Europe, with CAF's particular objective being to apply it to its electronic systems developed in-house.

- REALTRAIN, 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.

The most significant engineering projects undertaken in 2020 were as follows:

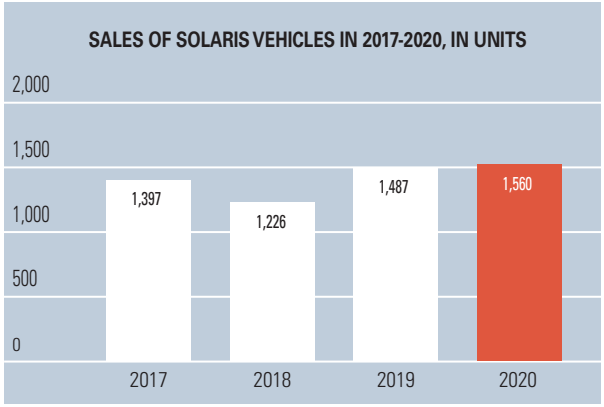
- Trams for Amsterdam (The Netherlands)
- Locomotives for the RATP (France)
- Electric multiple units for Schönbuchbahn (Germany)
- Automated metro for STIB (Brussels)
- DMUs for West Midlands (UK)
- Metro Napoles (Italy)
- LRVs for Manila (Philippines)
- Metro Barcelona (Spain)
- Metro Amsterdam (The Netherlands)
- Trams for Oslo (Norway) and Lund (Sweden)
- Extension trams Freiburg
- Tram of Liège
- DMUs for Wales & Borders (Keolis)
- Intermediate cars and rehabilitation of Units for NIR
- Tram for Parramatta
- Refurbishment of Units Metro of Medellin
- Extension of Units Civity for NS (The Netherlands)
- Trams for Lijn (Antwerp)
- Units of Metro for Docklands (London)
- DEMU Long Regional for Transport of New South Wales (TfNSW)
- Tram of Birmingham
- Tram of Jerusalem
- Trains TET AMLD SNCF
- Metric-gauge and Alpine trains (Cercedilla – Los Cotos) for Renfe

BUS SEGMENT - SOLARIS

In 2020 Solaris registered a substantial increase in sales and income, and the figures were also record figures. A new record number of vehicles was sold: 1,560, which is the highest figure in Solaris's 25-year history.

In 2020, most economies in the world had to face unprecedented challenges. The past few months have also been difficult for the European public transport sector and companies manufacturing vehicles in this sector of the automotive industry. The COVID-19 pandemic and related restrictions prompted Solaris to establish special procedures and to develop solutions to maintain the continuity of its business activities. However, the company has proved that, even in the toughest of times, it keeps promises made to its clients and business partners. The great deal of effort the whole organisation and its employees have put into continuing its activities and implementing protective measures have thus yielded tangible results.

In 2020, Solaris recorded a substantial increase in sales and revenues and, what is more, all these were record numbers.



In 2020, a new record for the number of sold vehicles was established, 1,560 units, which is the highest number ever achieved in Solaris' 25-year history. Compared to 2019, this represents a rise of nearly 5% (1,487 units in 2019).

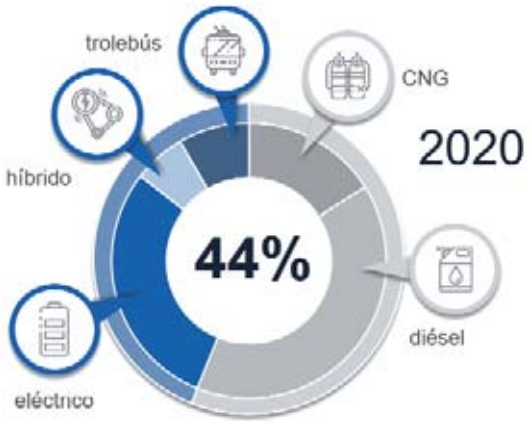
In the period in question, Solaris buses and trolleybuses made their way to carriers in 19 countries. The largest numbers of vehicles were delivered in 2020 to Germany, Poland, Italy, Estonia, Czech Republic, Israel, Switzerland and Spain.

Moreover, 2020 was a record year for Solaris in terms of the number of vehicles sold in Germany. The bus manufacturer supplied a total of 329 vehicles to German public transport operators, out of which 40% were 12- and 18-metre (articulated) battery electric buses.

Also worthy of note is that Solaris became the market leader for low-floor city buses in Poland for the 18th year in a row, by achieving a 53% share in this segment. This translates into a year-on-year increase in the company's market share in Poland of 11% (42% in 2019). The Solaris buses sold in Poland in 2020 included primarily electric buses (194 out of 365 units sold in total). The whole fleet of Urbino electric buses in Poland amounts to over 320 vehicles, supplied to 27 towns and cities, i.e. they make up as much as 90% of all e-buses in the country.

Importantly, in 2020 Solaris recorded a particularly impressive growth in sales of buses with low- and zero-emission drives. In 2018, hybrid buses, e-buses and trolleybuses constituted in total 29% of all vehicles sold by the manufacturer. In 2019, this figure stood at 40%. This trend was continued in 2020 leading to the number of sold vehicles with alternative drives growing to up to 44%. Dynamic growth in the share of electric buses

SHARE OF ALTERNATIVE DRIVES IN THE SALES STRUCTURE



in the production and sales mix of Solaris is consistent with the long-term development strategy of the firm.

In 2020, Solaris was the largest manufacturer of city e-buses in Europe, claiming a share of 20%. Last year, the company supplied a total of 457 electric buses. This was nearly three times more than in the previous year, when 162 Urbino electric units, made their way to clients.

The biggest contracts for the supply of electric buses executed in 2020 included a delivery of 130 articulated Solaris Urbino electric buses for public transport operator Miejskie Zakłady Autobusowe in Warsaw, 90 Solaris Urbino electric buses for operator ATM in Milan, and 106 e-buses for Berlin-based public transport company BVG.

Also noteworthy is the fact that the jubilee Urbino bus, i.e. the 20,000th vehicle produced since 1996 (i.e. since the founding of the company), was one of the 130 e-buses delivered to operator MZA in Warsaw. So far, Solaris buses have been delivered to 32 countries and over 750 towns and cities. The impressive number of 20,000 consists of, among other things, over 1000 e-buses that already cruise along streets in 18 countries, operated by almost 100 European carriers.

The higher share of innovative battery and hybrid technologies in the sales volume in 2020, as well as the company's intensified activities in the areas of after sales service and spare parts sales, are reflected in a considerable increase in the company's revenues. Last year, they amounted to over EUR 725 million, (EUR 650 million in 2019).

In 2020, the manufacturer won significant tenders for the delivery of electric buses in 2021 or later. The order book for 2021 contains, among other things, 50 articulated Urbino electric buses for operator MPK in Cracow, 37 e-buses for operator MPK Poznań, and 16 zero-emission buses for the Romanian city of Craiova. Solaris also made it onto the

BUS SEGMENT - SOLARIS

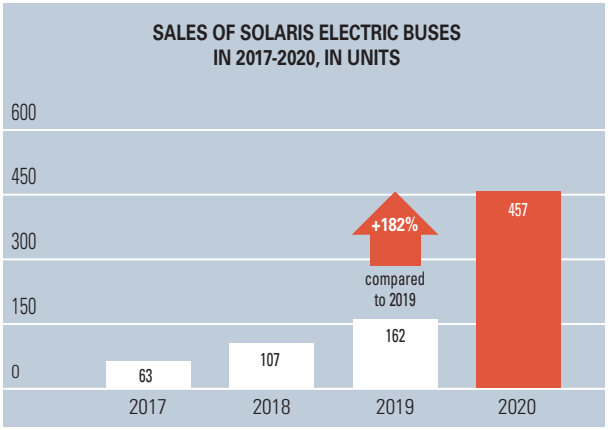
shortlist of suppliers to deliver up to 530 electric buses for German operator Hamburger Hochbahn. The carrier from Hamburg only placed its first order for 10 electric buses in 2020. In 2021 Solaris e-buses will be also delivered to operators from France, Latvia, the Netherlands, Spain, Italy and Switzerland.

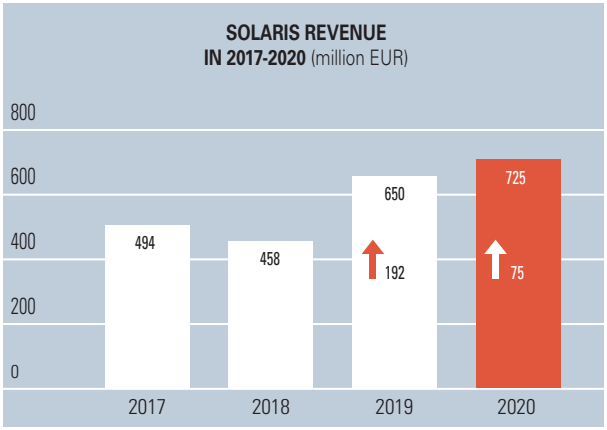
The contribution of Solaris to the development of the e-mobility market was appreciated in 2020, for instance, by the organisers of the Global E-mobility Forum. During the event, which gathered representatives of governments, scientists and world industry leaders, the company was awarded the title of Global e-mobility leader 2020.

Solaris has been strengthening its position as Europe's e-mobility leader not only through the development of electric battery vehicles, but also by investing consistently and in the long term in the perfection of solutions implemented in hydrogen buses. The manufacturer believes that the development of all e-mobility branches, be they battery buses, trolleybuses or hydrogen-fuelled vehicles, should proceed in synergy, and that this process is part and parcel of ensuring sustainable transport for the future. Currently, Solaris offers its clients a comprehensive emission-free bus portfolio thanks to which Solaris is ready to meet not only today's challenges of ensuring sustainable public transport but also the diverse needs of carriers, passengers and drivers.

According to market forecasts, the hydrogen-fuelled city bus segment will grow dynamically in Europe over the next 10 years. Having won several significant tenders for the delivery of hydrogen vehicles in 2020, the company has proved that it is ready for the market's fast-changing needs. The bus maker secured orders for the supply of hydrogen buses from operators in the Germany, the Netherlands, Italy and Sweden.

The development of new products and commencing their serial production, as well as the sale of cutting-edge solutions, are naturally key elements that account for Solaris' market advantage in Europe. In 2020, the company presented a





completely new type of electric bus measuring 15 metres. The low-entry Solaris Urbino 15 LE electric bus opens a new chapter in the development of the Solaris brand, as from now on the Urbino electric can go beyond city boundaries. This is also a breakthrough moment for intercity transport as regards its transition to emission-free mobility. The tri-axle Urbino bus is the first product in Solaris' electric range that meets the requirements for both the first and second vehicle class, and also for both these classes at the same time. This means that the bus can be operated both as a city bus and on intercity routes. Thanks to the batteries' high energy density, the vehicle can cover a distance of up to several hundred kilometres on a single charge in real-life conditions. This solution will make it possible for operators to plan zero-emission routes not only within city confines but also beyond them.

Another brand new product unveiled by Solaris last year was a mild hybrid model. Diesel-electric drives as such are nothing new in the Solaris range. The first Urbino hybrid bus was unveiled in 2006. Back then, Solaris was the first European producer to offer a serially produced bus with a hybrid (diesel-electric) drive. However, the mild hybrid is a novel solution. It is a response to the needs of public transport operators for innovative urban transport vehicles which minimise the impact of such transport on the natural environment, while at the same time allowing them to reduce fuel consumption and to generate considerable savings. This type of drive was developed by using recuperation technology in buses - a technology that uses energy generated during braking. Thanks to it, mild hybrid vehicles release less pollutants and are more environmentally friendly than required according to restrictive Euro 6 emissions standards for diesel engines. The launch of the mild hybrid model has enriched Solaris' existing portfolio when it comes to low-emission vehicles: the Urbino hybrid and the Urbino CNG.

The year 2020 and the COVID-19 pandemic posed new challenges to many companies from the public transport sector. For public transport operators, new needs concerning improving the safety of passengers and drivers have emerged. Solaris responded to these needs very swiftly and in July 2020 it unveiled an "anti-coronavirus" package to minimise the risk of infection among those who have to travel during the pandemic. The solutions have been devised for both newly manufactured vehicles, as well as those which have already been delivered to clients.

All of the proposed solutions have already been tested in real-life urban conditions. What is more, Solaris has also drafted detailed recommendations for its clients regarding the use and maintenance of ventilation and air-conditioning in buses. These concern, among other things, the frequency and manner of washing and of disinfecting the air-conditioning, or the exchange of filters and the compatible types. Thanks to these instructions, it is possible to enhance the safety of passengers and to limit the risk of spreading infections in the bus.

In addition to new products that Solaris launched on the market in 2020, a development project initiated by the company called "A second lease of life for batteries" is also worth mentioning. A consortium comprised of Solaris and Impact Clean Power Technology S.A., in collaboration with TAURON Polska Energia, will implement a project titled "Second Life ESS" with the aim of creating a prototype system to store electric energy based on retired bus batteries. The project is being co-financed by the National Centre for Research and Development [NCBiR]. The aim of the project is to utilise lithium-ion cells whose parameters are no longer optimal when it comes to supplying power to vehicles. But thanks to their integration in energy storage systems, they may gain a second lease of life. Thus, the life cycle of batteries that are not disposed of, but reused, is prolonged. A storage system made of used batteries constitutes an important component of the modern grid, combining the generation of energy from conventional and renewable sources with its storage and supply to the final customer. What is more, modern battery storage solutions contribute to grid stability, with a steadily increasing share of renewable energy sources.

They also boost the quality of electricity supplied and support the development of e-mobility and micro-grids. The work, aimed at developing an energy storage prototype system, is due to be completed in 2022.

The year 2020 was a time of unprecedented challenges for many companies, including those from the public transport sector. Even though the continent had to deal with the pandemic from the beginning of the year, Solaris made every endeavour to maintain the continuity of its business activities. Owing to the fantastic and responsible attitude of its employees as well as excellent collaboration with its clients and business partners, Solaris has finished this year with record sales numbers. The company has proved to its clients that they can rely on Solaris even in the toughest of times.

INVESTMENTS

In 2020 the most significant investments were aimed at modernising and expanding the production areas related to the manufacture of railway vehicles and buses at the Beasain and Zaragoza plants and the plants in Poland, respectively.

Capital expenditure by the CAF Group in 2020 amounted to EUR 23,187 thousand. The most salient investments in 2020 are as follows:

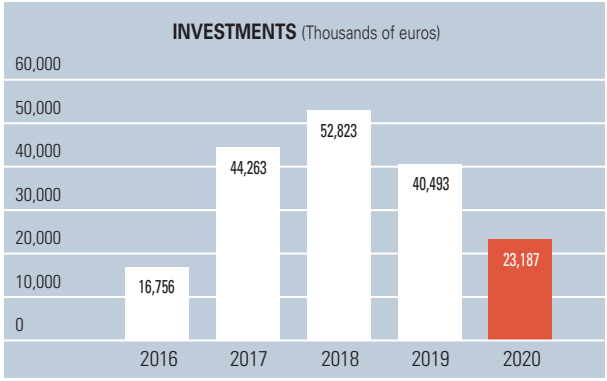
In the MiiRA wheelset line of business, the plan to modernise axle forging included a change in the manipulator and automation of the manufacturing process, which will lead to a reduction in costs and greater project efficiency. In addition, a new cooling facility was implemented in one of the heat-treatment lines, also for the purpose of automating it, thereby improving the control and quality of the process.

As regards the manufacture of trains, the most salient investments in the plan to transform the production model currently underway in the train manufacturing area included the acquisition of equipment for the bogie multiproject manufacturing lines in order to increase efficiency in this operation, the modernisation of the equipment and facilities in the finishing area and the start of work at the Zaragoza plant to adapt and equip a new building where production of the car body structures for the Urbos platform trams will be centralised.

In the digital area, the CAF Group continued with the renewal of the infrastructure for the extension of its storage capacity and the improvement of data processing, without neglecting investment in the security of both the internal and the perimetral network, and increasing capacity and availability in the communication environment.

As regards CAF Track Test Centre, the beginning of 2020 saw the completion of the final work in connection with the investment in the CAF Group's new test track, located in Corella and in operation since 2019, mainly with regard to the latest items relating to electrification (catenary and third rail) and equipping the substations. Also worthy of mention are the investments being made at the CAF Turnkey & Engineering and CAF Signalling subsidiaries, with the extension of the facilities and investment in computer tools and material to cater for the growth in their headcount, given the need to have increased capacity available for the optimum development of their project backlog.

Notable investments outside Spain included the completion of the investment in the Huehuetoca plant in Mexico which commenced in 2019 in order to adapt it to the new projects to be undertaken there. This investment consisted mainly of acquiring and installing the equipment and facilities necessary to manufacture austenitic stainless-steel structures.



The purchase and installation of the equipment for the new finishing warehouse at the plant located in the French town of Bagnères-de-Bigorre, fitted with three vehicle production lines, were completed. This was a necessary investment due to the volume of activity that the CAF Group foresees in France in the coming years.

Lastly, in the bus segment, mention should be made of the important investment plan currently being implemented by Solaris at its Polish plants in Bolechowo and Środa Wielkopolska aimed at modernising and increasing the production capacity of the installed facilities in response to its current high backlog and the subsidiary's forecast growth, principally in the area of the low-emission vehicles and electric and hydrogen bus models.

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 stakeholders; 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, by setting, inter alia, the level of risk the Group considers to be acceptable.

2. Identification of the various risk types, in line with the main risks detailed in the Policy, faced by the Group.

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

   – Corporate Risks – Risks affecting the Group as a whole.
   – Business Risks – Risks specifically affecting each of the businesses/projects, which vary in accordance with the particularities of each of them.

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 through the use of information and internal control systems.

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 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 facing the Group is facing can be categorised as follows:

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

Financial risks: arising from market fluctuations (financial and commodities markets), contractual relations with third parties (customers, debtors) and counterparties related to investments in financial assets and financial liabilities (banks, investors). The subcategories of risks that are included are as follows:

- 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.

With the commitment to addressing this matter, the 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.

- Foreign currency risk: risk arising from fluctuations in exchange rates of one currency with respect to another with a possible 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 company'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.

Legal Risks: arising from the preparation and performance of various types of agreements and obligations (commercial, administrative, intellectual property, etc.) and the possible contingencies arising therefrom. Risks relating to legal proceedings, administrative procedures and claims are also included.

Operating Risks: inherent to all the Group's activities, products, systems and processes that have an economic and reputational impact arising from human/technological errors, insufficiently robust internal processes, or the involvement of external agents.

Corporate governance risks: arising from potential non-compliance with the Group's Corporate Governance System, which 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: arising from the breach of applicable national and international regulations and laws irrespective of the activity in question, included in the following large blocks: (i) Commercial and Competition (market abuse, corporate obligations and securities market regulations, antitrust and unfair competition), (ii) Criminal (prevention of crimes, including those arising from corruption), (iii) Labour, (iv) Tax and (v) Administrative (including personal data protection regulations, environmental laws, etc.).

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.

Mention must be made of the emergence of COVID-19 at global level in 2020. In response, the CAF Group prepared a series of specific activities aimed at guaranteeing: i) the safety and health of all employees; ii) compliance with contracts with customers and other third parties; and iii) the Group's financial health. The specific nature of these activities and other details relating to COVID-19 at the CAF Group are included in the separate and consolidated financial statements for 2020 and the non-financial information statement for 2020.

Similarly, in 2020 the monitoring and control relating to the measures and action plans established to mitigate the consequences of Brexit continued. The most significant measures focused on reducing the operational risks of the projects for impacts as a result of changes in customs and/or import tariff procedures and the movement of people in various Brexit scenarios.

Among the main measures to strengthen the liquidity position, and in light of the uncertainty caused by covid-19, in 2020 the Group increased its financing lines, which contributed to improving the Group's liquidity in the year.

LIQUIDITY AND CAPITAL RESOURCES

Availability of liquidity at short term

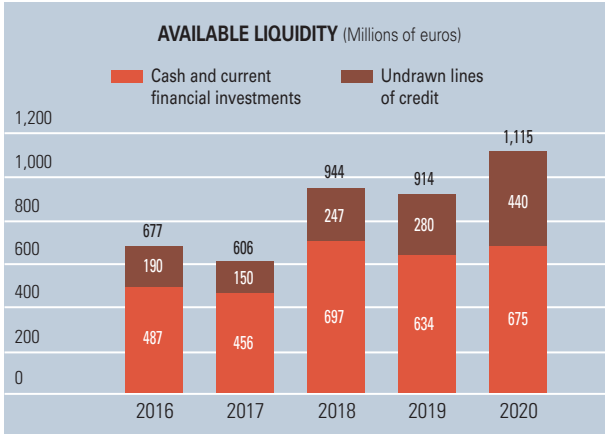
The CAF Group constantly assesses its available liquidity, including cash balances, short-term liquid investments, the availability of lines of credit, access to short-term capital market instruments and the generation of cash flows from operating activities, in order to meet the Group's liquidity needs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

In 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 for annual periods in December 2018 and December 2019, whereby the original amount was increased to EUR 250 million. In 2019 placements were made under this programme, 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. In December 2020, since the programme registered with the Irish Stock Exchange was not renewed on maturity, it was replaced by a commercial paper issue programme of similar characteristics, which was listed on the Spanish Alternative Fixed-Income Market ("MARF") on December 21, 2020.

Among the main measures to strengthen the liquidity position, and in light of the uncertainty caused by COVID-19, in 2020 the Group increased its financing lines, which contributed to improving the Group's liquidity in the year, to EUR 1,115 million at 31 December 2020 (31 December 2019: EUR 914 million).

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.

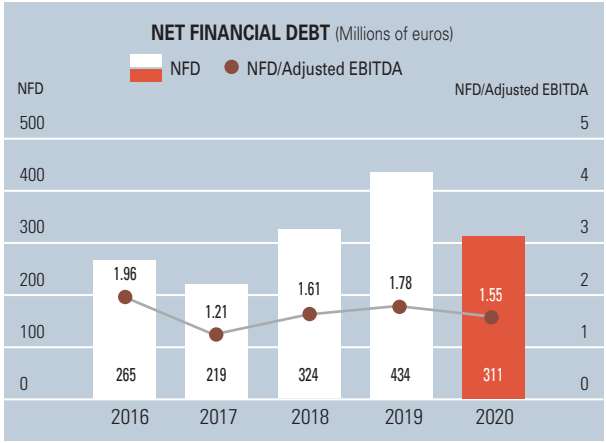
In 2018 Construcciones y Auxiliar de Ferrocarriles, S.A. acquired all the share capital of the Polish bus manufacturer Solaris. Also, in 2019 it acquired all the shares of EuroMaint, a leading Swedish train maintenance company. The cost of these acquisitions was financed primarily with additional long-term debt of the Group's Parent. These acquisitions have had a significant impact on the Group's gross financial debt figures, both due to the increase in debt in the Group's Parent company for the purchase of the shares, and due to the incorporation into the perimeter of the Solaris Group.

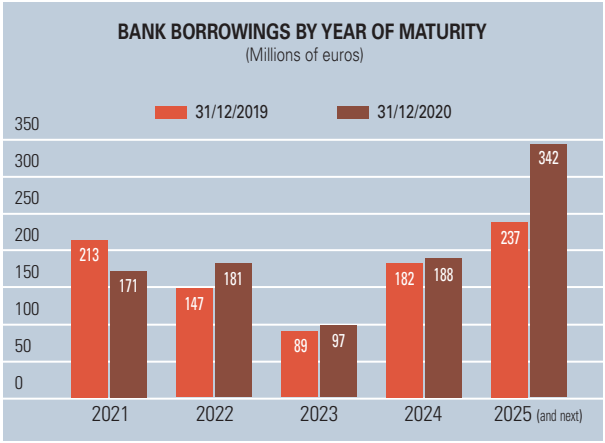
The main aggregates of the Group's liability structure have performed as follows in recent years:

The good performance of the financial debt figure and the Net Financial Debt/EBITDA adjusted ratio must be highlighted in a year in which the effects of COVID-19 had an adverse impact on both the global macroeconomic environment and the Group's margins.

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 December 2020, comparing with the year end of 2019 is the following:



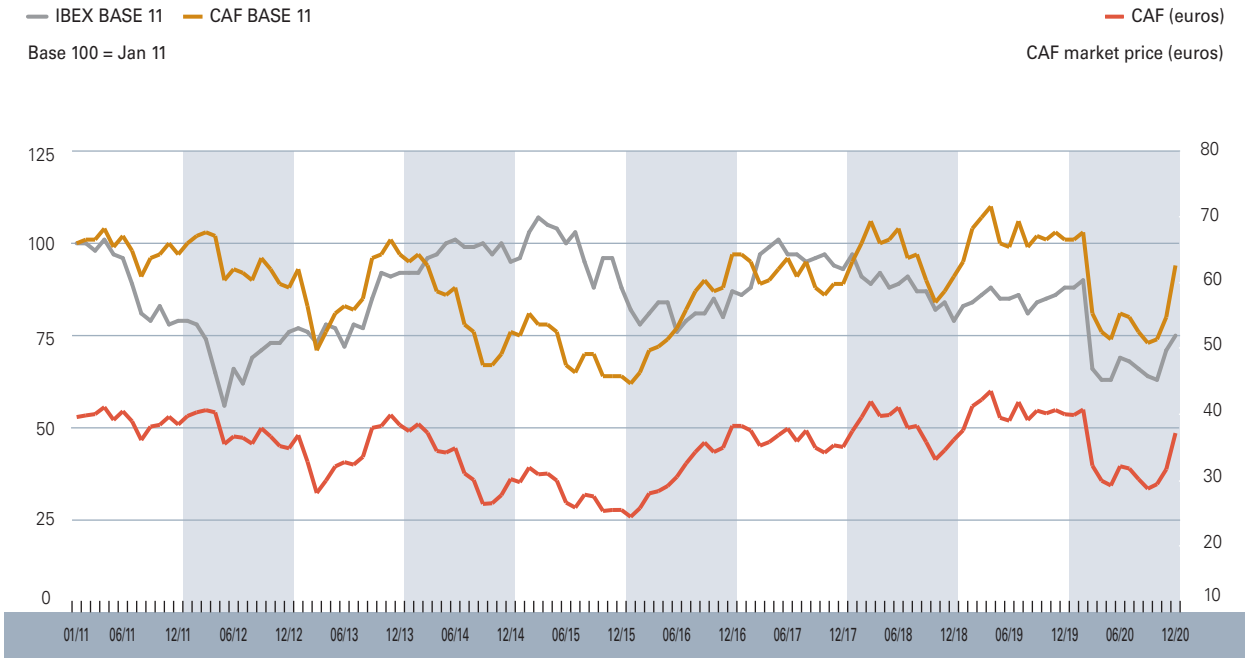


Millions €	2016	2017	2018	2019	2020
Gross debt Concesions	364	283	239	203	142
Gross debt Solaris	-	-	145	168	164
Gross debt Corporative	403	406	650	708	689
Total	**767**	**689**	**1,034**	**1,079**	**995**

STOCK MARKET INFORMATION

	2020	2019	2018	2017	2016
Market price					
Market capitalisation at year-end (millions of euros)	1,346	1,406	1,241	1,172	1,313
Closing price (euros)	39.25	41.00	36.20	34.18	38.30
Low (euros)	25.20	35.30	31.30	32.22	20.66
High (euros)	43.30	44.90	43.60	39.50	38.39
Data per share (euros)					
Earnings per share (EPS)	0.26	0.72	1.27	1.24	1.02
Dividend per share	0.00	0.842	0.765	0.66	0.58
Market ratios					
PER (average market price/EPS)	127.70	56.34	30.14	29.06	30.30
Market average price/EBITDA adjusted	5.71	5.72	6.50	6.84	7.84
PBV (average market price/BV)	1.82	1.90	1.74	1.64	1.37
Dividend yield	0%	2.07%	2.00%	1.84%	1.87%
Pay-out ratio (Dividend/EPS)	0%	117%	60%	53%	57%
Liquidity ratios					
Free-float rotation	70%	47%	65%	71%	89%
Traded volume (millions of shares)	11.3	8.4	10.8	11.8	15.6

EVOLUTION OF CAF GROUP SHARE PRICE



OTHER INFORMATION

EVENTS AFTER THE REPORTING PERIOD

As in December 31 of 2020, there was a firm order book, net of the amounts corresponding to interim billings, for an amount of approximately 8,807,278 thousand euros (9,446,468 thousand euros as of December 31, 2019) (Note 12).

In January 2021, the RATP transport operator selected the consortium formed by CAF and Bombardier as the preferred bidder to supply 146 trains to be operated jointly by RATP and SNCF on the RER B suburban line that crosses Paris from North to South. This selection was ratified in February 2021.

ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2020 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 2020 was 88.96 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, buses 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.

Adjusted profit from operations: the intention is to measure the Group's recurring profit from operations. It is calculated by deducting from "Profit from Operations" any significant non-recurring item, such as the outcome of litigation arising

outside the normal course of business, exceptional staff restructuring costs and, in general, any exceptional event that is not expected to recur in subsequent years.

The reconciliation of the adjusted profit from operations to the Group's consolidated financial statements for the year is as follows:

Thousands of euros	2020	2019
Profit from operations	120,895	124,994
Income from litigation (*)	-	37,872
Adjusted profit from operations	120,895	162,866

(*) Detail disclosed in Note 26-a to the consolidated financial statements.

Adjusted EBITDA: the intention is to measure the Group's recurring EBITDA by deducting from "Adjusted Profit from Operations" 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 (excluding deferred amounts payable to the tax authorities -Note 19)
– 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-i to the consolidated financial statements.

Liquidity available: this includes items defined in order to calculate net financial debt (see Note 14-i 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 closing 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).

ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report for 2020 forms part of the Directors' Report and is published on CAF's website (www.caf.net), following notification as a relevant event to the Spanish National Securities Market Commission.


Skånetrafiken
Holzgerlingen
CAF

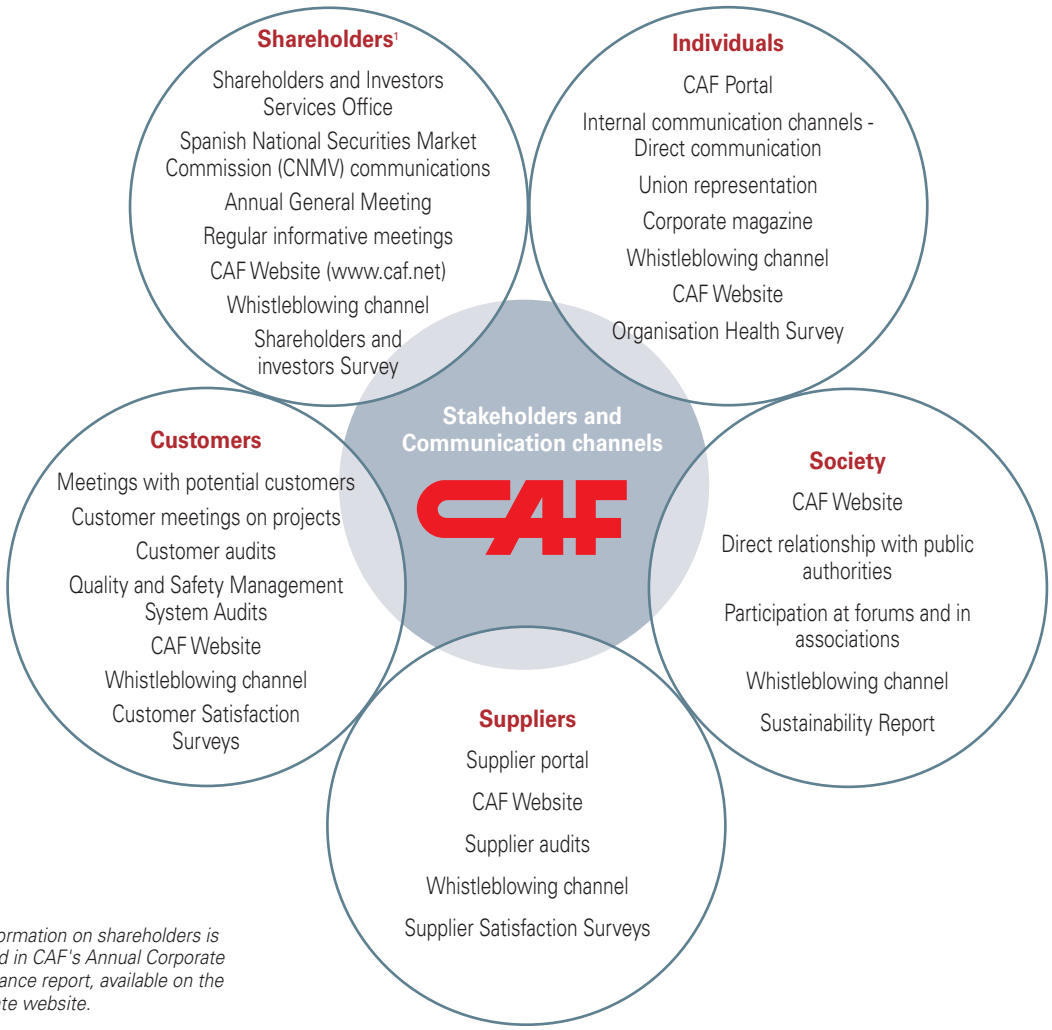
CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT

INTRODUCTION

This section of the directors' report addresses matters relating to the Non-Financial Information Statement, the content of which is described in detail in Spanish Non-Financial Information and Diversity Law 11/2018, of 28 December, amending the Spanish Commercial Code, the Consolidated Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July. Without prejudice to this, CAF also prepares an annual report on Sustainability which covers and enlarges upon the corporate reporting on non-financial information.

CAF's main objective with regard to Sustainability, as stated in its Sustainability Policy, which was updated and approved on 17 December 2020 by the Board of Directors of CAF, S.A., is to carry out its mission while balancing the requirement to satisfy its stakeholders' needs and expectations in order to create value in a sustainable manner over the long term. CAF undertakes this task, complying not only with its legal obligations but also with best practices in the areas of Corporate Governance, Risk Management, Regulatory Compliance and Sustainability.

To achieve its stated objective, CAF follows the following principles of action when carrying on its activities:1) Legal compliance and the prevention of corruption and other illegal conducts, 2) Respect for Human and Fundamental Rights, 3) Compliance with best practices in the areas of Corporate Governance, Risk Management, Regulatory Compliance and Sustainability, 4) Transparency and Confidentiality, 5) Responsible Communication, 6) Tax responsibility, 7) Innovation and Sustainability and 8) the Environment.



1. The information on shareholders is included in CAF's Annual Corporate Governance report, available on the corporate website.

CAF's main objective with regard to sustainability is to carry out its mission while balancing the requirement to satisfy its stakeholders' needs and expectations in order to create value in a sustainable manner over the long term.

a) Our relationship with stakeholders

The stakeholders, who were first formally identified in the definition of the Code of Conduct in 2011, are at the heart of CAF's strategy, and the Sustainability Policy confirms its continuation and defines the commitments acquired with regard to the different types of stakeholders, namely, the shareholders, customers, people, suppliers and society at large.

These commitments are applied in the ordinary course of business in accordance with the corporate social responsibility guidelines included in the ISO 26000:2012 standard, through CAF's Management Model which establishes the policies, initiatives and objectives specific to each type of stakeholder. This model contains the CAF Group's Management Strategy which, together with the business strategy, forms part of the Group's global strategic framework.

CAF aims to build a relationship of trust with the stakeholders. Therefore, it promotes ongoing and effective communication with them through the communication channels set out below in order to strengthen their participation and involvement in corporate objectives and in those areas where their activities are affected.

In 2020, in order to establish a general framework for the communication of the financial, non-financial and corporate information of the CAF Group companies, the Policy for the Communication of Economic and Financial, Non-Financial and Corporate Information, and on Contact with Shareholders, Institutional Investors and Voting Advisers (in compliance with the principles of the Spanish Code of Good Governance for listed companies, approved by the Spanish National Securities Market Commission in February 2015 and revised in June 2020, and the applicable legislation) was updated. This Policy, initially approved by CAF's Board of Directors on 28 October 2015 as the Policy on Communication and Contact with Shareholders, Institutional Investors and Voting Advisers, and last amended on 17 December 2020, sets out CAF's commitment to the participation of, and dialogue with, stakeholders, and specifies the responsible communication practices that constitute a principle of the Sustainability Policy.

In addition to helping maximise the dissemination and quality of the information available to the market and the CAF Group's stakeholders, these channels are central to ascertaining the latter's concerns and interests in relation to Sustainability, and are key to defining CAF's strategy and action in this area.

For that purpose, CAF has a systematize communication process which defines the relevant indicators for each type of stakeholder and establishes the related action plans for subsequent communication through the above channels. To ascertain stakeholders' perceptions, their satisfaction is measured and monitored, and the communication with stakeholders is assessed. The following table shows the performance and outlook concerning the above indicators.

Satisfaction of all stakeholders

Stakeholder type	Measure	Scope	Evolution	Outlook
Shareholders	% of affirmative votes in the approval of the financial statements and the directors' report (Annual General Meeting)	> 77% of subscribed share capital with voting rights	Positive. In line with objective	Stable
Customers	Annual Railway Satisfaction Survey Biennial Bus Satisfaction Surveys	> 80% of sales	Positive. In line with objective	Stable
Individuals	Biennial Satisfaction Survey	> 75% of the workforce	Positive	Improvement
Suppliers	Annual Satisfaction Survey	> 65% of purchases	Positive. In line with objective	Increase of scope Stable result
Society	Ecovadis Sustainability Assessment	100% Group	Stable. In line with objective	Improvement

Assessment of communication with stakeholders

Stakeholder type	Measure	Scope	Evolution	Outlook
Shareholders	Communication Assessment Survey	> 50% of shareholders and institutional investors	First positive assessment. In line with objective	Stable
Customers	Communication Assessment Survey	> 60% of sales	Positive. In line with objective	Extend scope Stable result
Individuals	Communication Assessment Survey	> 50% of the workforce	Positive	Extend scope Improved result
Suppliers	Communication Assessment Survey	> 65% of purchases	Positive. In line with objective	Extend scope Stable result
Society				First assessment

b) Materiality

This Non-Financial Information Statement was prepared on the basis of the expectations and requirements of these stakeholders, while focusing on the issues that are most relevant to them and have the greatest impact on the Group's strategy.

In tandem with the strategic cycle, in 2016 CAF prepared a Materiality analysis based on internal and external sources of information following the guidelines defined by the Global Reporting Initiative (GRI) standard across the following phases.

Identification Phase: enabling the detection of the material aspects and their coverage in accordance with their impact on the activities, products, services and relations within and outside of the organisation. For this purpose, CAF analyses the information from commitments assumed (the Company's strategic lines of business, CAF policies, applicable regulations), customer requirements (questionnaires required to CAF in the Sustainability area, requirements of tender processes in which CAF has participated) and Sustainability trends (Global Reporting Initiative, Principles of the Global Compact, news media).

Prioritisation Phase: enabling the determination of the contents of the reporting through the prioritisation of relevant aspects and matters identified by means of a participatory process involving the organisation's area managements. In this connection, all of CAF's areas participate in the process of defining the material aspects, thus achieving a global vision of Sustainability at the Company.

Validation Phase: enabling the determination of the end content, the validation of the list of relevant aspects by the organisation's senior management, and its coverage and prioritisation. Management of CAF also actively participates throughout this materiality analysis, so as to include its standpoints on each of the phases, to provide a final list of material aspects.

The identification made as a result of this diagnosis remains in force and was confirmed following the analysis prepared in accordance with the Social Responsibility guidance provided in the ISO 26000:2012 standard. In addition, due to the fact that the main external factor that had an impact on CAF's activity in 2020 was the pandemic caused by COVID-19, a special chapter has been included containing a summary of the measures adopted to manage the situation.

As a result of the materiality analysis, 16 aspects of relevance for CAF and its stakeholders in the Sustainability area were confirmed.

The information in this Non-Financial Information Statement relating to 2019 is presented for comparison purposes with that relating to 2020. None of the indicators presented in this Non-Financial Information Statement for comparison purposes differ from those presented in the Non-Financial Information Statement for 2019.

For additional information to that reported below, see the "2020 Sustainability Report", prepared in accordance with the GRI Standards: Core option, available on the CAF Group's website.

Good corporate governance	Responsible Business & Innovation	The excellence of our team	Contributing to the care of the environment	The social value or our activity
Risk management	Excellence in customer and user relationships	Talent management	Sustainable mobility and eco-efficient products	Social Commitment
Regulation compliance	Innovation	Respect to human rights	Environmental footprint in operations	
Business ethics	Product quality and safety	Labour safety		
Fighting corruption and bribery	Supplying Assurance			
Fiscal responsibility	Supply chain responsibility			

MEASURES ADOPTED TO MANAGE THE COVID-19 PANDEMIC

The health crisis affected all the activities carried on at the CAF Group's various work centres. Faced with the need to protect, above all, the health of workers against the risk of exposure to the virus, the appropriate measures were taken in each case, according to the situation in each geographical area and in line with the rules laid down by the corresponding health authorities.

Faced with the pandemic caused by the SARS-CoV-2 coronavirus (COVID-19), a contingency plan was activated, and within the plan's framework specific protocols, procedures, actions and preventive measures were implemented to tackle the situation at any given time. This plan was managed through various committees and multidisciplinary forums organised at different levels, who have been in charge of analysing the situation caused by the pandemic at any given time and how it is affecting production at the plants and in the various services provided by the Company. A series of measures, described below, were put into effect in relation to each type of stakeholder.

In this regard, we highlight the continuous communication and cooperation maintained between the various forums and groups created within the Company, who have coordinated and validated all the decisions together, and also with the stakeholders, which both parties have assessed favourably.

a) Individuals

As with other activities, the health crisis affected all the activities carried on at the CAF Group's various work centres. Faced with the need to protect, above all, the health of workers against the risk of exposure to the virus, the appropriate measures were taken in each case, according to the situation in each geographical area and in line with the rules laid down by the corresponding health authorities.

In general, these measures could be summarised as continuing with activities that could be carried out through remote working and, where applicable, temporarily suspending activities that needed to be adapted so that the minimum health and safety standards established in the work places could be guaranteed. The labour-related measures implemented complied in all cases with local legislation and were carried out while observing the obligations concerning workers' representation. The alternatives used include flexibility agreements at the main vehicle manufacturing plants and furlough-type arrangements. The flexibility agreements allowed the work time lost during the furlough period to be recovered in 2020, thereby enabling workers to maintain their purchasing power and helping boost sales in the second half of the year.

At the same time, specific action Protocols and Plans were developed, which included the prevention and protection measures required to avoid the spread of COVID-19 among the Group's workers, and also specified the action to be taken if suspected cases were detected. These documents include measures on protection and social distancing, cleaning and disinfection protocols and guidelines for travel, control of visitors and contractors, among others. They also contain the work-life balance measures the Company made available to workers who requested them.

In parallel, in order to ensure effective implementation of remote working, an exercise was performed to estimate the capacity of the elements involved in this type of working, in order to ensure that the systems provided sufficient coverage to be able to maintain the usual rate of activity while remote working was in place.

CAF's employees have received training on the risks of COVID-19 and on the established Protocols and Plans by various means, including the e-learning tool. Through this training, the employees have been informed of, and educated on, the risks and prevention and protection measures to be adopted in order to carry out their duties.

Personnel who continued their activities working remotely received training on the related occupational risks and prevention measures to be taken into account to reduce such

risks, above all with regard to ergonomic concerns. At the same time, employee awareness of cybersecurity was raised by issuing a series of principles to be followed in order to avoid fraud and cyberattacks, which supplement the cybersecurity training already received by the employees, within the framework of the Information Security Management System (ISMS, certified in accordance with ISO 27001).

In addition, throughout 2020, communication was carried out with the Group's employees, ensuring that everyone in the organisation had up-to-date information on the measures and protocols that had been defined. For that purpose, all the communication channels available within the Group were used, including notably the mobile application in which a specific section was created on information about COVID-19 measures, which is available to everyone at the Group and provides them with access to relevant information at any time without them having to be on-site.

Continuous monitoring of the epidemiological situation and the incidence of cases was conducted at all times at each work place and its environment in order to adopt and implement the necessary preventive measures at any given time, updating and communicating the Protocols and Plans as required, to reduce the risk of infection among employees.

Also, since the start of the pandemic and throughout this period, monitoring activities have been performed to evidence and guarantee compliance with the established rules, as well as the prevention measures implemented. In addition, at the main vehicle manufacturing plants, an external audit was performed to verify compliance with applicable workers' health and safety legislation and with the internal protocols.

Making an assessment of 2020, bearing in mind the effect of COVID-19 on the CAF Group's main activities, the preventive measures implemented in managing the pandemic could be considered to have been effective as they have allowed the Group to continue with its activity, while ensuring compliance with the minimum health and safety conditions established in the work places.

b) Shareholders and investors

Activities relating to the shareholders and investors also had to be adapted to the situation resulting from the health crisis. In this connection, travel was suspended, as were in-person meetings and the usual contact maintained with shareholders and investors (roadshows, conferences organised by financial institutions, etc.).

On 8 May 2020, the Board of Directors called the Company's Annual General Meeting to be held on 13 June, providing for the possibility of holding the meeting by telematic means only. The call notice was communicated, as Other Relevant Information, to the Spanish National Securities Market Commission (CNMV) and published on the Company's website, where it has remained available. It was also published in the "Diario Vasco" and" Berria" newspapers on 9 May 2020, and in the Official Gazette of the Mercantile Registry on 11 May.

In line with the health authorities' recommendations and the health authorities' restrictions on people's movements and group events as a result of COVID-19, the Company resolved to hold the Annual General Meeting by telematic means only, i.e., without the attendance in person of the shareholders or their proxies. A notification to this effect was issued through an additional notice to the call notice, which was communicated as Other Relevant Information to the CNMV, and published on the Company's website, on 4 June 2020, and in the "Diario Vasco" and "Berria" newspapers, as well as in the Official Gazette of the Mercantile Registry on 5 June 2020.

The Meeting was held by telematic means only in order to safeguard the general interest, protect the health of the shareholders, employees and other persons usually involved in the organisation of the Meeting, and to ensure that all the shareholders received equal treatment.

At the aforementioned Meeting, a majority (77.39% of the share capital represented) resolved to pay the dividend relating to 2019 on 15 January 2021. At the date of preparation of this report, CAF had fulfilled its commitment in this connection.

MEASURES ADOPTED TO MANAGE THE COVID-19 PANDEMIC

In 2020 the communication by the CAF Investor Relationship team with the analysts, investors and shareholders was intensified due to the need to give visibility to the measures adopted and the extent to which CAF was affected, and provide information on the contingency plan implemented by the Company. CAF's Investor Relationship area met this increased demand by being totally available. At the date of preparation of this report, the exclusively telematic format was being maintained.

At the end of July, CAF published the results of the first quarter and of the first half of 2020 together, as well as a qualitative assessment of the activities during the period and the outlook for the coming months.

Availing itself of the extended deadlines for the presentation of results and financial statements, the Company resolved to delay publication of the results relating to the first quarter of 2020, due to the lack of sufficient information at that date to establish such financial statements with the required reliability, as a result of complications caused by COVID-19, and to avoid the need to make subsequent changes to the judgements and estimates used.

c) Customers

As with the other stakeholders, first of all, CAF cancelled in-person customer meetings, customer audits, FAIs, etc. and subsequently replaced them with the telematic format where possible, in order to ensure the health and safety of customers and internal personnel.

With the first impact of the pandemic which resulted in the temporary suspension of certain activities and the impact on suppliers, CAF notified customers of the contingency measures adopted and the potential delay in meeting its contractual obligations. From then on, mainly with regard to the railway activity, CAF has informed its customers on a regular basis about the ongoing impact of the pandemic on each programme. As can be seen in the 2020 satisfaction survey, customers have rated the Company's management of the pandemic favourably.

In parallel, depending on the terms and conditions of each contract, negotiations were initiated with customers in order to obtain extensions to deadlines according to the impact of the pandemic on the projects concerned. To date, amendments to contracts have been agreed with several customers and negotiations are continuing with regard to other projects that have been affected by COVID-19.

In addition, in view of the complex situation generated by COVID-19, in order to respond to the challenges of this new situation for the entire transport industry, CAF launched an interdisciplinary working group, with the purpose of analysing

the situation and seeking solutions with which to support the transport authorities and operators to ensure the safety of collective transport systems.

As a result of the work of that team, backed by years of experience in the design and supply of sustainable mobility solutions, CAF made a wide range of solutions available to its customers to respond to this new situation with regard to new trains and buses, as well as existing fleets. These include solutions to prevent air-borne transmission and transmission through contact, and to control capacity. They are all published on the corporate website and on the Solaris website.

In addition, as part of its innovation strategy and strategy to generate new activities, CAF has been working with the entrepreneur and start-up ecosystem. In the framework of this strategy, a cooperation agreement was signed between CAF and the "Empresa y Sociedad" business foundation in July. The agreement aims to promote cooperation with scale-ups in order to develop joint disruptive solutions and new products that provide solutions that can be adopted in the design of new and refurbished trains, to prevent infection and slow down the pandemic caused by COVID-19. At the date of preparation of this report, we are working on pilot projects with several of the selected scale ups, with very positive expectations.

d) Suppliers

The team engaged in the management of the supply chain, in coordination with the Committees and Forums organised for

that purpose, has established extraordinary measures with the suppliers who have requested them. Thanks to the establishment of a specific monitoring plan for each supplier, CAF has been able to mitigate the effect of COVID-19 on each supplier's operations by applying the mitigating measures, such as providing recommendations on prevention and distributing masks to suppliers who expected a delay in their operations.

The diverse purchasing and supply chain activation teams have conducted specific monitoring of the impacts caused by the pandemic on CAF's suppliers, including a solvency assessment and a specific mitigation plan for suppliers with the most serious liquidity problems.

The plans to mitigate delays by suppliers, as well as the plans to recover the rate of production of certain projects most seriously affected by the pandemic have required the renegotiation of delivery plans with suppliers. In this respect, it should be noted that no significant incidents concerning procurements caused by COVID-19 were recorded.

In view of the risk of infection for CAF professionals due to travel to other countries and visits to suppliers' facilities, CAF authorised the performance of audits and inspections by telematic means. Although at the date of preparation of the report, work is continuing on obtaining conclusions on the impact that these inspections could have on the different business processes, the use of this type of audit or inspection could make the process more agile and reduce the cost of monitoring and controlling suppliers.

e) Society

From the perspective of environmental management, the risks arising from COVID-19 were analysed and managed, and the action protocols updated, due to the generation of new waste, in particular (masks, infectious waste, empty containers, etc.) and compliance with the legislation on the storage of chemical products.

In addition, CAF's diverse collaboration with different players to generate knowledge in the area of its operations have also been affected by the COVID-19 pandemic. The common decision reached by mutual agreement in these areas has been to continue with the activities that enable compliance with health and safety measures and temporarily suspend those where this is not possible.

Lastly, in addition to the donations of healthcare material made by CAF to healthcare centres and social welfare entities since the start of the pandemic, CAF Digital Design Solutions (CAF DDS), a Group subsidiary engaged in additive manufacturing and 3D scanning, made its resources for manufacturing using 3D printing available in the fight against COVID-19. With this objective, various devices, such as screens, protective visors and respirators were designed and manufactured.

ENVIRONMENTAL ACTIVITY

As environmentally-friendly and high capacity means of transport, railway and bus transport has a huge potential to make a significant contribution to the fight against climate change and traffic congestion in cities, thus reducing environmental impacts, improving the quality of life of citizens and actively contributing to the protection of the ecosystem.

Aware that it is in an ever more challenging environment, and pursuant to the provisions of the United Nations Global Compact for the 2030 Agenda for Sustainable Development, CAF established its commitment to undertake actions in relation to the mitigation of the causes of global warming and the adaptation to climate change, implementing measures that contribute to environmental Sustainability.

To this end, the main purpose of the Group's Environmental Policy, approved by the Corporate Human Resources Department on 26 November 2020, is to establish the general environmental principles and criteria to be applied at corporate level at CAF and project to the stakeholders the environmental commitments established in the Sustainability Policy approved by the Board of Directors of CAF, S.A. The environment is a principal element of the concept of Sustainability, and in particular in the development of integrated sustainable mobility solutions that are more efficient and more environmentally friendly.

In this vein, the CAF group is committed to combating climate change and caring for the environment in two main areas:

1. Development of sustainable mobility solutions. In this regard, the Group channels and coordinates its Innovation in Product and Technology initiatives in the framework of the corporate Innovation Strategy, aimed at aligning the technological and product/service development activities with the Company's main strategic challenges, in order to develop and offer customers efficient, accessible and environmentally friendly solutions, while guaranteeing competitiveness.

2. Incorporation of the environmental care principle by preventing the environmental impact of all the industrial activities performed. As indicated in CAF's Environmental Policy, the action taken in this area is geared towards adopting the necessary economically viable measures to control and minimise significant areas of environmental concern, such as air 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 polluting materials; (ii) non-optimisation of energy consumption and natural resources (electricity, fuel, water, etc.); (iii) impact on water sources; (iv) impact on biodiversity; (v) polluting emissions including greenhouse gases; (vi) generation of waste; (vii) environmental impact of products and services on technological development; (viii) generation of environmental noise; (ix) non-compliance with the requirements established by customer specifications; (x) extreme weather conditions related to climate change; (xi) other environmental impacts related to incorrect management of waste and products in production and/or from machinery.

The impacts arising from such risks can centre on fines and inspections relating to infringement of environmental laws, irreversible damage to the ecosystem and its effect on society, as well as additional operating costs for the CAF Group due to the adverse effects of climate change. Although these impacts have a direct short-term effect, the last two impacts mentioned may have a medium-term effect, since environmental impacts are lasting. In this regard, it is worth noting that, as in 2019, no provisions or guarantees were recognised for environmental risks, since there have been no legal proceedings or contingencies relating to environmental protection or improvement, or environmental pollution incidents.

The corporate risk control and management system covers environmental risks and provides a series of activities aimed exclusively at managing such risks. This process meets the risk and opportunity analysis of the frame of reference

a) Sustainable mobility

In the European Union, transport-related greenhouse gas emissions increased by around 28% between 1990 and 2017. Transport currently accounts for almost 25% of global CO_2 emissions, of which the railway represents just 0.5%[2].

At the same time, due to current urban population growth trends, the collapse of mobility infrastructure has become even more of a problem and the quality of the air in cities has worsened significantly. In order to avoid these problems, the authorities are often taking measures to restrict the circulation of private vehicles.

In view of this situation, the European Commission established its "European Green Deal" with the aim of reducing CO_2 emissions from transport by 90% by 2050. This means that an exceptional effort will be required in the coming years to achieve this target.

In this context, rail and bus transport, as environmentally friendly and high-capacity means of transport, offer tremendous potential for contributing significantly to this fight against climate change and city congestion, thereby reducing the environmental impact, improving citizens' quality of life and contributing actively to the protection of the ecosystem.

CAF prioritises activities aimed at reducing the energy costs of transport and providing highly efficient mobility alternatives, which point the way to a sustainable, clean, ecological and emissions-free future.

The main lines of action are as follows: 1) Eco-design methodology, 2) Improvements in energy efficiency, 3) Roll out of sustainable alternative fuels, 4) Use of light and recyclable materials, 5) Reduction of noise and vibrations.

1. Eco-design methodology. In order to offer more efficient and environmentally-friendly means of transport, CAF is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their life cycle.

   As a result of these activities, in 2011 the Group's Parent prepared the first verified worldwide environmental product declaration (EPD) for a tram, more specifically, the Urban Tramway for the city of Zaragoza, in accordance with ISO 14025, on Environmental labels and declarations. CAF continues to be one of the rolling stock manufacturers with the highest number of registered EPDs.

2. Improvements in energy efficiency. Improving the energy efficiency of products and services is a priority challenge for CAF, and some of the initiatives in this area are energy recovery from braking, development of highly efficient traction equipment, reduction in the energy consumption of ancillary systems (HVAC, lighting, etc.) and efficient energy management based on journey times.

3. Roll out of sustainable alternative fuels In recent years, the CAF Group has worked to develop vehicles that operate using alternative fuels to diesel and that are more environmentally friendly. Worthy of mention in this regard are the compressed natural gas (CNG) and hydrogen that Solaris has brought into service in various European cities. CNG vehicles reduce particulate and greenhouse gas emissions while hydrogen-powered vehicles are considered to be zero emissions as they only emit water vapour into the atmosphere. In this area, in 2020 Solaris received the Global e-Mobility Leader Award for its contribution to the development of zero-emissions transport around the world.

   As regards trains, CAF is developing a prototype hydrogen-powered train with the aim of testing it on tracks in mid-2022. In this regard, the FCH JU, the European Union agency engaged in fostering the development of hydrogen and fuel cells, has selected the FCH2RAIL proposal to initiate the negotiation of an agreement for an EU grant valued at EUR 10 million as part of the H2020 programme. CAF is the technical leader of the FCH2RAIL project to develop a prototype hydrogen-powered train.

   In its various phases, this project will encompass the design and manufacture of an innovative prototype, as well as the testing required for its validation and approval. The aim is to obtain a zero-emission product that can compete, in terms of operating performance, with current diesel trains, both new design and refurbished vehicles.

   These solutions are supplemented by other solutions aimed at reducing transport emissions in the CAF Group's product portfolio, such as replacing diesel-powered vehicles with battery-powered electric vehicles and equipping diesel-powered vehicles with batteries to reduce fuel consumption. This fuel reduction is generally around 20-30%.

2. European Environment Agency. Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - the European Green Deal - Brussels, 11.12.2019 COM(2019) 640 final.

4. Use of light and recyclable materials. CAF carefully selects all the materials used in manufacturing and pays particular attention to their recycling, as their use prevents the consumption of natural resources. In addition, the design of the trains is aimed at reducing mass and weight, which is an effective way of optimising energy demand.

5. Reduction of noise and vibrations. In order to reduce interior and exterior noise pollution, CAF's technical team analyses its causes in detail and adopts the most effective measures with a view to its minimisation: prior calculations and tests, use of insulating and absorbent materials, aerodynamic forms, studies on wheel-rail contact and interaction, etc.

b) Minimisation of the environmental impact of operations

In conjunction with the Corporate Environmental Policy described above, in 2020 the Corporate Environmental Forum, comprising the Group's various environmental leaders, prepared the Corporate Environmental Policy Development Manual. The purpose of the two documents is to unify policies, approaches and management tools and define and monitor environmental guidelines across the Group's various activities.

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.

Externally, CAF also maintains environmental communications channels open to the exterior in a fluid manner, with public authorities, communities and associations, among others.

One of the principles of the environmental policy is the implementation of environmental management systems the purpose of which is to minimise the environmental impact of operations. This system is used to periodically control compliance with legal requirements and the compliance with, and efficiency of, the measures adopted, thus ensuring the achievement of the objectives set by the organisation.

At present, more than 65% of the Group's headcount is covered by an environmental management system certified under the ISO 14001:2015 standard, and the rest of the headcount located at manufacturing plants are involved in a plan to implement and certify the Group's Environmental Management Model with a view to obtaining certification under the aforementioned standard in 2021.

In all cases, annual internal audits are carried out through which the CAF Group's list of qualified auditors assesses progress in the implementation and certification of the environmental management system, the efficiency of the environmental management system and, in particular, the proper application of CAF's policies, as well as compliance with legal environmental requirements and the customer's environmental requirements, among others.

In order to monitor and improve these management systems, environmental programmes are established with their respective targets, goals and actions. In this way, the centres specifically control the environmental aspects of their activity and minimise the impacts generated, with the aim of continuous improvement.

The measures implemented to control significant environmental matters affecting the Group and the results obtained in 2020 at all of CAF's manufacturing plants, with respect to both the rolling stock and bus Business Units, are summarised below[3]. These results show the decrease in all

types of impacts caused by the decline in activity stemming from the COVID-19 pandemic.

b.1) Raw materials

Environmental criteria are taken into account when purchasing materials for manufacturing processes, with particular emphasis on the selection of reusable and recyclable materials. Most of the purchases made are of processed materials, i.e., components, with metal being the most common component. However, raw materials, all of which are recyclable, for manufacturing components are also acquired. These materials include most notably metals, due to their high consumption rate, and more specifically, steel and aluminium profiles and sheets, and steel ingots.

Raw materials (t)[4]	2020	2019
Steel and aluminium profiles and sheets	14,756	18,717[5]
Steel ingots	47,964	57,086

Apart from the acquisition of these materials, CAF also includes in its technical processes materials that contribute to environmental Sustainability. For example, recycled steel is used for manufacturing wheels and axles.

Also, in order to reduce the environmental impact of the products an analysis is conducted of the recycling of the products in accordance with the ISO 22628 standard. In this connection, the average recycling percentage of the vehicles manufactured by CAF, S.A. is around 93%[6].

With respect to the purchase and use of chemical substances, the CAF Group operates under the scope of the REACH Regulation and, in turn, requires its suppliers to comply therewith. On the one hand, train equipment suppliers are requested to comply with the requirements of UNIFE's Railway Industry Substance List (RISL) which lists the materials and substances that are prohibited by European and international legislation specifically for the railway industry. On the other hand, information has been transferred throughout the entire supply chain of substances, chemicals and articles subject to the REACH Regulation.

The main actions performed by the Group for a more sustainable use of raw materials consist of the reduction in the designed weight of products, the reuse of materials and packaging and the use of greener materials. In this connection, in 2020 the Parent Company replaced the use of five flammable and/or corrosive toxic chemicals with other chemicals which are much less dangerous to employees' health and the environment.

b.2) Energy

The Group has set as the main objectives of its "Energy Efficiency Strategic Programme" the promotion of renewable energies, savings on energy consumption caused by its activities and the promotion of environmental policies within the Group and in all the railway networks in which it operates and collaborates.

In 2020, as a result of the action plans to reduce energy consumption at CAF's manufacturing plants, various measures were taken, as detailed below:

As regards lighting, presence detectors were installed, attempts were made to take advantage of natural light as far as possible, the luminaires were replaced by other more efficient ones and steps were taken to raise environmental awareness of the rational use of energy in offices.

Also, with a view to controlling and optimising energy use, energy meters (gas and electricity) were installed, the functioning of the air conditioning equipment was

3. The data for 2019 are not comparable, as the scope of the raw materials, energy, emissions, waste and water consumption data of the locations, which represented 97% of the headcount of the CAF Group manufacturing centres in 2019, was extended to locations representing 100% of the headcount of the CAF Group manufacturing centres

4. Raw material consumption fell as a result of the decline in industrial activity

5. The 2019 data correspond to the main train and bus manufacturing centres.

6. Average of the calculations performed in the life cycle analyses conducted by the organisation, both in relation to projects carried out and bids.

programmed and key elements of energy efficiency in the production processes were replaced (cranes, compressors, fork-lift trucks etc.).

In addition, year after year CAF has incorporated systems in the functioning of its facilities to fully harness the benefits of renewable energies and clean and ecological technology through, for example, the use of solar PV power. Accordingly, in 2020 the headquarters located in Beasain enabled the generation of renewable energy equalling 6% of the factory's annual consumption, from the solar panels installed on the roofs of the workshops and the hydroelectric plant owned by the CAF Group.

In 2021, CAF will continue to implement actions to reduce energy consumption in CAF's various manufacturing plants. Additionally, a 100% renewable energy consumption service, with guarantee of origin, has been contracted to supply the Parent's energy for the next two years.

Direct and indirect energy consumption (MWh)	2020	2019
Natural gas[7]	106,199	129,302
Diesel[8]	347	306
Electricity	52,433	59,339
Thermal energy	3,645	4,077

b.3) Greenhouse gas (GHG) emissions

The main source of direct emissions contributing to the Company's Greenhouse Gases is CO_2 arising from energy consumption. Also, studies on the development of more efficient and environmentally-friendly means of transport show that the use phase has the greatest impact on the product life cycle, particularly the phase associated with energy consumption. Consequently, the Group focuses on gradually reducing the intensity of greenhouse gas emissions in two ways, namely: by improving energy efficiency with respect to manufacturing activities and facilities, and by researching and developing sustainable transport solutions.

In this regard, in addition to the analysis of the impact of the life cycle of the product prepared by the railway business reflected in the obtainment of environmental product declarations (EPD) mentioned in the previous section, in the bus business, during 2020 the carbon footprints of the Bolechowo and Środa Wlkp plants have been calculated and will be used as the basis for defining greenhouse gas reduction targets for the next few years.

With respect to greenhouse gas emissions, in the review report prepared by management as part of the framework of the environmental management system, the Parent Company

of the CAF Group was assigned the objective of eliminating indirect CO_2 emissions (Scope 2) from its scope for 2021. This would give rise to a theoretical reduction of 66% of Scope 2 emissions from the CAF Group's manufacturing centres, compared with 2020. To achieve this objective a 100% renewable energy consumption service has been contracted for the Parent, as mentioned previously.

Similarly, two measures were put into place at the UK manufacturing centre with the aim of reducing emissions in the transport of waste from the manufacturing plant to the waste management plant. On the one hand, the hazardous waste management facility was replaced by another closer to the production plant, and on the other, a compactor was acquired for the cardboard generated, reducing the volume of waste and, therefore, the number of trips to be made. This gave rise to a 3,380 km annual reduction in transport, which led to a 95% reduction in the emissions generated.

Also, as regards the emission of Volatile Organic Compounds, the CAF Group, in addition to complying with the requirements of the legislation on the limitation of emissions of volatile organic compounds due to the use of solvents in certain activities[9], the Parent has reduced its emissions by 35% in the last five years, which is equivalent to a reduction of 364 grams of Volatile Organic Compounds for each square metre of surface area[10]. These results were achieved as a result of the replacement or reduction of the solvents used in the production process. Certain examples of this are the use of water-based paints for painting the trains, which do not contain solvent, and the replacement of glue by self-adhesive in the carpet gluing process.

Emissions (t CO_2eq.)[11]	2020	2019
Scope 1: Fuel emissions	19,393	26,322
Scope 2: Electricity consumption emissions	16,254	24,329

b.4) Waste

The Group aims to reduce, reuse and recycle the waste produced by the activities carried on, and to this end it has expressed its commitment to the circular economy by signing up to the Circular Economy Pact of the Spanish Ministry of Agriculture and Fisheries, Food and Environmental Affairs (MAPAMA) in 2017.

Waste is managed on the basis of the following premises: 1) Reduction of waste generation at source by, for instance, using returnable items; 2) maximisation of waste reuse, recycling and recovery. In this regard, 85% of all the hazardous and non-hazardous waste generated was recycled in 2020 (2019: 80%): 3) promotion of awareness-raising campaigns on waste separation and minimisation; and 4) proper waste processing and management, using waste managers close to the facilities.

The following two noteworthy developments took place in 2020. The first, relating to the railway business, involved the signing of two circular economy agreements for the use of out-of-date paint and glue, thus incentivising the generation of value added by means of cooperation in the reuse of materials. The second is in the bus business, where the method for installing and sticking down floors was changed, reducing the generation of hazardous waste, especially adhesives, and the generation of inert waste, especially wood.

Waste generated (t)	2020	2019
Hazardous, of which:	1,117	1,226
Recovered	723	660
To landfill	394	566
Non-hazardous, of which:	8,604	9,223
Recovered	7,520	7,749
To landfill	1,084	1,474

b.5) Water

The water used by CAF in the manufacturing process is used mainly to refrigerate equipment and for facilities to ensure the water tightness of the trains, using for such purpose mains water and river water in line with local limitations and limiting the consumption of rain water to use in closed circuits.

The Group is aware that water is a scarce natural resource that should be preserved and, accordingly, a series of actions have been performed in order to encourage a more sustainable use thereof, the most noteworthy of which are as follows: implementing and promoting the rational use of water, by installing closed circuits and raising environmental awareness among staff; establishing and monitoring the consumption of all water resources, avoiding collecting water in areas with water stress; and, lastly, performing reviews of leaks and watertightness of facilities to facilitate lower consumption and impact.

Water consumption (ML)	2020	2019
Mains water consumption	76.94	93.17
River water consumption	30.33[12]	54.12

For further information on Environmental matters, see Chapter 5, "Contributing to environmental care" of the "2020 Sustainability Report", available on the CAF Group's website.

7. The consumption of natural gas to heat the facilities represents approximately 20% of the total consumption

8. Consumption relating to transportation equipment at the factory.

9. Council Directive 1999/13/EC, of 11 March 1999, the purpose of which is to prevent or reduce the harmful effects on human health and the environment arising from certain activities that use significant amounts of organic solvents in their manufacturing or working processes, and its transposition into Spanish legislation by means of Royal Decree 117/2003, of 31 January, on the limitation of emissions of volatile organic compounds due to the use of solvents in certain activities.

10. Data relating to the reporting carried out to the Basque Autonomous Community Government until the date of publication of this report.

11. These emissions are calculated through conversions of fuel and electricity consumption using emission factors published by the Spanish Ministry for Ecological Transition.

12. The significant reduction in river water consumption is due mainly to the specific impact of the COVID-19 pandemic on the manufacturing area, where most of the river water consumption takes place.

HUMAN RESOURCES

The training process is a cornerstone of people management activities as is evidenced at both the Parent and at all the Spanish and international subsidiaries associated with the main activities.

The people who make up the CAF Group are key to developing a sustainable project, as reflected in the Sustainability Policy and Code of Conduct.

The CAF Group promotes the professional development of its employees, striking a balance between the Company's objectives and employees' needs and expectations, and it encourages ongoing adaptation and improvement of their competencies and skills. The experience, knowledge and motivation of its employees are reflected in each of its products and services.

These commitments are rolled out as part of the Corporate People Management Process, which defines a proprietary standard common to all the Group companies. The standard's comprehensive nature endows it with a broad scope, from ensuring organisational adequacy, through hiring and internal mobility, and the assessment and qualification of its professionals, to their training and development. It also includes policies on remuneration and labour relations.

As part of the framework for the rollout of this process, it must be stated that it has been implemented in the Group's main activities and will be further extended in the next year. Also, in 2020 a reflection process took place with the result that for 2021, the priority top level indicator, which will therefore be reviewed every quarter by the Executive Committee, will be the organisational health index, mentioned in the introductory chapter, which reflects people's perception and opinion.

In this area, the following risks relating to both occupational risk prevention and adequate professional development of employees have been identified: (i) staff turnover; (ii) insufficient training and professional development; (iii) lack of diversity and equal opportunities; (iv) accidents and the effects on health.

The impacts arising from these risks may result in reduced employee productivity, impairment of employee health and motivation, and fines relating to employee occupational safety. Since these risks and their impacts materialise gradually over time, this will occur in the medium term.

The aforementioned policies, code of conduct and procedure constitute the main corporate principles, procedures and controls required in order to address matters relating to personnel.

The corporate risk control and management system covers the risks detailed above and provides a series of activities aimed exclusively at managing such risks. This process meets the risk and opportunity analysis of the frame of reference.

a) People are key

In 2020 the average headcount of the Group totalled 13,082 employees, and at 31 December 2020 the headcount stood at 13,057[13]. In this connection, the CAF Group increased its average headcount by 598 employees in 2020, due mainly to the full incorporation of Euromaint into the Group in July 2019. However, at year-end the Group's headcount had fallen by 122 employees, thus adapting to the Group's needs in its different lines of business and geographical areas.

CAF Group headcount	31.12.2020	31.12.2019	Change
University graduates	4,216	4,015	201
Middle management and clerical staff	2,170	2,194	(24)
Production and services	6,671	6,970	(299)
Total	13,057	13,179	(122)

The headcount of the Parent stood at 4,138 at year-end (4,220 in average terms).

Headcount CAF, S.A.	31.12.2020	31.12.2019	Change
University graduates	1,225	1,205	20
Middle management and clerical staff	652	657	(5)
Production and services	2,261	2,452	(191)
Total	4,138	4,314	(176)

Provided below there is a breakdown of employees by the following diversity criteria: gender, age and region.

Breakdown by age (% of headcount at year-end)	2020	2019
Under 30 years of age	14%	15%
Between 30 and 50 years of age	69%	69%
Over 50 years of age	17%	16%
Total	**13,057**	**13,179**

Breakdown by gender (% of headcount at year-end)	2020	2019
Male	85%	85%
Female	15%	15%
Total	**13,057**	**13,179**

Breakdown by country (% of headcount at year-end)	2020		2019	
	% Region	% Country	% Region	% Country
Europe[14]	88%		88%	
Spain		50%		50%
Poland		19%		18%
Sweden		8%		8%
UK		5%		5%
Rest of Europe		7%		7%
América[15]	9%		9%	
Mexico		3%		3%
Brazil		2%		2%
US		2%		2%
Rest of America		1%		2%
Rest of the world	3%		3%	
Total	**100%**	**100%**	**100%**	**100%**

In this same area, the voluntary turnover rate[16] of staff at the Group as a whole was 3.8% in 2020 (2019: 5.4%).

CAF is committed to quality, stable employment. Employee experience and knowledge constitute one of the cornerstones of CAF's competitive position in all its current activities. The percentage of permanent employees at the CAF Group at year-end stood at 92%, representing an increase of three percentage points on 2019. The percentage of permanent female employees rose to 90% (2019: 87%). From a geographical standpoint, all the countries in which the CAF Group has a significant presence represent more than 90% of permanent employees (2019: 86%). Similarly, the percentage of permanent employees based on employee category (employees[17] and manual workers) exceeds 92% (2019: 88%). Permanent employment in the under 30 age group amounts to 77%, six percentage points higher than in 2019. In light of these figures, permanent employment at the Group can be considered to have been stable in recent years.

Breakdown by type of contract (% of headcount at year-end)	2020	2019
Permanent	92%	89%
Temporary	8%	11%
Total	**13,057**	**13,179**

Also, if we consider the average headcount based on type of contract[18] and the diversity criteria of gender, age and professional group, the data are similar and are included in the following tables.

Average breakdown by type of contract and age group	2020		2019	
	Permanent	Temporary	Permanent	Temporary
Under 30 years of age	73%	27%	71%	29%
Between 30 and 50 years of age	93%	7%	91%	9%
Over 50 years of age	97%	3%	96%	4%

13. The data were obtained from the information systems of each company, and employees involved in furlough-type arrangements on a full working day and full year basis were included in the calculation, since the impact thereof was not generally considered to be significant. In order to perform those activities that the company considers it is necessary for outsourced personnel to carry on at its facilities, CAF enters into service contracts, which define the type of activity to be performed. CAF supervises the outsourcing activities performed, and does not deem it to be necessary to record statistics in relation to outsourced personnel, as this is not considered to be significant. Therefore, this document does not include the information on outsourced personnel required by the GRI Standards in disclosures 102-8 and 102-41.

14. In Europe the main countries are Spain, Poland, Sweden and the UK, which represent 93% of the region.

15. In America the main countries are the US, Mexico and Brazil, which represent 84% of the continent.

16. No. of total resignations/average headcount at the Group.

17. The Professional Group of Employees includes University Graduates, Middle Management and Clerical Staff.

18. The average number of part-time contracts is not included as the number thereof in the Group's headcount is not significant.

Average breakdown by type of contract and gender	2020		2019	
	Permanent	Temporary	Permanent	Temporary
Male	91%	9%	89%	11%
Female	89%	11%	87%	13%

Average breakdown by type of contract and professional group	2020		2019	
	Permanent	Temporary	Permanent	Temporary
Employees	91%	9%	90%	10%
Manual workers	91%	9%	88%	12%

These year-end figures are the net result of the numbers of new hires and terminations in 2020. With respect to the latter, non-voluntary terminations represent 2.5% of the total headcount[19], as in 2019. In relation to the distribution of these figures, 86% are men, 63% are between 30 and 50 years of age and 63% are manual workers. These data follow the Group's headcount distribution by diversity criteria.

Remuneration is set and managed at the CAF Group on the basis of the remuneration management policy applicable to the Group. The purpose of this corporate regulation is to ensure that remuneration is addressed appropriately 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 specialist consultants is used, which enables salary levels to be established on the basis of the market and role.

These general criteria have given rise to appropriate remuneration levels and the average remuneration of employees[20] in 2020 amounts to EUR 37,015.01 (2019: EUR 36,355.22). The difference in average remuneration, by professional group, is 19% higher than the average for employees and 19% lower for other workers.

Remuneration by professional group	2020	2019
Employees	(19%)	(20%)
Manual workers	19%	18%

The average remuneration by age at the CAF Group reveals a correlation between age and remuneration earned. The average remuneration earned by employees aged over 50 is 17% higher than the average, employees aged between 30 and 50 earn is 2.6% higher than the average, and employees under 30 is 34% below the average.

The average remuneration of women working at the CAF Group is EUR 37,156.76 (2019: EUR 36,247.12) and is 0.4% higher than the average remuneration of men. If we analyse the figures by groups of employees, length of service is identified as a cause of the differences in remuneration by gender, both at the CAF Group and in its activities in Europe. From this standpoint, the pay gap is reduced in the various groups of employees.

General gender pay gap[21] by professional group and length of service[22] - CAF Group

	2020		2019	
	Gender pay gap	Difference in length of service	Gender pay gap	Difference in length of service
Employees	16%	47%	15%	33%
Manual workers	27%	33%	20%	25%

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

	2020		2019	
	Gender pay gap	Difference in length of service	Gender pay gap	Difference in length of service
Employees	14%	50%	14%	34%
Manual workers	14%	40%	12%	29%

If we analyse the data by age range, in the "under 30 years of age" group the remuneration of female employees is 8% higher, and in the "between 30 and 50 years of age" group, 3% higher. By contrast, in the "over 50 years of age" range, the remuneration of female employees is 4% lower.

Pay gap by gender and age	2020	2019
Under 30 years of age	(8%)	(5%)
Between 30 and 50 years of age	(3%)	(2%)
Over 50 years of age	4%	(1%)
Total	(0.4%)	0.3%

In any case, the data relating to the pay gap are influenced by the asymmetrical nature of the distribution by gender of the various social demographic groups.

In any case, the collective agreements in force, together with the regulations relating to remuneration applicable at the CAF Group companies, nevertheless 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. Also, the total remuneration (monetary and in kind) of senior management[23] is included in the Annual Corporate Governance Report of Listed Public Limited Liability Companies, and no breakdown is provided of the average figure per gender, as there was only one woman in senior management.

The generation of quality employment also gives rise to the need to organise work in accordance with the legislation in force in each country, workers' bylaws and 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, as well as social welfare benefits, in accordance with market practices, including, inter alia, contributions to pension funds or medical insurance. This is included in the defined labour relations policy applicable to the Group. Also, each company establishes measures aimed at facilitating the work-life balance, certain of which relate to the regulation of working hours, which are generally monitored by means of the clock-on/clock-off register.

b) 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 the traditions and customs in each geographical area and legal jurisdiction.

All the employees of the Parent Company 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 hours and work time, etc.) in various geographical areas (Algeria, Brazil, Chile, Mexico, New Zealand, Poland, the UK and Italy). 87% of the CAF Group's headcount is subject to a collective agreement or regulation, a figure in line with that of the preceding year.

c) Training

The training process is a basic element of personnel management activities, and this is evidenced both at the Parent and at the domestic and international subsidiaries associated with its main activities.

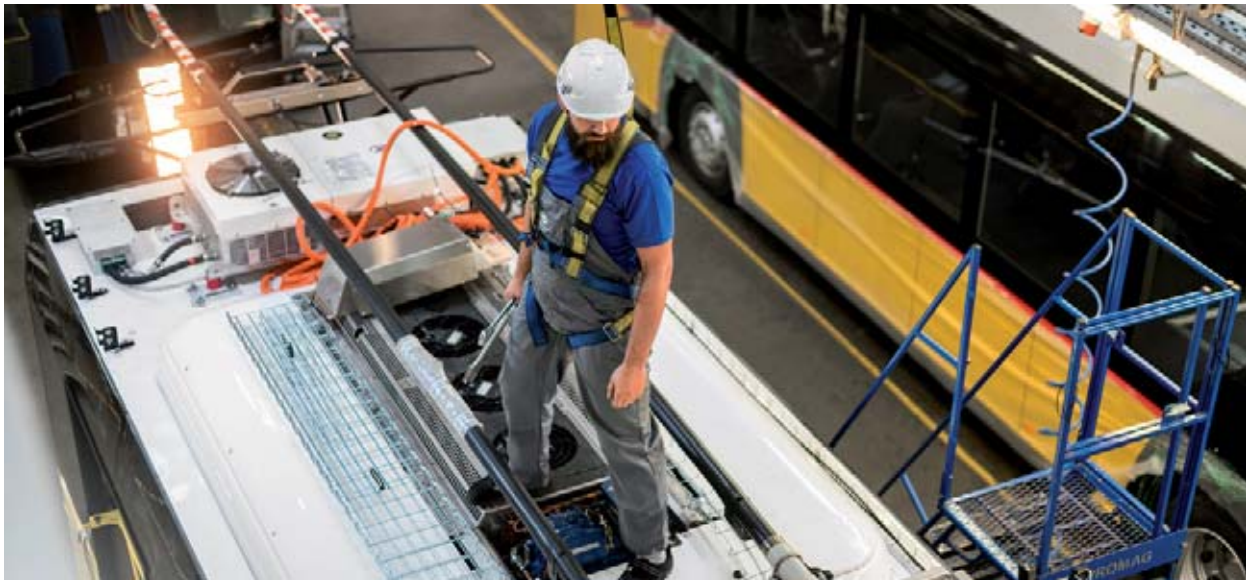
19. There were 326 non-voluntary terminations.

20. All annual fixed remunerative items for full-time employees available to all the Group's employees were used, excluding directors and senior executives to whom specific reference is made in the Annual Report on the Remuneration of Directors and the Annual Corporate Governance Report of Listed Public Limited Liability Companies, published in accordance with the regulations in force. The average exchange rate for the year was used to translate the data to euros.

21. (Average Remuneration of Men by Group – Average Remuneration of Women by Group)/Average Remuneration of Men by Group.

22. (Average Length of Service of Men by Group – Average Length of Service of Women by Group) / Average Length of Service of Men by Group.

23. Senior executives who are not also executive directors.



In order to ensure that the training plan is efficient and effective, three main blocks of activity have been defined within the process, which are monitored regularly using a series of indicators. The initial phase consists of a diagnosis of training needs, incorporating both the vertical perspective of each function and the horizontal perspective in transversal training matters, such as occupational health and safety, quality, product safety and regulatory compliance. Once this training plan has been approved and announced, it can begin 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 rendered more effective.

In 2020, the new corporate e-learning platform, "CAF E-learning" was rolled out. In addition to improving the user experience (thanks to its attractive interface and design adapted to the corporate image), it allows training modules to be improved and makes managing them easier, as a result of the flexibility to incorporate many learning formats, the possibility of generating training itineraries by profile, and access to employees' training histories. This new platform is directly accessible from the corporate internal communication platform and can be adapted to any device, which has facilitated rapid communication and access to training modules on the health and safety measures included in the protocols developed as a result of the COVID-19 pandemic.

At 2020 year-end, the indicators of activity and efficiency of the training process reflected the impact of COVID-19, since despite having transferred to online all the training modules that could be transferred, of those that must be conducted on-site, only those considered essential took place, and the rest were postponed. At Group level, at least 150,000 hours of training were received (2019: more than 192,000)[24], and each employee received an average of 13 hours of training (2019: 17 hours). In contrast with other years, owing to the greater flexibility to adapt to the online version of employees' training modules, the average hours of training for employees was above average, with each receiving 14 hours of training (2019: 15 hours), an average of two hours more than manual workers (2019: 19 hours).

d) Equal opportunities and diversity

One of the cornerstones of CAF's commitment to people, as indicated in CAF's Code of Conduct, Sustainability Policy and Diversity and Director Selection Policy, is respect for diversity and the right of men and women to equal treatment and opportunities. To this end, the Group, led by the Human Resources area, actively rejects any direct or indirect discrimination, especially gender discrimination, defends and actively applies the principle of equality between men and women in the workplace, and is making progress in the establishment of measures that enable a work-life balance to be struck.

Accordingly, CAF, S.A.'s collective agreement (for the Beasain, Irún and Madrid centres) seeks to promote the access of women to employment and the effective implementation of the principle of equal treatment and non-discrimination in working conditions between men and women.

In 2020 women represented 19% of the total new hires at the CAF Group, contributing to the increased presence of women in the Group's headcount. In 2019 this proportion was 15.3%.

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 and decisions in response to any action that might constitute or cause gender discrimination.

In order to comprehensively control these commitments and their respective initiatives, all the Group companies comply with legal regulations relating to the preparation of equality plans[25] and have set up 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 Company is the existence of an equality commission 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. This commission analyses and monitors equality indicators each year, analysing issues such as periodic monitoring of selection processes, monitoring of staff who request and/or avail themselves of the work-life balance measures that apply to the headcount as a whole, broken down by gender, and monitoring of the promotion system for manual workers and employees.

Similarly, in recent years the company has been taking steps to disseminate the equality plan and equality protocol for sexual and gender-based harassment internally through the usual means, and to promote the use of egalitarian and inclusive language, both in internal and external communications.

The principles of non-discrimination and equal opportunities applied at the CAF Group are included in the Code of Conduct. In this context, a gender-based harassment case arose in 2020, and was duly investigated, dealt with and resolved by applying the pertinent employment measures. No such cases were detected in 2019.

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 promotes physical access to its facilities by ensuring that all new investments in industrial buildings and services, and all refurbishments and fitting out of general service facilities are conducted pursuant to the accessibility regulations and standards of the 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 laid down in the legislation of each country in which tender processes are held, as well as the requirements of reference EU legislation.

In the case of railway rolling stock manufactured by CAF, the requirements laid down in the European Union's Technical Specifications for Interoperability Relating to Accessibility for persons with reduced mobility of 2014 are observed. 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 amended by Regulation (EU) 2017/2400. These provisions include the requirements of Regulation No. 107 of the Economic Commission for Europe

24. Data representing more than 90% of the CAF Group's headcount in 2019 and 2020.

25. All the companies have implemented the plan in the period subsequent to compliance with the requirements included in the regulation and have started the process of adapting them to Royal Decrees 901/2020 and 902/2020.

(ECE) of the United Nations on uniform provisions concerning the approval of category M_2 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 quality in this regard, guaranteeing ease of use, since any passenger can use its transport without the need for prior experience, usability, as the vehicles' access points are perfectly signposted and there are mechanisms that ensure that all types of passengers can use them, and simplicity, since physical ability or disability does not affect the user experience.

In terms of information accessibility, CAF is firmly committed to the accessibility of its website, and wants its contents to reach as many users as possible, regardless of their disability status. For this purpose, it uses standard technologies established by W3C and follows the WAI 1.0 Accessibility Guidelines. The use of web standards established by the W3C, such as XHTML 1.0 Transitional for valid semantic markup and cascading style sheets (CSS) for design, allows the website to be viewed on various devices and platforms and also enables its content to be printed properly.

Lastly, it should be noted that the CAF Group meets the requirements of the legislation relating to the rights of people with disabilities and their social inclusion in each country. This is achieved through the direct hiring of workers with a certified disability[26] and through the adoption of alternative measures envisaged in current legislation.

e) 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 with respect to 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.

The Group maintains its comprehensive prevention and environmental policy which is applicable to its core activities[27], in addition to the occupational risk prevention policies in place at the other main subsidiaries[28]. Also, as part of the Corporate Occupational Health and Safety Forum, work is being performed on defining a Corporate Occupational Health and Safety Policy that will be applicable to all the Group's subsidiaries.

In order to achieve zero accidents and improve occupational health and safety conditions, in addition to the aforementioned policy, CAF has implemented and is promoting the extension of the occupational risk prevention Management Systems. 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 illness and material damage. This management system establishes the management principles and the system procedures and processes that implement the prevention activities.

In the occupational risk prevention area, the Group has certifications and assessment and monitoring mechanisms exceeding the legal requirements in each of the countries in which the Group is present. In this area, in 2020 at least 45% of the Group's total headcount were certified under the requirements of the new ISO 45001:2018 standard and an additional 2% were certified under the OHSAS 18001:2007 standard. The aim is to extend this certification to the remaining train and bus manufacturing plants in 2021 and 2022.

Internal audits are conducted every year at all the plants in order to perform an internal follow-up of the management system implemented, or in the process of being implemented,

pursuant to the requirements of the ISO 45001:2018 standard, and of the legal requirements applicable according to the legislation in force in each country. The results of the internal audits give rise to corrective measures to rectify any non-conformities that might have been identified and measures to improve the management system.

There is also social dialogue handled through formal worker-company committees in the health and safety area. Each of CAF's main Vehicle and Bus manufacturing plants and Core activities have occupational health and safety committees, in which management, prevention delegates, the prevention service and, where appropriate, those responsible for the business lines concerned, 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 on the proposed actions, pursuing achievement of the objectives set. The other companies have defined forums for worker consultation and participation which serve as a communication channel with interested parties and through which proposals and significant matters of interest are gathered. These mechanisms make it possible for 90% 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[29] most significant domestic and international operations and the number of occupational illness cases identified.

As regards the performance of the indicators, it can be observed that all of them decreased in comparison with 2019, which shows a positive trend in the number of accidents recorded. The frequency and absolute frequency rates were considerably reduced in the last year, meaning that there have been fewer accidents at the CAF Group. Also, the reduction in the severity rate indicates that the accidents were less serious than in the previous year. Similarly, the occupational illnesses rate fell in the last year, meaning fewer occupational illnesses occurred.

Occupational risk prevention in figures CAF Group

	2020			2019		
	Male	Female	Total	Male	Female	Total
Frequency rate	20.09	4.28	17.98	23.41	4.1	20.89
Severity rate	0.50	0.06	0.44	0.51	0.17	0.47
Absolute frequency rate	72.72	16.71	65.25	86.74	28.69	79.16
Occupational illness rate	10.74	0	9.18	11.74	0	10.19

A common employee indicator at organisations is the absenteeism rate. This indicator measures the hours lost in relation to the theoretical hours. In 2020 this rate was 5.2% at corporate level. In 2019 this indicator was 4.6%[30].

For further information on Human Resources-related matters, see Chapter 4, "The excellence of our team" of the "2020 Sustainability Report", available on the CAF Group's website.

26. To comply with the legal obligations in this area, as well as the alternative measures, CAF's headcount includes 98 employees with a certified disability (2019: 100).

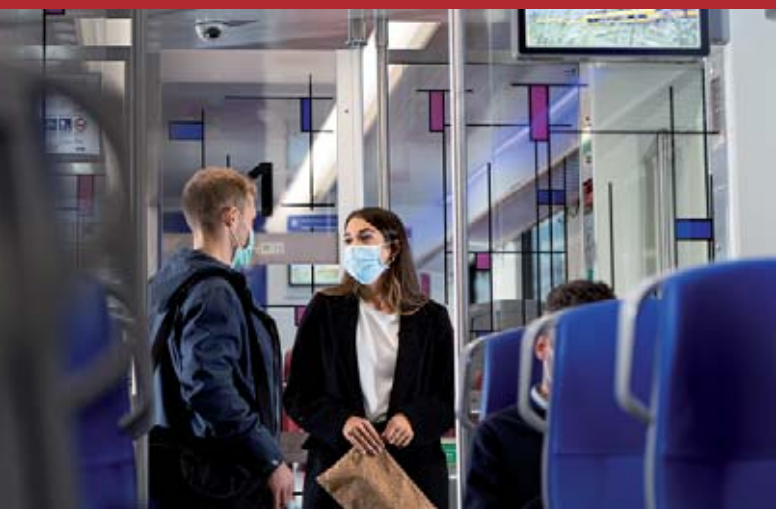
27. Rolling stock, rail and maintenance, wheel set and component (MiiRA) services.

28. CAF T&E, CAF Signalling, CAF P&A and Solaris Bus & Coach.

29. Including the indicators of 90% of the CAF Group's total headcount. The number of hours worked in the indicated scope amounted to 19,294,028. The frequency rates were calculated based on 1,000,000 hours worked (considering the number of lost work-day accidents), the absolute frequency rate based on 1,000,000 hours worked (considering the total number of accidents), the severity rate based on 1,000 hours worked (considering the number of lost work days) and the occupational illnesses rate based on 10,000 workers. When segregated data by gender were not available, an estimate was made based on the distribution of the headcount. With respect to external companies, significant incidents/accidents occurring at CAF facilities are reported and monitored, and it is not considered necessary to keep a statistical record for this group, since a significant volume of accidents is not reported in its regard.

30. This absenteeism rate relates to 83% of the Group's headcount and takes into account the lost hours relating to occupational accidents or common illnesses. (The 2019 data related to 82% of the Group's headcount).

RESPECT FOR HUMAN RIGHTS



In 2020 CAF, S.A. completed the formalities required to join the United Nations Global Compact, confirming its commitment to the ten principles of the Global Compact which stem from the United Nations' declarations on human rights, employment, the environment and the fight against corruption, and enjoy a universal consensus.

In addition to committing itself to the strictest respect for the law in force in all the territories in which it carries on its activities, CAF includes in its Code of Conduct and its Sustainability Policy its commitment to adopting measures that ensure scrupulous respect for fundamental rights, the principles of equal treatment and non-discrimination and any other principles included in the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact, to which CAF, S.A. has adhered.

In this regard, in 2020 CAF, S.A. completed the formalities required to join the United Nations Global Compact, confirming its commitment to the ten principles of the Global Compact which stem from the United Nations' declarations on human rights, employment, the environment and the fight against corruption, and enjoy a universal consensus.

The risks associated with respect for human rights can be observed in various spheres such as people management, the environment, the operational area or in matters regarding business ethics, among others.

Without prejudice to the management of human rights matters in every area and in accordance with the circumstances, CAF has adopted measures that are systematically applied in two ways: (i) due diligence in the field of business ethics, by implementing due diligence mechanisms that enable respect for human rights to be managed in the framework of each project and contract in which a CAF Group company takes part, and also with the third parties with which CAF Group companies have a relationship; and (ii) people management, which is implemented through the corporate people management process, which includes employment and occupational risk prevention policies, and ensure achievement of commitments in this regard in all the Group's activities.

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; (vii) insufficient integration of people with disabilities; and (viii) other risks that are analysed on a case-by-case basis depending on the particular features of the project in question.

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

The management and control of human rights risks are included in the framework of the ongoing implementation of the risk management, corporate compliance and control system.

To this end, an analysis is carried out of whether the country, region or city in which the project is located, or the characteristics thereof, have a risk level that a priori requires the adoption of special measures on the potential impacts associated therewith. In relation to a project implemented in Jerusalem, CAF was the subject of a complaint made to the National Contact Point ("NCP") based on an alleged poor application of the OECD Guidelines. CAF agreed to cooperate with the NCP and claimed that there had not been any breach of either the OECD Guidelines or human rights in general, but rather that the utmost caution and due diligence had been employed in the application of its internal compliance procedures. More specifically, an analysis was performed of

the potential risks relating to the CAF Group's activity in the aforementioned project, and the management thereof.

In fact, the requirement regarding compliance with human rights is a priority matter in the CAF Group's activity and at the beginning of 2020 the Model Due Diligence Procedure for Human Rights at corporate level was updated. This procedure obliges all potential projects (defined as any business activity) to be previously and systematically evaluated from the human rights standpoint, so that an a priori assessment can be made that the CAF Group's participation will not give rise to a breach of human rights as part of the activities carried out by it, as a direct result of its operations or due to the sale of its products or the services provided.

At the same time, all third parties that enter into contracts with CAF Group companies are required to, inter alia, scrupulously respect the law, human rights, public freedoms and fundamental rights, the principles of equal treatment and non-discrimination, protection against child labour and any other principles included in the UN Global Compact's Universal Declaration of Human Rights and in the UN Global Compact in relation to Human Rights.

In the design of the procedure all the recommendations and indications of the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights were scrupulously followed.

Due to the application of the internal procedures established, no Human Rights violations arising from the CAF Group's involvement in any project were detected.

The CAF Group has also undertaken dissemination and training activities on the commitments adopted in this area among the Group's employees in the framework of the Compliance training detailed below.

As regards the area of Human Rights relating to people management, the corporate people process mentioned above establishes, by means of the Labour Relations Policy and the guidelines implementing it, certain minimum requirements to ensure internal consistency in matters such as employment legislation, collective bargaining and the elected representative of the employees, fundamental rights, the principles of equality and non-discrimination and hiring and social security.

In this connection, the CAF Group adopts the measures it considers necessary to guarantee, in its own operations and upstream among its suppliers, compliance with the provisions of the fundamental conventions of the International Labour Organization (ILO) relating to 1) workers' rights to exercise freedom of association or collective bargaining in all the countries in which the Group carries on its activities, 2) preventing child labour, forced or compulsory labour or the assignation of hazardous labour to young people. In this connection, in application of the statement against slavery and human trafficking in the Modern Slavery Act approved in 2015 in the UK, each year CAF publishes a report on the commitments and measures implemented for the prevention and, where applicable, elimination of such practices at CAF and in its supply chain, and 3) guaranteeing and ensuring equality and non-discrimination in working conditions, prohibiting the adoption of measures that might give rise to direct or indirect discrimination of employees for reason of gender, origin, including racial or ethnic, marital status, social status, religion or convictions, political ideas, sexual orientation, union or non-union membership, family relationships with other workers or related to the company or language.

In relation to this last point, two specific protocols are defined, namely the Protocol for action in the event of sexual harassment or gender harassment and the Psychological Harassment Prevention Protocol, included in the Occupational Risk Prevention Management System. Both Protocols include a statement by management in relation to these areas, are aimed at establishing the measures required in order to prevent and avoid the aforementioned situations, and establish procedures so that the Group's employees will know how to proceed in the event that such situations arise.

In 2020 no case involving a breach of Human Rights was detected among the workers employed by the Group directly or through business relationships. Matters relating to non-discrimination and equal opportunities are detailed in the chapter on the working environment.

For further information on Human Rights-related matters, see the "2020 Sustainability Report", available on the CAF Group's website.

FIGHTING CORRUPTION AND BRIBERY

The CAF Group carries on its activity mindful of the importance of appropriate and 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 principle of "Good Corporate Governance".

This Corporate Governance System is based on the commitment to ethical principles, best practices and transparency, built around protection of social 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, combating corruption and bribery are part of the primary Good Governance and Sustainability objectives, and have 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 Crime Prevention Manual for the CAF Group.

Since 2011 the CAF Group's Code of Conduct sets out all the 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.

The CAF's Code of Conduct is available on the CAF Group's website and has been distributed to all employees via the CAF Group's internal communication channels.

In the implementation of the Code of Conduct, a corporate compliance programme was established, in the form of the CAF Group's Crime Prevention Manual, which was approved, in its initial version, by the Board of Directors of CAF, S.A. on 29 April 2015, of which the Code of Conduct is included as an integral part thereof.

Both documents are adapted to the local legislation in each country in which CAF has subsidiaries on the basis of the requirements, which vary from a mere adaptation in a specific case to the adoption of a complete local Compliance programme in certain cases.

Successive improvements and extensions have enabled the development of the Group's current highly robust Corporate Criminal Compliance System.

a) Risks and activities related to combating corruption, bribery and money laundering

The Criminal Compliance risk matrix enables the demarcation, at any given time, of the complete catalogue of offences that may be committed by legal entities, known as the "significant offences", which are those that to a greater or lesser extent may be related to the object of the CAF Group and, consequently, are the offences that determine which actions warrant greater attention from a crime prevention standpoint.

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

In relation to the legal obligation to report on contributions to foundations and non-profit entities, in 2020, as in 2019, the CAF Group did not make any significant contribution to such organisations.

The fight against corruption and bribery forms part of the fundamental objectives of the areas of good governance and sustainability, and has led to the establishment of preventative measures to ensure strict compliance with the law in force in the territories in which the CAF Group carries on its activities.

b) Management of specific risks related to combating corruption, bribery and money laundering and specific guidance policies

The risks identified in the risk map are specifically managed: (i) through the implementation of the guidance policies and the setting up of controls and risk mitigation measures; (ii) by raising the awareness of all the individuals in the CAF Group to which the Criminal Compliance System applies through training and dissemination activities; (iii) by managing a whistleblowing channel that enables detection of behaviours that breach the Code of Conduct or the aforementioned Manual; and (iv) by adapting the corporate Criminal Compliance System to the CAF Group subsidiaries to ensure that, as well as the general guidelines being applied to all the Group companies, local regulations are complied with in those countries that require the establishment of specific guidelines in accordance with their own legislation.

The CAF Group's Crime Prevention Manual and its appropriate updates define the guidance policies and controls that shall be observed to avoid the commission of the offences identified in the risk map.

The classification of an activity as "of risk" does not imply that it is unlawful or criminal, but rather that it is an activity which, if the necessary precautions are not taken, may lead to situations that might give rise criminal repercussions.

Also, the guidance 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.

To this end, it is mandatory, inter alia, for both the legal representatives and professionals of the CAF Group, as well as the third parties that enter into contracts with CAF Group companies, to observe the General Principles of the CAF Code of Conduct.

In this connection, the General Principles of the CAF Code of Conduct are compulsory rules of conduct and ethical standards based on a scrupulous respect for the law, Human Rights, public freedoms and Fundamental Rights, the principles of equal treatment and non-discrimination, protection against child labour and any other human rights principles included in the UN Global Compact's Universal Declaration of Human Rights, labour and environmental rights, and combating corruption.

In order to ensure the latter, at the beginning of 2020 CAF's Compliance Committee approved a CAF Group Due Diligence Manual for Contracting with Third Parties which constitutes a development of the Crime Prevention Manual and, at the same time, of the CAF Group's Code of Conduct, which must be interpreted in conjunction with the CAF Group's

Competition Law Compliance Manual and any implementing regulations thereof.

Specifically, the Due Diligence Manual for Contracting with Third Parties formalises and standardises the due diligence measures that must be adopted systematically prior to contracting with third parties (i.e. Business Partners, Commercial Consultants and Suppliers), and constitutes a tool with corporate scope that allows criteria to be unified and the controls that were being applied in this area to be formalised.

For Due Diligence in Human Rights matters, see the corresponding section in this report.

The impacts arising from such risks are economic penalties and other more serious penalties in relation to the offences described above, in addition to damaging CAF's brand image or reputation. The aforementioned impacts have a direct effect on corporate activities in the medium- to long-term.

The Compliance Committee or Unit is the CAF Group's body, which has independent powers of oversight and control, that is responsible for developing and overseeing the corporate Criminal Compliance System. There is currently a Compliance Committee, which adopts the most important decisions and also has an Operating Committee to manage Criminal Compliance on an ongoing basis.

The CAF Group's Crime Prevention Manual envisages that the Compliance Committee or Unit may appoint Compliance Officers who would report to the Committee or Unit at the CAF Group subsidiaries or branches in those jurisdictions in which, either because it is required by the local legislation in force, or because it is recommendable in view of the size or characteristics of the subsidiary or branch.

c) Compliance-related disclosure and training

The CAF Group's corporate internal communication application, which can be accessed from any device at any time, has a specific section on Compliance which gives all CAF Group employees access, in a single common place, to the most important rules and working documents on Business Ethics, Criminal Compliance, Competition Law Compliance and Market Abuse, distinguishing between the corporate area and the specific area by country.

The compliance documents are translated systematically into the languages in use at corporate level and, on occasion, to other additional languages of companies in which the CAF Group operates, including, inter alia: Spanish, Basque, English, Polish, French, Brazilian Portuguese, Swedish, Italian, Romanian or German.

In 2020 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 Crime Prevention Manual.

At year-end, the training module on the Crime Prevention Manual had been launched in all the entities within the Group's scope of consolidation. 93% of the employees included in the training plan in this connection completed it. More than 5,600 employees have received training in this area since the programme commenced (2019: 4,762 employees). In 2020 over 850 employees received training. Similarly, there is an employee training system in place, and the aforementioned programme is included in the new employee on-boarding plans. Training materials are kept up-to-date.

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

d) Whistleblowing channel

The Crime Prevention Manual establishes a general whistleblowing channel for reporting complaints of non-compliance, which is managed by the Compliance Committee. This body regularly analyses the complaints received and, where applicable, takes the appropriate steps based on the specific circumstances of each complaint. If it considers that the complaint warrants greater attention, the Compliance Committee can send the documentation to the relevant department in order to perform a joint assessment of the facts and determine the measures to be adopted.

The Compliance Committee reports to the Board of Directors, the Audit Committee or General Management in accordance with the circumstances and nature of the alleged offences detected. In all cases, the Audit Committee is responsible for supervising the functioning of the whistleblowing channel.

The Manual also establishes the possibility of providing other means for the receipt of reports of non-compliance in those jurisdictions in which this is required by local legislation.

In 2020 the general whistleblowing channel was opened to all of the company's stakeholders and any third party, allowing employees and others related to the company, such as directors, shareholders, suppliers, contractors and subcontractors, to report, at any time, possibly important irregularities, including financial or accounting irregularities, or those of any other type related to the company of which they become aware at any Group company.

The rules for the functioning of the aforementioned whistleblowing channel and the procedure for managing the offences or suspected offences that may have been disclosed are permanently available on the corporate website and encompass the verification of possible breaches of the CAF Group's Corporate Governance System in general and, in particular, (i) the CAF Group's Code of Conduct and any other breaches of internal rules or legislation regarding (ii) Crime Prevention, (iii) Competition Law, or (iv) Market Abuse and the handling of Insider Information.

The general whistleblowing channel accepts communications of all types and is always accessible through the Group's website in the main languages used at corporate level. The channel guarantees confidentiality and the aforementioned procedure envisages cases in which communications can be made anonymously, respecting the rights of the complainant and the respondent. In particular, the aforementioned procedure reflects the CAF Group's commitment not to take any direct or indirect retaliatory measures against the professionals who have reported an irregular action that might be investigated, unless they have acted in bad faith. Similarly, the Compliance Committee coordinates with the person responsible for receiving reports via other special channels which affect CAF employees, such as those envisaged with regard to situations concerning discrimination, harassment, bullying or safety at work and which are referred to the corresponding section of this report.

No formal complaints were filed through CAF's general whistleblowing channel in 2020, although two internal investigations were carried out as a result of which the pertinent measures were adopted. Two complaints were received via the whistleblowing channel in 2019, and one more was received via an alternative channel.

e) Adaptation of the Crime Prevention Manual at subsidiaries

The CAF Group's Crime Prevention Manual is binding for all the Group's Spanish and international subsidiaries, and shall also be adapted to the particular features and requirements of the legislation applicable to the international subsidiaries. As a result and as indicated above, the manuals receive basic adaptation for all the foreign subsidiaries and more detailed adaptation based on the needs identified.

The international rightsizing of the CAF Group at 31 December 2020 resulted in 72 foreign subsidiaries in 37 countries across the five continents.

Basic adaptation of the Crime Prevention Manual for all the subsidiaries that already formed part of the CAF Group at that time was completed in full in 2017 and included: (i) the legal formalities arising from adoption of the CAF Group's Crime Prevention Manual; (ii) recognition of the Compliance Committee or Unit; and also (iii) training and reporting to governing bodies. Thereafter, basic adaptation is carried out on a systematic basis both when a new subsidiary is incorporated and within the framework of the integration plan when a pre-existing entity is included in the CAF Group.

Crime prevention adaptation at international level can be made for a specific country -and in certain cases for a specific subsidiary- through, on the one hand, adaptation of the content of the general corporate guidelines contained in the Manual and, on the other, through the implementation of a Compliance sub-programme, which will depend to a large extent on the existing legislation in the country in question and on the degree of flexibility provided by such regulations to either maintain the common corporate model or not.

More specifically, in 2020 the following set of internationally implemented Criminal Compliance regulations were in place: (i) seven countries in which the general guidelines of the Crime Prevention Manual have been adapted; (ii) four countries in which a complete Criminal Compliance sub-programme is in place, with specific guidelines; and (iii) two more countries in which certain adaptations are under development.

f) Updates of the criminal compliance system

The Criminal Compliance System is updated on an ongoing basis and, in particular, the CAF Group's Crime Prevention Manual is reviewed periodically (more specifically, it was reviewed in 2016 and 2018); the last amendments were approved by the Board of Directors of CAF, S.A. on 18 December 2018. The Manual will foreseeably be reviewed again in 2021. Following the approval of any new version or a development of the aforementioned Manual, the appropriate dissemination and training measures are taken.

Similarly, the Criminal Compliance risks in the risk map must be periodically reassessed. In 2020 the global reassessment of the Criminal Compliance risks associated with the operating processes of each of the activities carried on by the CAF Group was completed, and improvements and adjustments to the System were planned and made.

For further information on Combating Corruption and Bribery, see Chapter 2, "Good Corporate Governance" of the "2020 Sustainability Report", available on the CAF Group's website.

SOCIAL MATTERS

The CAF Group fosters Sustainability principles in its activities and at its Group companies, balancing the performance of its mission with the interests of the surrounding community and the various stakeholders on a sustainable, long-term basis.

This commitment takes many shapes and forms, such as: (i) the development of initiatives aimed at improving the quality of life in the communities where it operates and in its the areas adjacent to its activities; (ii) the promotion of responsible practices in the value chain and pursuit of competitiveness and quality when selecting suppliers; (iii) the project, product and service offering that best suits customers' needs at any given time, providing the best quality and confidence therein; (iv) the building of trust and distribution of value in the Spanish and international market through responsible action, particularly in relation to tax, to this end employing committed personnel who act loyally, transparently and in good faith.

a) The Group's commitment to sustainable development

The CAF Group engages in activities that contribute to the well-being 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 the promotion of activities that contribute to economic development, knowledge generation, the furtherance of education and the promotion of social and cultural matters, as stated in the Sustainability Policy.

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

CAF is committed to supporting quality employment wherever it carries on its activities, both in Spain and abroad. This commitment manifests itself in the creation and conservation of direct employment, through the encouragement of the recruitment of local staff in the geographical areas in which the CAF Group carries on its activities, and of indirect employment, through the contracting of products and services from local suppliers.

Evidence of the former is the fact that in 2019 and 2020 more than 90% of the workers were local[31], working under general conditions aligned with the Remuneration and Labour Relations Policies applicable at the Group companies.

In relation to the creation and conservation of indirect employment, it should be noted that in 2020 the proportion of spending on local suppliers amounted to 65%[32] (2019: 58%). Also, through its purchasing process CAF helps these suppliers to respect the ethical principles included in the Code of Conduct and in the Suppliers Code of Conduct.

The CAF Group contributes to the promotion of industrial transformation and competitiveness in the area by collaborating with a different intensity and scope with specific initiatives and actions that can affect the economy of the localities in which it operates at domestic and international level. These initiatives include the collaboration at regional level beginning 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 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 from a business or industry standpoint, including, but not limited to, the following: ADEGI (Guipúzcoa Employers Association), Círculo de Empresarios, CEOE (Confederation of Employers and Industries of Spain), MAFEX (Spanish Railway Association),

The CAF Group engages in activities that contribute to the well-being and improvement of the communities in which it operates, some of which are intrinsic to its own activities such as investments in sustainable transport networks, and others that relate to the promotion of activities that contribute to economic development, knowledge generation, the promotion of education and social and cultural advancement.

UITP (International Association of Public Transport), UNIFE (Association of the European Rail Industry) and the European Railway Research Advisory Council (ERRAC), the European technology platform for the railway industry.

Also, CAF is committed to improving the resilience and competitiveness of its suppliers. To this end, in 2020, in addition to continuing with the Supplier Development Programme using the lean methodology initiated in 2019[33], a new project was implemented to organise the extended supply and industry chain with 10 local strategic suppliers. The purpose of this project is to multiply efficiency by integrating and synchronising shared logistics processes. The initiative is supported by the Etorkizuna Eraikiz programme of the Provincial Government of Guipúzcoa with the cooperation of the Tecnológica Igarle consulting firm.

As in previous years, the CAF Group continued to collaborate in order to generate knowledge in its field of activity, promoting various initiatives including most notably the following.

CAF participates in the governing or management bodies of various innovation-oriented associations and knowledge centres, including CEIT, CiC Nanogune, Lortek and the Tecnalia Research & Innovation Foundation. Also worthy of mention are the cooperation with Donostia International Physics Center, as founding member of the Board of Trustees, and Solaris' involvement in the Hydrogen Europe association.

CAF is also a member of various research and innovation committees such as, for example, the committee organised by the Confederation of Employers and Industries of Spain (CEOE) or that promoted by the Chamber of Commerce, in which discussions are held on the research, development and innovation situation and talks are held with the public authorities and various bodies and entities in relation to R&D&I activities and policies.

In order to promote knowledge among students and researchers, the Group collaborates with universities and research centres. In this connection, of note at domestic level is the collaboration with the CEIT technology centre, the Tecnun School of Engineering and 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, and specifically in the US, CAF collaborates with the "Boards of Cooperative Educational Services of New York" in identifying and developing professionals' changing training and skills requirements. 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 conditions for cooperation between the scientific community and the socio-economic environment, thereby enabling various employees to complete their doctoral thesis under a trilateral agreement between the employees, the university and the company.

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. In 2020, the international activity which encourages internships for graduates at CAF Group headquarters diminished as a result of the impact of the COVID-19 pandemic and the mobility restrictions established. However, a certain amount of mobility of interns at certain CAF Group headquarters in countries such as Sweden, the UK, Hungary, the Netherlands and Norway continued.

Similarly, CAF's participation in two European initiatives coordinated by UNIFE in 2020 must be highlighted.

The first of them is called "Hop-on The Planet" and is driven by the main train suppliers in Europe with the purpose of showing how this industry is accelerating Europe's technological and ecological future; this initiative aims to explain that the train is the way towards sustainable transport and provides a great opportunity for people with a STEM education who are looking for innovative jobs that contribute to the decarbonisation of transport.

31. Including available data relating to the Group's employees, understanding local to mean located in the same country of birth.

32. Including the data relating to purchases made at the Group's significant establishments, which represent 91% of CAF's headcount (2019: 90%).

33. The COVID-19 pandemic has made it especially difficult to develop this programme due to the difficulty of organising on-site meetings. For this reason, only two suppliers participated in the programme in 2020.

CAF also participated in the "Staffer" initiative launched by the European Comission which brings 32 partners from throughout the European Union together with their railway community. The railway is one of the main engines of the European strategic objective of smart, ecological and sustainable growth. The railway is also responsible for less than 2% of final energy use in transport, and will, accordingly, be the backbone of the ecological European transport system of the future. However, the industry is currently suffering from a considerable scarcity of competencies, as a large part of its workforce will retire in the next 10 years, just when technological progress will require greater capability. The consortium's aim is to develop a holistic strategy that identifies current and emerging needs regarding competencies, while at the same time cooperating with the industry and vocational and educational training institutions to design specific training and education programmes. They will improve employability and the professional opportunities in the railway industry by establishing trans-European mobility programmes and creating employment practices for students, apprentices and staff. This initiative expects to offer human capital solutions at all levels of the railway value chain, covering the needs of both the supply industry and the railway operators community.

Also, in 2020 CAF cooperated with the international First Lego League Euskadi tournament, the purpose of which is to make young people interested in science and technology. The tournament is aimed at pupils between 10 and 16 years old and designed for them to work in teams as a formula for committing to collaborative and cooperative learning. The theme proposed this year was CITY SHAPER, constructing better environments to live and work in.

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 2020, thereby contributing to their development, both in Spain and abroad, 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 SuEskola Foundation, which provides fire prevention and fire-fighting training using innovative technology that incorporates actual fire; the Green Dachshund Foundation, created in 2012 by Solaris Bus & Coach to help the most vulnerable.

b) Incorporation of Sustainability into the supply chain management strategy

With a view to promoting the Sustainability of the Group's supply chain, in 2020 the Corporate Suppliers Forum prepared a new Corporate Purchasing Policy that defines and specifies the management model that all the Group's business lines must follow in order to manage their relationship with their suppliers. It must be highlighted that this policy contains a commitment to foster sustainable purchasing in line with the requirements laid down in the Corporate Suppliers Code of Conduct.

In this connection, the CAF Group requires all of its suppliers to comply with the ethical principles laid down in CAF's Code of Conduct published on the corporate website, including social, ethical and environmental commitments[34].

In addition, the commitments to comply with the general principles of the Code of Conduct, working conditions, health and safety, the environment, commercial ethics and confidentiality are implemented in the Corporate Suppliers Code of Conduct available on the corporate website and via the usual means of internal communication.

In 2020 work continued on the implementation of the requirement that all suppliers in the process of qualifying for the Group's various activities must accept this Code.

Through this, CAF reserves the right to verify its direct suppliers' compliance with the Code. This verification can be performed by various means, for example, self-assessment surveys or audits at supplier facilities.

The following risks relating to social, ethical and environmental matters have been identified in this area: (i) violation by suppliers of business ethics; (ii) breach by supplier of laws and regulations; (iii) disregard for the protection of human rights; and (iv) involvement in acts of corruption (bribery).

The impacts arising from these risks could result in loss of suppliers and penalties/breaches of contract with customers and damage to the image or reputation of the CAF brand. These impacts have a direct medium-term effect; however, they may extend to the medium term due to the search for replacement suppliers.

To obtain Sustainability assessments on suppliers in the Group's main line of business, i.e., vehicle manufacturing, priority is given to those representing a greater environmental, social and ethical risk, whether due to the potential environmental impact of the product or because they are located in countries with a higher level of exposure to such risks, among others.

The assessment is performed through Ecovadis, a world leader in this area and a Sustainability assessment platform chosen by the members of the Railsponsible[35] initiative to manage supplier Sustainability.

Ecovadis adjusts the assessment survey to each supplier based on the locations in which it operates, its industry and its size in order to assess 21 Sustainability aspects aligned with the strictest international rules, regulations and standards, including those of the Global Reporting Initiative (GRI), the International Labour Organization (ILO), the UN Global Compact and ISO 26000:2012. Suppliers' responses are assessed by specialised analysts who pay particular attention to whether the documentary evidence is consistent and recent, and whether it shows that actions have been taken in reviewing the policies, actions and outcomes in the various areas. This analysis results in a general rating of up to 100 points, which represents excellent Sustainability management.

When the outcome of an assessment does not meet the requirements established by CAF, the supplier is requested to implement an action plan to improve any weaknesses identified. If the supplier does not raise its assessment to acceptable levels or does not show a commitment to improve, it is audited by experts in the field.

The main outcomes of the 2020 CAF Vehicles Responsible Purchasing Programme are as follows:

Main outcomes of the Responsible Purchasing Programme

	2020	2019
Number of suppliers assessed	46	39
Coverage of the Sustainability evaluations as a percentage of the amount of purchases of Material and Equipment	57%	55%
General Sustainability indicator		
Of suppliers of CAF's Vehicles activity	55.7/100	52.9/100
Of all suppliers evaluated by Ecovadis at worldwide level	43/100	42.9/100
Change in the Sustainability indicator of CAF's suppliers		
Improved	65%	50%
Unchanged	19%	20%

34. Representative figure of 76% of purchases made at Spanish and international subsidiaries in relation to the main lines of business in 2020 (Rolling Stock, Railway Services, Components, Signalling, Power and Traction Equipment, and Engineering and Buses).

35. The industry initiative in which CAF cooperates with other stakeholders in the development of sustainable practices throughout the railway industry's value chain.

As regards supplier risk, in 2020, as in 2019, no material or equipment purchases were made from suppliers with high Sustainability risk; and the percentage of such purchases made from suppliers with a medium-high risk was 2 percentage points lower than in 2019 at 5%.

In this connection, Sustainability audits were conducted of two suppliers classified as having medium-high risk in order to assess the supplier's Sustainability management and facilitate the setting up of an Improvement Plan. Also, a potential social risk was identified at one of the suppliers included in the Responsible Purchasing Programme and, accordingly, a Sustainability audit was conducted, which was performed and supervised by the bodies responsible for this matter.

Lastly, it must be stated that in 2020 no notifications of conflicts of interest or breaches of the commercial ethics in the Suppliers Code of Conduct were received through the whistleblowing channel whistleblowerchannel.suppliers@caf.net.

With respect to 2021, it must be stated that it has been agreed to extend the Responsible Purchasing Programme to the Group's main activities.

c) Quality in products and services

In accordance with the provisions of CAF's Sustainability Policy and Vision, the Group defined the Excellence in Quality Policy at corporate level to establish the basic principles that will enable us to meet the needs and expectations of customers by offering products and services that are of high quality, and that are safe, reliable and available. It is the responsibility of the Economic and Financial and Strategy Department (CFSO) to ensure compliance with this Policy, which is monitored and controlled every month by the Corporate Management Model Committee with the participation of the Group's Executive Committee, all of whom are responsible for the materialisation of this policy.

The main risks CAF faces should it not be able to fulfil the commitments acquired in this area are: (i) difficulty in establishing a trust-based relationship with its customers, (ii) breach of contract and possible customer claims, and (iii) customer dissatisfaction with both the product/service and with the development process thereof with CAF.

The impacts of these risks would ultimately lead to claims related to projects committed to customers, reputational damage to CAF's image and a fall in the number of orders in the future. These impacts will have a direct short-, medium- and long-term effect, respectively. The management of these risks is integrated into the corporate risk control and management system detailed in the "Main risks and uncertainties" chapter of the Group's consolidated Directors' Report.

One of the commitments undertaken by CAF through this policy is to satisfy customer needs and expectations, providing customers with high-quality goods and services (in terms of safety, reliability and availability), above and beyond contractual, legal and regulatory requirements.

To meet customer expectations throughout the entire life cycle and ensure compliance with the applicable legal requirements, a proprietary quality and security management system has been implemented, which includes the assessment of all of the Group's significant product and service categories. This system defines the customer claim and complaint procedures, which describe the mechanisms for following up on and resolving such claims and complaints, and for monitoring specific indicators.

Customer claims form part of the Cost of Poor Quality, among other aspects. These claims require the immediate establishment of repair actions, a root cause analysis and the establishment of definitive corrective actions. The change in the aforementioned indicator was positive in 2016 to 2020 and in line with the targets set, as with the result of the customer satisfaction surveys mentioned in the introduction. All the measures of improvement in the management system indicate that the Group will continue to improve this indicator in the coming years.

Customer claims

Indicator	Measure	Scope	Change	Outlook
Non-Quality Costs	Internal	> 70% of sales	Positive. Above target	Scope extension Improved result

In addition, CAF management also undertook to implement at our organisations quality management systems by process in order to maximise customer satisfaction and loyalty, in balance with the results obtained by other stakeholders. This Management System is certified or accredited under various standards, those relating to quality and safety are as follows.

The management model was rolled out at the entire Group, and, accordingly, the actual scope of the system in each field is more extensive than that of the certificates. The model is adapted to local legislation, customer requirements or the specific nature of the business.

Quality and safety certificates

Certificate	Field	Scope (2020 headcount)	Outlook
ISO 9001	Quality Management	~ 90% of the Group	Unchanged
ISO TS 22163 (IRIS)	Railway applications – Quality management system	~ 80% Railway (design and production)	Scope extension
EU 402/2013 EU 445/2011 EU 779/2020	(402) Management of safety in operation (445-779) Management of safety in maintenance	~ 85% Railway Europe	Unchanged
EN 50126	Safety Management System	~ 90% Railway (design and production)	Unchanged
ISO 27001	Cybersecurity management	~ 30% of the Group	Scope extension

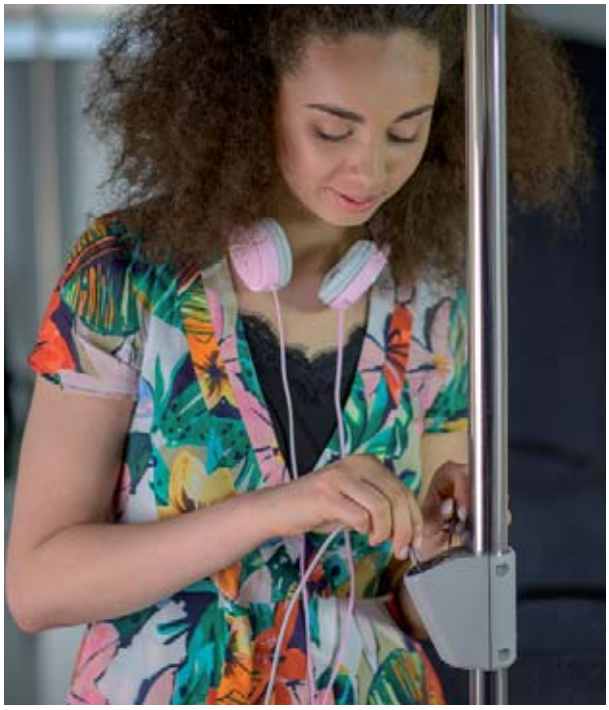
In addition to the project audits carried out by the customer to guarantee that CAF complies with contractual requirements, every year CAF conducts internal audits in order to continuously improve the Management System and guarantee fulfilment of the requirements of the standards under which CAF is certified or accredited.

In the aforementioned policy, CAF undertakes to protect individuals from accidents and incidents originating with or relating to our products and services, whether physical or IT-based. For the latter, specific cybersecurity management activities are habitually planned and carried out in customer projects.

d) Safety in products and services

In accordance with the provisions of the Sustainability Policy, the Group defined the Safety Policy, which is corporate in scope, in order to establish the basic principles that enable us to offer safe products and services for users, customers and other stakeholders. For these purposes, safety is considered to be everything that relates to the physical safety of individuals using CAF's products and services and their IT security or cybersecurity, and also of our facilities. It is the Technology Department's (CTO) responsibility to ensure compliance with this Policy, for which purpose it has established the required internal control mechanisms as follows.

Non-compliance with safety commitments in the area in which CAF carries on its activities might even have an impact on human health. The risks that CAF faces in this area are, among others, and ordered by the time horizon of the impact: (i) stoppage of operations in the event that a security problem had arisen or was suspected, (ii) return of products and services suspected of not being safe, (iii) penalties and/or lawsuits initiated by the customer or other parties affected, and (iv) reputational damage impacting on the company in its relationship with all the stakeholders. The management of these risks is integrated into the corporate risk control and management system detailed in the "Main risks and uncertainties" chapter of the Group's consolidated Directors' Report.



Security indicators

Indicator	Measure	Scope	Change	Outlook
Health and physical safety				
Security incidents	Security incidents per year caused by our products/services	Group	Stable. In line with the objective.	Unchanged
Accidents	Accidents per year caused by our products/services, with bodily injuries	Group	0 accidents In line with the objective.	Unchanged
Cybersecurity				
Potentially serious incidents	"Potentially serious" cybersecurity incidents per year	Group	Increase. Above the objective.	Increase
Actual serious incidents	Actual serious cybersecurity incidents per year (IT leaks or ransomware)	Group	0 actual serious incidents. In line with the objective	Unchanged

As can be observed in the following indicators, the early identification of safety incidents in both our products and services and our IT systems, i.e., security breaches that could give rise to potential accidents involving bodily injuries or cybersecurity breaches evidence that the security system implemented guarantees achievement of the objective of zero accidents and zero instances of IT leaks or ransomware.

The change in the "potentially serious" cybersecurity incidents indicator measures the number of attacks registered and shows an upward trend, mainly for two reasons; the increase in the use of digital solutions due to the digitisation of the Group, which was accelerated by COVID-19, and the increase in the number of external cyber attacks. However, as previously discussed, none of the "potentially serious" incidents registered gave rise to an IT leak or ransomware. Despite the good results, and for the purpose of responding to the increase in risk, the Group defined a plan to strengthen the cybersecurity system.

Any security or cybersecurity incident or accident requires the immediate establishment of repair measures, a root cause analysis and the establishment of definitive corrective actions.

e) Tax information

The approval by the Board of Directors of a Corporate Tax Policy in 2017 enabled, inter alia, the principles that were already applicable internally to be expressly embodied and crystallised in the drawing up of CAF's tax objective and commitments; all of this was made accessible to all stakeholders through the publication of the aforementioned Policy on the corporate website, together with the other Corporate Policies.

A second element, designed to supplement the previous one, was the Tax Policy Implementation Handbook, approved on 4 December 2018 and updated in October 2020, which is published on the CAF Group's corporate website and is applicable to all the Group companies in all the countries in which the Group operates.

CAF's tax objective consists essentially of ensuring compliance with the tax legislation in force in each territory in

which it operates, thus avoiding tax contingencies and fostering cooperation with the tax authorities.

CAF's ultimate objective is to build trust and distribute value in the domestic and international market through responsible action, particularly with regard to taxes; this objective also makes it possible to design a corporate strategy and ensure consistent tax behaviour 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 Sustainability 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. CAF's Tax Policy specifies that these principles will be implemented in accordance with CAF's general principles, specifically those relating to good faith and integrity vis-à-vis all stakeholders.

It generally lies with the Audit Committee and, ultimately, the Board of Directors, to ensure that the whole of the CAF Group complies with the Tax Policy, to which end internal control mechanisms have been expressly established within the latter, in addition to flows of information from the Economic and Financial Department to the Audit Committee, and subsequently to the Board.

Tax risk is managed within the Comprehensive Risk Management and Control System and it is headed by the Corporate Tax Function, which controls and monitors the main corporate tax risks affecting all the businesses and geographical areas.

The Corporate Tax Function reports the Group's tax performance to the Audit Committee on a regular basis and at least once a year.

Additionally, the Audit Committee and the Board of Directors must approve any Group investment transaction in countries considered to be tax havens, to ensure that the CAF Group's activities in those countries are strictly for business purposes.

The Sustainability Policy approved by CAF's Board of Directors defines the Sustainability objective, principles and commitments to stakeholders that CAF adopts in the course of its activities. These principles specifically include tax responsibility.

The CAF Group has a cooperative relationship with the various tax authorities with which it has dealings as a result of its activity, based on the principles of transparency and good faith.

It thus promotes transparent, clear and responsible reporting of its main tax aggregates. The CAF Group is committed to preparing and filing the Country-by-Country Report in due time and form. These annual reports disclose key aspects of the financial statements for each of the jurisdictions in which the Group is present, and they provide the local tax authorities with visibility as to the earnings, tax paid, employees and other significant information regarding the business activities.

The tax commitments undertaken by the CAF Group in its Corporate Tax Policy with respect to compliance with its tax obligations in all the territories and jurisdictions in which it operates, where a prudent tax policy is always observed, also applies to its relationship with external tax policy advisers.

Below follows significant information regarding the earnings obtained on a country-by-country basis, and the income tax paid in the main locations in which the CAF Group operates:

	2020 (thousands of euros)		2019 (thousands of euros)	
	Profit (Loss) before tax[36]	Income tax paid (recovered)[37]	Profit (Loss) before tax	Income tax paid (recovered)
Germany	3,658	1,553	3,417	527
Saudi Arabia	5,636	805	1,646	745
Brazil	23,809	3,806	(14,093)	5,329
Chile	90	(838)	1,771	2,807
Spain	(98,377)	1,751	(14,054)	4,928
Italy	59	36	(4,234)	81
Mauritius	1,170	79	251	29
NAFTA[38]	43,095	24,534	43,964	15,446
Poland	26,601	6,236	(1,859)	661
UK	225	238	(2,274)	(43)
Sweden	(5,646)	(854)	(340)	2,643
Turkey	(1,440)	58	355	119
Other	2,160	869	4,237	586
Consolidation adjustments[39]	48,037		42,351	
Total	**49,077**	**38,273**	**61,138**	**33,858**

Of note regarding the government grants received is the support of the public authorities for the Group's activity, particularly in terms of research, development and innovation activities, as indicated in the relevant section of the Directors' Report. The amount of the grants related to income recognised in the accompanying consolidated statement of profit or loss totalled EUR 5,366 thousand in 2020 (2019: EUR 4,633 thousand).

36. Profit or loss before tax in each country, including additional consolidation adjustments to eliminate dividends and internal margins, among others.

37. Tax payments in 2020 obtained from the consolidated statement of cash flows of the consolidated financial statements.

38. This group includes countries in respect of which the related disclosures would involve revealing information that is protected by means of confidentiality clauses.

39. Profit or loss of entities accounted for using the equity method with elimination of the provision of investees on consolidation.

REFERENCE TABLE FOR THE NON-FINANCIAL INFORMATION STATEMENT AND GRI DISCLOSURES

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(1) The content of this statement is reported on the basis of Spanish Non-Financial Information and Diversity Law 11/2018, of 28 December, amending the Spanish Commercial Code, the Consolidated Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July, without making reference to the GRI standards.

40. This content is not material in relation to the CAF Group's business activity, as concluded from the materiality analysis.

41. This content is not material in relation to the CAF Group's business activity, since none of the Group's sites are located in protected spaces in which biodiversity might be particularly damaged.


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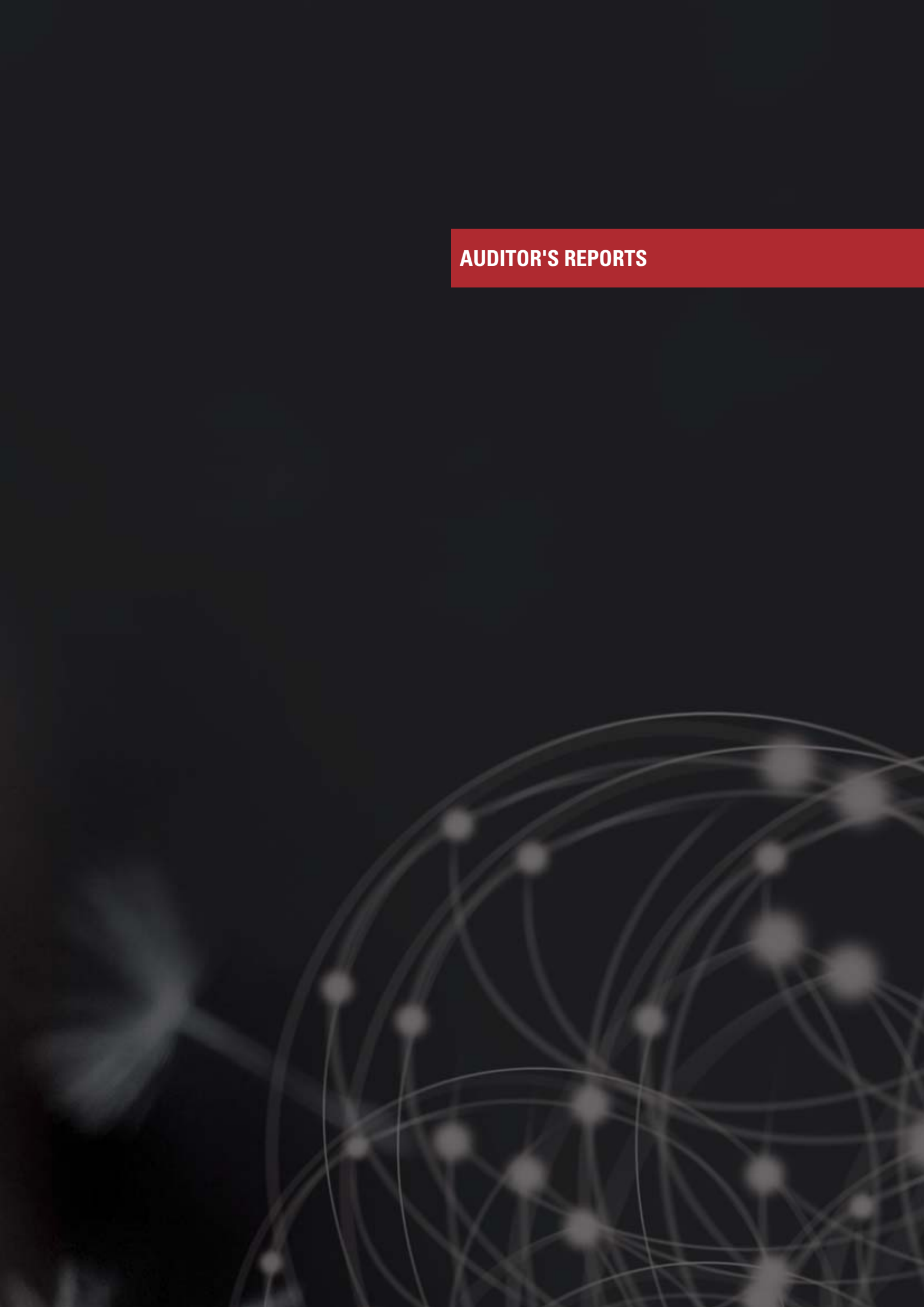
AUDITOR'S REPORTS



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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 2020, 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 2020, 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.

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 2020 on train contracts by reference to the stage of completion amounted to EUR 1,222 million.

Determination of the stage of completion involves a high degree of complexity and estimation by management in relation to, inter alia, the estimation of the total costs to be incurred in each contract, the 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.

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

Procedures applied in the audit

Our audit procedures included a combination of tests on the operating effectiveness of the relevant controls that mitigate the risks associated with cost allocation in the projects, as the basis for estimating the total costs yet to be incurred, and substantive analytical tests and tests of details. In this regard, we performed, 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 a selection 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 2019 with the actual data for 2020 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 had been properly recognised, taking into account the contractual terms and obligations vis-à-vis the customers; tests of details on a selective basis aimed at evaluating 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 recognised by reference to the stage of completion.

Provisions and contingent liabilities arising from commercial contracts

Description

It is standard practice in the industries in which the Group operates for long-term construction contracts to provide for significant penalties arising primarily from not meeting delivery deadlines or from breaches of other contractual obligations, as well as of obligations of any other kind relating to its activities that require the recognition of liabilities.

The estimation of the provisions required is a key matter in our audit because normally this type of breach comes to light in the framework of negotiations with the customer in order to acknowledge the incidents or modifications that usually cause the delays or breaches of the terms and conditions accepted during the performance of contracts.

As described in Note 12 to the accompanying consolidated financial statements, the provisions recognised by the Group to cater for these obligations amounted to EUR 134 million recorded as a reduction of "Trade Receivables for Sales and Services" at 31 December 2020. Also, Notes 12, 20 and 26 include the disclosures of the main litigation and claims involving the Group arising from these obligations.

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

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

Procedures applied in the audit

Our audit procedures included, among others, obtaining and analysing the detail of the estimates made by management in relation to the situation of each project and the provisions recognised. For a sample of contracts, obtained on a selective basis, we performed substantive procedures aimed at evaluating 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.

In addition, we compared the estimates made with the legal documentation (the contract itself, legal opinions, confirmation letters from lawyers, etc.), involving our internal infrastructure project specialists in order to evaluate, in certain significant projects, the assumptions made by management, and with the correspondence with customers in order to evaluate the reasonableness of the judgements applied in relation to the completeness of the provisions recognised. We also performed analytical procedures to review the consistency of the estimates made by the Group in 2019 with the actual data for the contracts in 2020.

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

Impairment of goodwill and other intangible assets

Description

Note 7 describes the goodwill and other intangible assets for each of the cash-generating units (CGUs) identified by the Group. In this connection, the goodwill and the intangible assets with a finite useful life corresponding to Solaris amount to EUR 187 million.

The Group tests goodwill for impairment annually and, whenever there are indications of impairment, for the other assets, to determine the recoverable amount thereof and, as the case may be, the need to recognise an impairment loss.

To do so, the Group tests each of the aforementioned CGUs for impairment using discounted cash flow-based valuation techniques, for which purpose it employs cash flow projections aligned with projected earnings, which were revised to reflect the best estimate of the current pandemic situation, and investments in non-current assets and current assets, as well as other assumptions obtained from the strategic plan.

Also, a discount rate is determined on the basis of the economic situation in general and of that of each CGU in particular.

The performance of these estimates requires the application of significant judgements, as described in Note 7 to the accompanying consolidated financial statements, which together with the magnitude of these items, led us to determine this matter to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the obtainment of the analysis performed by management and the verification of the consistency of the methodology used in 2020 with that of the previous year, performing tests on the clerical accuracy and the logic of the impairment test, in order to evaluate whether it was prepared in accordance with the content of the regulatory financial reporting framework applicable to the Group.

In this connection, our review included, inter alia, the identification of the significant assumptions and the evaluation of the reasonableness thereof. For this purpose, we analysed whether the future cash flow projections were consistent with the budgets and with external data for the industry in which the Group operates, and also performed a sensitivity analysis of those key assumptions.

We involved our internal valuation experts in order to evaluate, mainly, the methodology used and the discount rate applied, performing an evaluation based on general market indicators, and the long-term growth rate, the reasonableness of which was evaluated by checking the calculations detailed by the Group.

We also retrospectively reviewed the predictions made in prior years in order to identify bias in management's assumptions, and evaluated the historical achievement of budgets in order to evaluate the reliability of the estimates made by management.

Lastly, we checked that the disclosures included in Note 7 to the accompanying consolidated financial statements in connection with this matter were in conformity with those required by the applicable accounting regulations.

Sales cutoff at year-end	
Description	**Procedures applied in the audit**
As described in Note 3-f to the consolidated financial statements, the Group recognises revenue from bus segment contracts when the control of the assets is transferred to the customer and establishes clauses for the delivery terms and conditions and the control thereof. Such clauses usually determine when ownership is transferred, although in order to establish when a transaction accrues, it is also necessary to analyse the specific transfer of the related risks and rewards. The revenue recognised in 2020 relating to bus segment contracts amounted to EUR 725 million. The evaluation of the interpretations made by management was a key matter in our audit for determining the appropriate cutoff for the year ended 31 December 2020.	Our audit procedures included, among others, choosing, on a selective basis, a sample of sales performed at 2020 year-end and at the beginning of 2021, analysing the clauses established in each transaction with the customer and evaluating compliance with the terms and conditions for revenue recognition. Also, we requested written confirmation for the aforementioned sample in order to check with customers that the sales had actually been performed at year-end. Notes 6 and 12 to the accompanying consolidated financial statements contain the Group's disclosures and information.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2020, 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 consolidated directors' report, in accordance with the audit regulations in force, consists of:

a) Solely checking that the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, to which the Spanish Audit Law refers, have been furnished as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) Evaluating and reporting on whether the other information included in the consolidated directors' report is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements, 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 observed that the information described in section a) above was furnished as provided for in the applicable legislation and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2020 and its content and presentation were in conformity with the applicable regulations.

Responsibilities of the Directors and 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 25 February 2021.

Engagement Period

The Annual General Meeting held on 15 June 2019 appointed us as auditors of the Group for a period of two years from the year ended 31 December 2018.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the 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

25 February 2021

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.

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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 2020

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 2020 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 NFIS 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 "Reference table for the non-financial information statement and GRI disclosures" 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.

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Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed.

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 2020 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 2020 NFIS.
- Review of the information relating to risks and the policies and management approaches applied in relation to the material matters presented in the 2020 NFIS.
- Verification, by means of sample-based tests, of the information relating to the contents included in the 2020 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 2020 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 "Reference table for the non-financial information statement and GRI disclosures" 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

25 February 2021


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FINANCIAL STATEMENTS OF THE CONSOLIDATED GROUP YEAR 2020

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 (Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Consolidated Balance Sheets

as at 31 December 2020 and 2019 (Notes 1, 2 and 3) (Thousands of Euros)

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

Assets	Note	12-31-20	31-12-19 (*)
Non-current assets:			
Intangible assets	**7**		
Goodwill		103,339	109,011
Other intangible assets		220,654	239,241
		323,993	**348,252**
Property, plant and equipment	**6 & 8**	**403,617**	**449,263**
Investments accounted for using the equity method	**9**	**7,370**	**7,807**
Non-current financial assets	**9**	**429,068**	**538,303**
Non-current hedging derivatives	**17**	**41,736**	**45,001**
Deferred tax assets	**18**	**147,148**	**146,134**
Other non-current assets	**21**	**6,592**	**7,208**
Total non-current assets		**1,359,524**	**1,541,968**
Current assets:			
Inventories	**11**	**481,669**	**487,833**
Trade and other receivables			
Trade receivables for sales and services	10 & 12	1,357,136	1,372,394
Other receivables	9, 10 & 19	170,794	216,940
Current tax assets	19	8,774	12,417
		1,536,704	**1,601,751**
Current financial assets	**13**	**102,000**	**95,151**
Current hedging derivatives	**17**	**15,589**	**40,010**
Other current assetss	**21**	**9,737**	**17,130**
Cash and cash equivalents		**573,928**	**538,983**
Total current assets		**2,719,627**	**2,780,858**
Total Assets		**4,079,151**	**4,322,826**

Equity and Liabilities	Note	12-31-20	31-12-19 (*)
Equity:	**14**		
Shareholders' equity			
Registered share capital		10,319	10,319
Share premium		11,863	11,863
Revaluation reserve		39,119	39,119
Other accumulated reserves and profit for the year attributable to the Parent		796,774	817,680
		858,075	**878,981**
Valuation adjustments			
Hedges		(13,575)	(11,062)
Translation differences		(211,531)	(134,682)
		(225,106)	**(145,744)**
Equity attributable to the Parent		**632,969**	**733,237**
Non-controlling interests		**11,234**	**12,130**
Total equity		**644,203**	**745,367**
Non-current liabilities:			
Long-term provisions	**20**	**46,497**	**47,789**
Non-current financial liabilities	**15 & 16**		
Bank borrowings and debt instruments or other marketable securities		808,849	868,072
Other financial liabilities		78,615	90,792
		887,464	**958,864**
Deferred tax liabilities	**18**	**134,233**	**159,145**
Non-current hedging derivatives	**17**	**42,547**	**45,777**
Other non-current liabilities	**21**	**93,914**	**86,637**
Total non-current liabilities		**1,204,655**	**1,298,212**
Current liabilities:			
Short-term provisions	**20**	**269,946**	**237,378**
Current financial liabilities	**15 & 16**		
Bank borrowings and debt instruments or other marketable securities		170,760	199,979
Other financial liabilities		62,512	44,144
		233,272	**244,123**
Trade and other payables			
Payable to suppliers	26	710,496	688,104
Other payables	12, 15 & 19	976,801	1,032,114
Current tax liabilities	19	15,044	9,113
		1,702,341	**1,729,331**
Current hedging derivatives	**17**	**20,071**	**61,140**
Other current liabilities	**21**	**4,663**	**7,275**
Total current liabilities		**2,230,293**	**2,279,247**
Total Equity and Liabilities		**4,079,151**	**4,322,826**

(*) 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 2020.

Consolidated Statements of Profit or Loss

for the years ended 31 December 2020 and 2019 (Notes 1, 2 and 3) (Thousands of Euros)

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

(Debit) Credit	Note	2020	2019 (*)
Continuing operations:			
Revenue	6, 9 & 10	2,762,472	2,597,655
+/- Changes in inventories of finished goods and work in progress		(39,347)	18,235
In-house work on non-current assets		2,381	13,901
Procurements	22	(1,478,806)	(1,388,778)
Other operating income	22	16,197	27,518
Staff costs	23	(695,039)	(654,607)
Other operating expenses	22	(366,379)	(408,098)
Depreciation and amortisation charge	7 & 8	(89,494)	(80,667)
Impairment and gains or losses on disposals of non-current assets	7, 8 & 9	8,899	(165)
Other results		11	-
Profit from Operations		**120,895**	**124,994**
Finance income	9, 10, 13 & 15	6,121	17,402
Finance costs	9, 16 & 17	(47,641)	(72,885)
Changes in fair value of financial instruments		(35)	33
Exchange differences		(26,106)	(6,120)
Impairment and gains or losses on disposals of financial instruments	9	22	(337)
Financial Loss		**(67,639)**	**(61,907)**
Result of companies accounted for using the equity method	9	(4,179)	(1,949)
Profit before Tax		**49,077**	**61,138**
Income tax	18	(38,824)	(36,048)
Profit for the year from continuing operations		**10,253**	**25,090**
Consolidated Profit for the Year		**10,253**	**25,090**
Attributable to:			
The Parent		9,012	24,745
Non-controlling interests		1,241	345
Earnings per share (euros)			
Basic		0.26	0.72
Diluted		0.26	0.72

(*) 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 2020.

Consolidated Statements of Comprehensive Income

for 2020 and 2019 (Notes 1, 2 and 3) (Thousands of Euros)

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

	Note	2020	2019 (*)
A) Consolidated profit for the year:		**10,253**	**25,090**
B) Other comprehensive income - Items not reclassified to profit or loss:		**(1,947)**	**(3,568)**
Arising from actuarial gains and losses	3-j	(2,482)	(5,816)
Equity instruments at fair value through other comprehensive income	9	535	2,248
Tax effect	18	-	-
C) Items that may be reclassified subsequently to profit or loss:		**(79,785)**	**970**
Cash flow hedges:		**(1,296)**	**1,688**
Revaluation gains/losses	17	(1,523)	1,453
Amounts transferred to profit or loss		227	235
Translation differences:		**(77,046)**	**6,953**
Revaluation gains/losses	14	(77,046)	6,953
Amounts transferred to profit or loss		-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:		**(1,754)**	**(7,266)**
Revaluation gains/losses			
Cash flow hedges	9 & 17	(1,849)	(7,641)
Translation differences		(225)	55
		(2,074)	(7,586)
Amounts transferred to profit or loss			
Cash flow hedges	17	320	320
Translation differences		-	-
		320	320
Tax effect		**311**	**(405)**
Total comprehensive income (A+B+C)		**(71,479)**	**22,492**
Attributable to:			
The Parent		(72,297)	22,074
Non-controlling interests		818	418

(*) 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 2020.

Consolidated Statements of Changes in Equity

for 2020 and 2019 (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							
	Shareholder's equity							
	Share capital	Share premium	Reserve for unrealised fair value gains and losses	Other accumulated reserves and profit for the year attributable to the Parent	Valuation adjustments	Translation differences	Non-controlling interests	Total equity
Balances at 31 December 2018	**10,319**	**11,863**	**39,119**	**837,217**	**(5,024)**	**(141,782)**	**5,555**	**757,267**
Total comprehensive income	**-**	**-**	**-**	**21,177**	**(6,038)**	**6,935**	**418**	**22,492**
Transactions with shareholders or owners	**-**	**-**	**-**	**(40,714)**	**-**	**165**	**6,157**	**(34,392)**
Dividends distribution	-	-	-	(26,225)	-	-	(1,327)	(27,552)
Other transactions with non-controlling interests (Note 2-f)	-	-	-	(14,489)	-	165	7,484	(6,840)
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers between equity items (Note 14)	-	-	-	-	-	-	-	-
Balances at 31 December 2019 (*)	**10,319**	**11,863**	**39,119**	**817,680**	**(11,062)**	**(134,682)**	**12,130**	**745,367**
Total comprehensive income	**-**	**-**	**-**	**7,065**	**(2,513)**	**(76,849)**	**818**	**(71,479)**
Transactions with shareholders or owners	**-**	**-**	**-**	**(27,971)**	**-**	**-**	**(1,714)**	**(29,685)**
Dividends distribution	-	-	-	(28,864)	-	-	(821)	(29,685)
Other transactions with non-controlling interests (Note 2-f)	-	-	-	893	-	-	(893)	-
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers between equity items (Note 14)	-	-	-	-	-	-	-	-
Balances at 31 December 2020	**10,319**	**11,863**	**39,119**	**796,774**	**(13,575)**	**(211,531)**	**11,234**	**644,203**

(*) 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 2020.

Consolidated Statements of Cash Flows

for 2020 and 2019 (Notes 1, 2 and 3) (Thousands of Euros)

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

	Note	2020	2019 (*)
Cash flows from operating activities:			
Profit before tax		49,077	61,138
Adjustments for			
Depreciation and amortisation charge	7 & 8	89,494	80,667
Impairment losses	7, 8 & 9	686	2,161
Changes in provisions	3 & 20	40,461	34,003
Other income and expenses		(4,458)	(33,870)
Gains and losses on disposals of non-current assets	8	(8,899)	300
Investments accounted for using the equity method	9	4,179	1,949
Finance income		(6,121)	(17,402)
Finance costs		47,641	72,885
Changes in working capital			
Trade receivables and other current assets	3-d & 12	1,651	(79,412)
Inventories	11	(19,487)	(65,658)
Trade payables	12	431	102,379
Other current assets and liabilities		4,591	(5,699)
Other non-current assets and liabilities		17,696	12,312
Other cash flows from operating activities			
Income tax paid	19	(38,273)	(33,858)
Other amounts paid relating to operating activities		(1,518)	(3,118)
Net cash (used in) / from operating activities (I)		**177,151**	**128,777**
Cash flows from investing activities:			
Payments due to investment			
Group companies and associates		-	(206)
Business units		-	(50,829)
Property, plant and equipment, intangible assets and investment property	7 & 8	(49,298)	(72,260)
Other financial assets	9 & 13	(27,840)	(12,278)
Proceeds from investments			
Group companies and associates	9	585	1,036
Property, plant and equipment, intangible assets and investment property	7 & 8	583	333
Other financial assets	9 & 13	45,795	30,354
Interest received	9 & 13	3,405	10,222
Net cash (used in) / from investing activities (II)		**(26,770)**	**(93,628)**
Cash flows from financing activities:			
Proceeds from issue of equity instruments - non-controlling interests		-	7,484
Purchase of equity instruments - non-controlling interests	15	(3,809)	(7,646)
Proceeds/(Payments) relating to financial liability instruments			
Issue	15 & 16	491,990	680,870
Repayment	15 & 16	(546,493)	(691,130)
Dividends and returns on other equity instruments paid	14	(821)	(27,552)
Other cash flows from financing activities			
Interest paid	16	(53,134)	(64,448)
Net cash (used in) / from financing activities (III)		**(112,267)**	**(102,422)**
Net increase / (decrease) in cash and cash equivalents (I+II+III)		**38,114**	**(67,273)**
Cash and cash equivalents at beginning of year		538,983	602,813
Effect on cash of foreign exchange rate changes		(3,169)	3,443
Cash and cash equivalents at end of year		**573,928**	**538,983**

(*) 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 2020.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

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 (Gipuzkoa), and its registered office is in Calle José Miguel Iturrioz, 26, Beasain (Gipuzkoa) (Spain).

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 2020 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 2020 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 2019 were approved by the shareholders at the Annual General Meeting of CAF on 13 June 2020. The 2020 consolidated financial statements of the Group and the 2020 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of new standards and interpretations issued

In 2020 various amendments to and/or interpretations of IAS 1 and IAS 8 came into force relating to the definition of "material", as well as amendments to IFRS 9, IAS 39 and IFRS 7 relating to the interest rate benchmark reform in progress and the amendments to IFRS 3 relating to clarifications of the definition of a business. Also, amendments to IFRS 16 to facilitate lessees' accounting for COVID-19-related rent concessions became effective. These amendments did not have a significant impact on the preparation of these consolidated financial statements.

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:

New standards, amendments and interpretations	Obligatory application in annual reporting periods beginning on or after
Approved for use in the European Union	
Amendments and/or interpretations	
Insurance contracts (Amendments to IFRS 4)	1 January 2021
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Not yet approved for use in the European Union	
New standards	
Insurance Contracts (IFRS 17)	1 January 2023
Amendments and/or interpretations	
Presentation of Financial Statements (Amendments to IAS 1)	1 January 2023
Amendments to References to the Conceptual Framework in IFRS Standards (Amendments to IFRS 3)	1 January 2022
Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018–2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023

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 2021 will have on the consolidated financial statements. The Group considers that the application of the new standards and amendments will not have a significant impact on its consolidated financial statements.

c) Functional currency

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

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2020 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 and penalties that reduce the sales price (Notes 20 and 26-a);

– 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 2020 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.

e) Comparative information

As required by IAS 1, the information relating to 2020 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2019.

The 2019 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 2020.

In addition, with a view to performing an appropriate comparison between the consolidated financial statements for 2020 and 2019, 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 2020 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			
Construcciones y Auxiliar de Ferrocarriles, S.A.	Parent	Gipuzkoa	Marketing and manufacture of rolling stock equipment and components
Actren Mantenimiento Ferroviario, S.A.	51%	Madrid	Maintenance
BWB Holdings Limited (**)	100% (*)	Nottingham	Engineering
CAF Arabia Company	100%	Riyadh	Manufacturing and maintenance
CAF Argelia (EURL)	100%	Argel	Manufacturing and maintenance
Construcciones y Auxiliar de Ferrocarriles Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance
CAF Brasil Indústria e Comércio, S.A.	100%	Sao Paulo	Manufacturing and maintenance
CAF Belgium, S.P.R.L.	100%	Bruselas	Manufacturing and maintenance
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance
Construcciones y Auxiliar de Ferrocarriles CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance
CAF Digital & Design Solutions, S.A.U.	100%	Jaén	Manufacturing and engineering
CAF Diversified Business Development, S.A.U.	100%	Gipuzkoa	Holding company
CAF Engineered Modernizations, S.L.U.	100%	Gipuzkoa	Engineering
CAF France, SAS	100%	París	Manufacturing and maintenance
CAF Group UK Limited	100%	Coventry	Holding company
CAF Hungary Kft	100%	Budapest	Manufacturing and maintenance
CAF I+D, S.L.U.	100%	Gipuzkoa	R&D
CAF Investment Projects, S.A.U.	100%	Gipuzkoa	Business development
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance
CAF IP Colombia, S.A.S.	100%	Bogotá	Lease services
CAF Israel Rails Ltd.	100%	Tel Aviv	Building, manufacturing and maintenance
CAF Italia, S.R.L.	100%	Roma	Repairs and maintenance
CAF México, S.A. de C.V.	100%	México D.F.	Manufacturing and maintenance
CAF Netherlands, B.V.	100%	Utrecht	Manufacturing and maintenance
CAF New Zealand Limited	100%	Auckland	Manufacturing and maintenance

Rolling stock segment	% of control or influence	Location	Line of business
CAF Norway AS	100%	Oslo	Manufacturing and maintenance
CAF Power & Automation, S.L.U.	100%	Gipuzkoa	Electronic and power equipment
CAF Rail Australia Pty Ltd	100%	Sydney	Building, manufacturing and maintenance
CAF Rail Digital Services S.L.U.	100%	Gipuzkoa	Maintenance
CAF Rail Luxembourg, S.À R.L.	100%	Luxemburgo	Manufacturing and maintenance
CAF Rail UK Limited	100%	Belfast	Manufacturing and maintenance
CAF Rolling Stock UK Limited	100%	Newport	Manufacturing
CAF Sisteme Feroviare S.R.L.	100%	Bucarest	Manufacturing and maintenance
CAF Signalling, S.L.U.	100%	Gipuzkoa	Signalling
CAF Signalling Uruguay, S.A.	100%	Montevideo	Signalling
CAF Sinyalizasyon Sistemleri Ticaret Limited Sirketi	100%	Estambul	Signalling
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance
CAF Track Test Center, S.L.U.	100%	Navarra	Track testing
CAF Turnkey & Engineering, S.L.U.	100%	Bizkaia	Engineering
CAFTurk Tren Sanayí Ve Tícaret Límíted Sírketí	100%	Estambul	Manufacturing and maintenance
CAF USA, Inc.	100%	Delaware	Manufacturing and maintenance
Centro de Ensayos y Análisis Cetest, S.L.	100%	Gipuzkoa	Tests
Ctrens - Companhia de Manutençao, S.A.	100%	Sao Paulo	Lease services
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Maintenance
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	México D.F.	Building and maintenance
Corporación Sefemex, S.A. de C.V.	100%	México D.F.	Rendering of services
Corporación Trainemex, S.A. de C.V.	100%	México D.F.	Rendering of services
EuroMaint Bemanning AB	100%	Solna	Maintenance
EuroMaint Components and Materials AB	100%	Solna	Maintenance
EuroMaint Gruppen AB	100%	Solna	Maintenance
EuroMaint Rail AB	100%	Solna	Maintenance
EuroMaint Rail AS	100%	Oslo	Maintenance
Geminys, S.L.	100%	Gipuzkoa	Operating manuals
Lander Simulation and Training Solutions, S.A.	76.13%	Gipuzkoa	Simulators
Metro CAF (Mauritius) Ltd.	100%	Mauricio	Building, manufacturing and maintenance
Provetren, S.A. de C.V.	100%	México D.F.	Lease services
Rail Line Components, S.L.U.	100%	Gipuzkoa	Marketing
Regiotren, S.A. de C.V.	100%	México D.F.	Lease services
Rifer SRL	100%	Milán	Component maintenance
Sermanbra - Serviços de Manutençao Brasil Ltda.	100%	Sao Paulo	Maintenance
Sermanfer, S.A.U.	100%	Madrid	Maintenance
Sermantren, S.A. de C.V.	100%	México D.F.	Rendering of services
Tradinsa Industrial, S.L.	100%	Lleida	Repairs and maintenance
Tram Liège Maintenance S.A.	65%	Lieja	Maintenance
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance
Trenes de Navarra, S.A.U.	100%	Navarra	Manufacturing

Rolling stock segment	% of control or influence	Location	Line of business
Companies accounted for using the equity method (Note 9)			
Arabia One for Clean Energy Investments PSC.	40%	Ma'an	Power generation
Asiris Vision Technologies, S.A.	22.33%	Gipuzkoa	Automated production
CAF Tiansheng Power System Limited Company	49%	Changzhou	Electronic and power equipment
Consorcio Traza, S.A. (***)	25%	Zaragoza	Holding company
Ferrocarril Interurbano S.A. de C.V.	49.63%	México D.F.	Manufacturing and equipment
Ferrocarriles Suburbanos, S.A.P.I. de C.V.	43.35%	México D.F.	Transport services
Great River City Light Rail Pty Ltd	30%	Sydney	Operation and maintenance
J-NET O & M Ltd.	50%	Petach Tikva	Operation and maintenance
Light TLV NTA Ltd.	50%	Petach Tikva	Lease services
Momentum Trains Holding Pty Ltd	25.50%	Sydney	Lease services
Orbital Sistemas Aeroespaciales, S.L.	30%	Navarra	Aeronautical solutions
Plan Metro, S.A.	40%	Gipuzkoa	Lease services
Purple Line Transit Operators LLC	20%	Delaware	Operation and maintenance
TransJerusalem J-Net Ltd.	50%	Petach Tikva	Lease services

(*) Considering the options described in Note 15 to these consolidated financial statements.
(**) This company owns all the shares of Quincey Mason Practice, Ltd., BWB Consulting, Ltd. and BWB Regeneration, Ltd.
(***) This company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Buses segment	% of control or influence	Location	Line of business
Fully consolidated companies			
Solaris Bus & Coach, sp. z.o.o.	97.33%	Bolechowo	Solutions for urban transport
Solaris Austria GmbH	97.33%	Viena	Solutions for urban transport
Solaris Bus Iberica, S.L.U	97.33%	Navarra	Solutions for urban transport
Solaris Bus Israel Ltd.	97.33%	Tel Aviv	Solutions for urban transport
Solaris Bus & Coach Latvia Ltd.	97.33%	Riga	Solutions for urban transport
Solaris Bus & Coach Romania S.R.L.	97.33%	Bucarest	Solutions for urban transport
Solaris Czech spol. S.R.O.	97.33%	Ostrava	Solutions for urban transport
Solaris Danmark Bus A/S	97.33%	Padborg	Solutions for urban transport
Solaris Deutschland GmbH	97.33%	Berlin	Solutions for urban transport
Solaris France S.A.R.L.	97.33%	Ennery	Solutions for urban transport
Solaris Hellas, S.A.	68.13%	Atenas	Solutions for urban transport
Solaris Italia S.R.L.	97.33%	Roma	Solutions for urban transport
Solaris Norge AS	97.33%	Oslo	Solutions for urban transport
Solaris Schweiz GmbH	97.33%	Hausen	Solutions for urban transport
Solaris Slovakia S.R.O.	97.33%	Kosice	Solutions for urban transport
Solaris Sverige AB	97.33%	Malmö	Solutions for urban transport
Openaco Trading Co. Ltd.	100%	Chipre	Holding company
UAB Solaris Bus & Coach LT	100%	Kaunas	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

In 2020 UAB Solaris Bus & Coach LT, J-NET O & M Ltd. and Light TLV NTA, Ltd. were incorporated; the Group has ownership interests of 100%, 50% and 50%, respectively, in these companies. Also, the Parent performed a capital increase at Solaris Bus & Coach sp. z.o.o. by converting debt into share capital for an amount of EUR 11,500 thousand and its ownership interest increased from 97.20% to 97.33%.

In addition, in 2020 the energy line of business of Nuevas Estrategias de Mantenimiento, S.L. (NEM) was spun off in favour of a new company the ownership interest of which was subsequently transferred in a cross-company transaction and, accordingly, the CAF Group held 100% of the ownership interest. Following this transaction, a corporate reorganisation took place and NEM was extinguished following its merger with CAF Rail Digital Services, S.L.U. (see Note 9-a).

In 2020 CAF Diversified Business Development, S.A.U. acquired an additional 12% ownership interest in Lander Simulation and Training Solutions S.A. after the minority shareholders exercised the related put options (see Note 15), bringing the Group's ownership interest to 76.13%.

Lastly, Ennera Kaihatsu Co., Ltd., Tumaker, S.L., Vectia Mobility Research & Development, A.I.E. and Solaris Bulgaria EOOD were liquidated with no significant impact.

In 2019 the most significant change in the scope of consolidation was the Parent's obtainment of control of Euromaint Gruppen AB and Subsidiaries ("Euromaint Group"), which were consolidated in the CAF Group on 2 July 2019 as described in Note 2-f to the consolidated financial statements for 2019.

In 2020 within the periods established by the legislation, the measurement of all the assets acquired and liabilities assumed was reviewed (see Note 2-e). In relation to the foregoing, there were no changes from the measurement taken at 31 December 2019, and, accordingly, there were no changes in the values recognised.

In 2019 the Group acquired the shares of the non-controlling interest of Vectia Mobility, S.L. and Vectia Mobility Research & Development, A.I.E. (ownership interest of 30%, respectively) for a total of EUR 7 million, and this non-controlling interest was included in the shareholder structure of the Solaris Bus & Coach, S.A. Group through the acquisition of a 2.8% holding and a payment of EUR 7 million. On 5 July 2019, the merger of Solaris Bus Ibérica, S.L.U. and Vectia Mobility S.L. was performed. The impact on consolidated equity gave rise to a charge of approximately EUR 7 million to "Other Reserves" with a credit to "Non-Controlling Interests".

In addition, the companies incorporated during the year were CAF Engineered Modernizations S.L.U., CAF Norway AS, CAF Rail Luxembourg, S.À R.L., Jarade, S.A. (currently called CAF Signalling Uruguay, S.A.), CAF Rail Digital Services, S.L.U., CAF Israel Rails Ltd and CAF IP Colombia S.A.S., with a 100% ownership interest; Momentum Trains Holding Pty Ltd, in which the subsidiary CAF Investment Projects, S.A.U. has a 25.50% interest; TransJerusalem J-Net Ltd, which is 50%-owned by the Parent; and CAF Tiansheng Power System Limited Company, which is 49%-owned by the subsidiary CAF Power & Automation, S.L.U.

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 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 2019.

h) COVID-19

COVID-19 was declared a pandemic by the World Health Organization in March 2020. The CAF Group is making every possible effort within the regulatory framework set out by the Spanish and international health authorities, guaranteeing the health and safety of all its employees as its priority, while maintaining the supply chain to its customers.

Consequently, in order to follow the guidelines set out by the governments of the countries in which the CAF Group operates, the Group has adapted its working practices and has prepared action protocols that include a series of prevention and protection measures to avoid the spread of the Coronavirus among its workers, as well as a line of action to be taken in the event that suspicious cases are detected.

On 16 March 2020, CAF decided to halt its train manufacturing activity at its plants in Spain when compliance with the minimum occupational health and safety conditions could not be ensured, in relation to the minimum distance between people, thereby avoiding possible infections in the workplace. At the various plants, agreements were reached with the works councils for the return to work, and the activity was restarted at the Spanish plants on 20 April, with an agreement to recover the days in which the activity was halted. To do this, organisational measures were taken to distribute all the workers into more evenly numbered groups in order to reduce as far as possible the crowding of people in various manufacturing areas. At 31 December 2020, the volume of hours to be recovered amounted to 31,000 hours, equal to EUR 1,329 thousand, which are recognised under "Trade and Other Receivables - Other Receivables" in the accompanying balance sheet (172,128 hours, equal to EUR 7,675 thousand, at 30 June 2020) and which will be recovered during the 2021 financial year, according to the agreement reached.

The recommencement of activity was defined by prioritising compliance with personal health and safety conditions, with preparation of the restart taking into account both legal requirements and all the guidelines and specific protocols developed by the health authorities, which were adapted to the reality of CAF's activities and facilities. The workers were informed of, and received training on, the general and specific prevention measures established for each of the activities to be performed before commencing them. The crisis management process applied in Spain is the same process followed in the other factories and sales offices, adapting the measures, where appropriate, to the particular characteristics of substance, form and time required by each country.

With regard to the manufacture of buses, activity continued in the production plants, although there were difficulties in making bus deliveries in areas especially affected by COVID-19.

In terms of services, COVID-19 had a direct effect on operators and the services they have offered the public and, consequently, on the requirements of the maintenance and guarantee work provided. The impact has been different in each country, due both to the measures adopted by the respective operators and to the differing level of contractual risk exposure in the face of situations of this nature. Following the Group's guidelines, working practices have been adapted with adapted protocols at all the centres throughout the world. At 31 December 2020, 64 maintenance workers were covered by furlough-type arrangements (Spanish ERTEs) at various subsidiaries, due to the reduction in the scope of maintenance contracts (a maximum of 615 people having been reached in the month of May). At 17 February 2021, they applied to 62 workers (with varying percentages of impact for each employee depending on the demand for work).

Activities that could continue to be performed through remote working were maintained since the date on which manufacturing activities were halted. These actions led to a reduction in activity at most of the train production plants, and to a lesser extent in the area of services, and resulted in additional costs to mitigate and respond to this pandemic.

At the date of authorisation for issue of these financial statements, no events such as the termination of contracts with customers or significant litigation with customers or suppliers had occurred. During the 2020 financial year, the Group has continued to identify opportunities and submit offers in the market.

The effects of the reduction in activity and of the inefficiencies and incremental costs incurred by the Group in 2020 were recognised in the accompanying statement of profit or loss under "Profit (Loss) from Operations".

The Parent's directors consider that this is a temporary impact, as a portion of the inefficiencies caused by the halt in manufacturing activity is expected to be recovered and the fleet operators are expected to return to their normal levels of activity. However, there is a great deal of uncertainty as to the consequences of the pandemic in the coming months in the economic environment in which the Group operates. In this respect, the pandemic's evolution is being monitored continually with the aim of mitigating early any adverse impact that may arise in the future; the effects will depend to a large degree on the evolution and extension of the pandemic in the coming months and the approval of stimulus packages to boost the economy in such a way that does not check the level of public authorities' current commitment to sustainable mobility.

As described in Note 5-a.2, the Group is exposed to foreign currency risk in relation to various currencies. During this period, the Group's exposure to the various currencies did not vary significantly with respect to the exposure at 31 December 2019, with significant variations occurring in the exchange rates of the currencies of the main countries in which the Group operates, with a significant impact on earnings.

The CAF Group has adopted additional measures to boost its capacity to obtain financing and limit the financial impact of this crisis, with the optimisation of operations, the postponement of non-critical investments and a significant reduction in discretionary spending.

Among the main measures to strengthen the liquidity position, and in light of the uncertainty caused by COVID-19, the Group increased its financing lines, which contributed to improving the Group's liquidity in the period, reaching EUR 1,115 million at 31 December 2020 (31 December 2019: EUR 914 million). This amount, together with the current level of the backlog, continues to guarantee the normal course of business (see Notes 14-i and 16).

Additionally, the estimates made by the Parent's senior management to assess the impairment of investments in Group companies and associates, intangible and tangible assets and financial assets were updated, based on the new conditions arising from the pandemic.

Lastly, the Group's credit risk exposure did not increase significantly nor were impairment events identified and, therefore, the Group was not affected by the expected credit loss on its trade receivables recognised at 31 December 2020.

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 2020 and 2019 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 Solaris, EuroMaint, BWB and Rifer) 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. (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 Gipuzkoa 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 as a higher cost of the corresponding assets.

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. The credit risk did not increase in 2020 (see Note 2-h).

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 2020, the Group had derecognised receivables amounting to EUR 89,180 thousand (31 December 2019: EUR 60,639 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 consolidated 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".

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 2020 and 2019 is as follows (in thousands of euros):

2020

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	25,228	25,228
Derivatives (Note 17)	-	57,325	-	57,325
Other financial assets (Note 13)	61,097	-	-	61,097
Total assets	**61,097**	**57,325**	**25,228**	**143,650**
Liabilities				
Derivatives (Note 17)	-	62,618	-	62,618
Other financial liabilities (Note 15)	-	-	7,988	7,988
Total liabilities	**-**	**62,618**	**7,988**	**70,606**

2019

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	24,911	24,911
Derivatives (Note 17)	-	85,011	-	85,011
Other financial assets (Note 13)	60,564	-	-	60,564
Total assets	**60,564**	**85,011**	**24,911**	**170,486**
Liabilities				
Derivatives (Note 17)	-	106,917	-	106,917
Other financial liabilities (Note 15)	-	-	12,110	12,110
Total liabilities	**-**	**106,917**	**12,110**	**119,027**

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).

The Group considers that, due to their characteristics, the fair value of the financial assets and liabilities measured at amortised cost does not significantly differ from their amortised cost.

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, signalling and engineering services contracts, 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 CAF Group analyzes for each contract the applicable regulatory framework for unilateral cancellations, in order to guarantee the right to be paid for the services rendered to date at price that reflects the cost plus margin incurred.

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 contracts 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 (Notes 3-l and 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 based on the performance of the service over the term of the contract.

When major repairs take place over specific periods of time, the percentage of completion of the service 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 from 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. 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 20).

i) Government grants

The Group companies recognise government grants received as follows:

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

– Grants related to income are recognised in profit or loss when they are definitively granted.

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 2020 for various groups of employees amounted to EUR 7,679 thousand (2019: EUR 8,466 thousand). The impact of these obligations on the consolidated statement of profit or loss for 2020 amounted to EUR 5,146 thousand (2019: EUR 3,410 thousand) with a charge to "Staff costs". In 2020 a net actuarial loss of EUR 2,482 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2019: a net actuarial loss of EUR 5,816 thousand).

In accordance with the accrual basis of accounting, at 31 December 2020 the Group recognised a current asset of EUR 280 thousand and a current liability of EUR 721 in the consolidated balance sheet, calculated by an independent valuer, being such amount 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 2019: current assets of EUR 105 thousand and liability of EUR 597 thousand). The future modifications to the obligations assumed will be recognised in the consolidated profit or loss for the related years (see Notes 15 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 all its employees to an employee from certain locations benefit entity (EPSV) (see 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 2020 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 7,408 thousand and EUR 3,401 thousand, respectively (31 December 2019: EUR 6,319 thousand and EUR 3,953 thousand, respectively) (Note 20).

k) 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.

l) Leases

The Group as lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. The Group recognises a right-of-use asset and its corresponding liability for all leases, except for short-term or low-value asset leases. In such cases, the Group recognises the lease payments as an operating expense on a straight-line basis over the lease term.

The lease liability is recognised initially at the present value of the outstanding lease payments at the date of initial measurement, discounted using the Group's incremental borrowing rate.

The lease payments included in the calculation are as follows:

– Fixed lease payments.

– Amounts expected to be payable under residual value guarantees.

– The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

– Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing its carrying amount to reflect the interest on the liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Group remeasures its lease liability (and makes the corresponding adjustment to the right-of-use asset) when:

– There is a change in the lease term or the assessment of an option to purchase the underlying asset, in which case the lease liability is remeasured using a revised discount rate.

– There is a change in future lease payments resulting from a change in an index or a change in the residual value, in which case the lease liability is recalculated using an unchanged discount rate.

– A lease is modified and is not considered to be a separate lease, in which case the lease liability is remeasured using the new lease term and a revised discount rate.

The right-of-use asset consists of: the amount of the initial measurement of the lease liability; any lease payments made before the commencement date, less any lease incentives received; and any initial costs. This asset is subsequently measured at cost less any accumulated depreciation and impairment.

Right-of-use assets are depreciated over the term of the lease. If the asset reflects the value of the purchase option, the depreciation period will be the useful life of the leased asset. Depreciation begins at the commencement date of the lease.

The Group as lessor

The Group acts as lessor in certain bus contracts (see Note 3-f). Leases in which the contract establishes that the risks and rewards of ownership are transferred to the lessee are classified as finance leases, and all others are classified as operating leases.

Operating lease income is recognised on a straight-line basis over the lease term. The initial direct costs incurred in negotiating and entering into the operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

m) 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 2020 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	(49,137)
Distribution	
Voluntary reserves	(49,137)

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 (including exchange rate risk, interest rate risk and commodity price risk), credit risk and liquidity 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 2020 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 exposure to interest rate risk of the Group's borrowings at 31 December 2020 and 2019 is as follows (see Notes 16 and 17):

		Millions Euros							
		31/12/20				31/12/19			
			Permanent				Permanent		
	Principal Indices	Variable	With insurance contract	Without insurance contract	Total	Variable	With insurance contract	Without insurance contract	Total
Ctrens - BNDES	TJLP	84.3	-	-	84.3	123.0	-	-	123.0
Provetren - Bank union	LIBOR	9.0	48.0	-	57.0	11.4	66.9	-	78.3
The Parent (CAF, S.A.)	EURIBOR	267.0	25.0	348.1	640.1	218.0	25.0	432.3	675.3
CAF Investment Projects, S.A.U.	EURIBOR	19.9	-	-	19.9	19.9	-	-	19.9
Solaris Group	EURIBOR+ WIBOR	164.3	-	-	164.3	168.2	-	-	168.2
Rest of Group's companies		12.0	-	-	12.0	0.9	-	-	0.9
Total		**556.5**	**73.0**	**348.1**	**977.6**	**541.4**	**91.9**	**432.3**	**1,065.6**

Taking into consideration the balance at 31 December 2020 and 2019, 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 5,565 thousand and EUR 5,414 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 Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Japanese yen, the Colombian peso, the New Zealand dollar, Israeli shekel, Turkish lira, Canadian dollars, Hong Kong dollars and the Hungarian florin, 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 functional currency. 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 statements of profit or loss for 2020 and 2019 of a 10% depreciation of the following currencies against the euro, considering the closing exchange rate at 31 December and the currency forwards arranged (see Note 17), would be as follows:

	Gain/(Loss) in thousands of euros	
Currency	**2020**	**2019**
Brazilian real	(2,348)	(5,554)
Pound sterling	(349)	4,400
Mexican peso	(1,942)	(3,342)
Polish zloty	4,494	6,381
New Taiwan dollar	(3,667)	(3,834)

The exchange rate fluctuation corresponding to the Polish zloty would have an opposite sign effect on the net investment in a foreign operation denominated in this coin. The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2020 and 2019, 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 2020 and 2019 is as follows:

	Equivalent value in thousands of euros					
		31/12/20			31/12/19	
Currency	**Assets**	**Liabilities**	**Net exposure**	**Assets**	**Liabilities**	**Net exposure**
Chilean peso	17,686	15,730	1,956	16,502	13,536	2,966
Mexican peso	163,138	143,711	19,427	248,779	226,582	22,197
Brazilian real	305,672	174,303	131,369	430,845	262,100	168,745
US dollar (Note 3-d) (*)	427,916	209,076	44,676	535,861	288,320	49,843
Pound sterling	146,154	93,249	52,905	131,930	75,939	55,991
Algerian dinar	3,019	940	2,079	5,868	3,179	2,689
Turkish lira	2,888	1,357	1,531	3,691	1,856	1,835
Indian rupee	8,166	544	7,622	9,115	689	8,426
Australian dollar	54,298	53,284	1,014	21,375	20,738	637
Saudi riyal	31,240	22,441	8,799	18,976	13,858	5,118
New Zealand dollar	11,209	8,238	2,971	10,792	8,381	2,411
New Taiwan dollar	11,366	5,364	6,002	12,641	6,518	6,123
Mauritian rupee	4,555	3,469	1,086	4,240	4,015	225
Polish zloty	720,919	480,257	240,662	727,233	491,445	235,788
Swiss franc	9,215	5,510	3,705	10,116	6,952	3,164
Norwegian krone	6,165	8,681	(2,516)	7,016	9,656	(2,640)
Swedish krona	215,182	164,241	50,941	215,929	163,282	52,647
Others	24,359	21,880	2,479	3,061	1,814	1,247
Total	**2,163,147**	**1,412,275**	**576,708**	**2,413,970**	**1,598,860**	**617,412**

(*) At 31 December 2020, there were hedges of net investments in foreign operations (Note 17) amounting to EUR 174,164 thousand, applying the year-end exchange rate (31 December 2019: EUR 197,698 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 57,671 thousand at 31 December 2020 (31 December 2019: EUR 61,741 thousand).

The detail of the main foreign currency balances of subsidiaries according to the nature of the items comprising them is as follows:

	Equivalent value in thousands of euros			
	31/12/20		31/12/19	
Nature of the balances	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Goodwill	103,339	-	108,804	-
Other intangible assets	151,255	-	165,940	-
Property, plant and equipment	203,970	-	233,290	-
Non-current financial assets and deferred tax assets	450,562	-	551,017	-
Other non-current assets	6,592	-	7,208	-
Inventories	399,535	-	384,954	-
Trade and other receivables	612,590	-	711,857	-
Other current financial assets	92,363	-	88,966	-
Cash and cash equivalents	142,941	-	161,934	-
Non-current liabilities	-	533,239	-	639,069
Current liabilities	-	879,036	-	959,791
Total	**2,163,147**	**1,412,275**	**2,413,970**	**1,598,860**

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 2020 and 2019, 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

As determines the Liquidity and Financing Policy, 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-i 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.

The CAF Group adopted additional measures to strengthen its financing capacity due to the effect of COVID-19 (see Notes 2-h and 16).

d) Brexit: impact on financial risks

The emergence of Brexit in June 2016 gave rise to the need to conduct an analysis of its consequences and its impact on various lines of business. 2020 was the Brexit transition period, in which the framework of the new relationship between the UK and the European Union was negotiated.

On 24 December 2020, the European Union and the UK reached a Trade and Cooperation Agreement, with effect from 1 January 2021. This agreement will allow the Group to continue operating normally in the businesses that the Group has in the UK and, therefore, it has not had a significant impact on these consolidated financial statements.

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.

– 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, the Group defined the following segments, which it considers fulfill 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:

	2020 (Thousands of euros)				
Segmentation by business unit	**Rolling stock**	**Buses**	**General**	**Inter-segment**	**Total**
External sales	2,037,174	725,298	-	-	2,762,472
Inter-segment sales	1,971	-	-	(1,971)	-
Total sales	**2,039,145**	**725,298**	**-**	**(1,971)**	**2,762,472**
EBITDA	**134,247**	**67,243**	**-**	**-**	**201,490**
Depreciation and amortisation charge (Notes 7 and 8)	(65,517)	(23,977)	-	-	(89,494)
Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9)	11,089	(2,190)	-	-	8,899
EBIT	**79,819**	**41,076**	**-**	**-**	**120,895**
Financial loss	(40,908)	(10,439)	(16,292)	-	(67,639)
Share of net results of associates	(3,881)	(298)	-	-	(4,179)
Profit (Loss) before tax	**35,030**	**30,339**	**(16,292)**	**-**	**49,077**
Income tax					(38,824)
Profit (Loss) for the year from continuing operations					**10,253**
Profit (Loss) attributable to non-controlling interests					1,241
Profit (Loss) attributable to the Parent					**9,012**
ASSETS	**2,719,392**	**752,572**	**607,187**	**-**	**4,079,151**
LIABILITIES	**2,157,003**	**495,743**	**781,909**	**293**	**3,434,948**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	38,266	18,762	-	-	57,028

	2019 (Thousands of euros)				
Segmentation by business unit	**Rolling stock**	**Buses**	**General**	**Inter-segment**	**Total**
External sales	1,947,550	650,105	-	-	2,597,655
Inter-segment sales	3,433	-	-	(3,433)	-
Total sales	**1,950,983**	**650,105**	**-**	**(3,433)**	**2,597,655**
Adjusted EBITDA	**204,193**	**39,505**	**-**	**-**	**243,698**
Depreciation and amortisation charge (Notes 7 and 8)	(54,991)	(25,676)	-	-	(80,667)
Impairment and gains or losses on disposals of non-current assets (expense) (Notes 7, 8 and 9)	(51)	(114)	-	-	(165)
Adjusted EBIT	**149,151**	**13,715**	**-**	**-**	**162,866**
Non-recurring items (Note 26)	(37,872)	-	-	-	(37,872)
EBIT	**111,279**	**13,715**	**-**	**-**	**124,994**
Financial loss	(32,739)	(12,100)	(17,068)	-	(61,907)
Share of net results of associates	(1,921)	(28)	-	-	(1,949)
Profit (Loss) before tax	**76,619**	**1,587**	**(17,068)**	**-**	**61,138**
Income tax					(36,048)
Profit (Loss) for the year from continuing operations					**25,090**
Profit (Loss) attributable to non-controlling interests					345
Profit (Loss) attributable to the Parent					**24,745**
ASSETS	**3,035,005**	**740,167**	**547,645**	**9**	**4,322,826**
LIABILITIES	**2,216,639**	**494,649**	**865,471**	**700**	**3,577,459**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	69,343	10,194	-	-	79,537

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):

	2020	2019
High-speed, Regional and commuter	549,142	561,648
Metros	221,023	202,760
Tram and light rail	438,484	408,131
Bogies and other	13,338	28,549
Trains	**1,221,987**	**1,201,088**
Services	**516,416**	**454,939**
Buses	**725,298**	**650,105**
Integral Systems, Equipment and Others (*)	**298,771**	**291,523**
Total	**2,762,472**	**2,597,655**

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

The information based on geographical location is as follows:

1. The breakdown of sales by geographical area at 31 December 2020 and 2019, including the most significant countries (those accounting for more than 5% of total sales), is as follows (in thousands of euros):

	2020	2019
Spain	274,698	285,628
The Netherlands	324,887	242,327
Germany	219,549	183,603
Italy	206,784	85,234
Poland	182,231	165,155
Belgium	142,670	144,017
Sweden	197,668	139,490
Other European Union	278,796	231,654
European Union	**1,827,283**	**1,447,108**
United Kingdom	292,130	358,755
Australia	164,888	75,980
Other	478,171	685,812
Rest of the world	**935,189**	**1,120,547**
Total	**2,762,472**	**2,597,655**

In 2020 and 2019 no customers have represented 10% of the Group's revenue.

2. The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2020 and 2019 is as follows (in thousands of euros):

Geographical area	**2020**	**2019**
Spain	187,105	203,670
Poland (*)	90,068	100,122
Rest of the world	126,444	145,471
Total	**403,617**	**449,263**

(*) 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 2020 and 2019 were as follows:

2020

	Thousands of euros				
	Balance at 31/12/19	**Changes in the scope in consolidation (Note 2-f)**	**Impairment**	**Impairment differences**	**Balance at 31/12/20**
BWB Holdings Limited	5,693	-	-	(445)	5,248
Solaris	93,351	-	-	(6,199)	87,152
EuroMaint	9,760	-	-	408	10,168
Other	207	756	(192)	-	771
Total	**109,011**	**756**	**(192)**	**(6,236)**	**103,339**

2019

	Thousands of euros						
	Balance at 31/12/18	**Adjustments to preliminary goodwill - transfers (Note 2-f)**	**Adjusted balance at 01/01/19**	**Changes in the scope of consolidation (Note 2-f)**	**Impairment**	**Translation differences**	**Balance at 31/12/19**
BWB Holdings Limited	8,038	-	8,038	-	(2,680)	335	5,693
Solaris	93,582	(1,186)	92,396	-	-	955	93,351
EuroMaint	-	-	-	9,736	-	24	9,760
Other	207	-	207	-	-	-	207
Total	**101,827**	**(1,186)**	**100,641**	**9,736**	**(2,680)**	**1,314**	**109,011**

In 2020 the recoverability of the goodwill of Solaris, BWB Holdings Limited and Euromaint was tested. The main parameters used in the recoverability test were as follows:

	Solaris	**BWB Holdings Limited**	**Euromaint**
Carrying amount at 01/01/20 (thousands of euros)	93,351	5,693	9,760
Value considered representative to determine the recoverable amount	Value in use	Value in use	Value in use
Estimated number of years covered by cash flow projections	6	5	8
Long-term growth rate used	1.5%	2%	2%
Discount rate used (*)	9.0%	9.4%	8.1%

(*) 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 is a sensitivity analysis of the main assumptions used in the model:

Amounts in thousands of euros	Solaris		BWB Holdings Limited		Euromaint	
	-100 p.b.	+100 p.b.	-100 p.b.	+100 p.b.	-100 p.b.	+100 p.b.
Growth rate:	-32,940	+42,944	-1,659	+ 2,175	-8,767	+12,182
Discount rate:	+74,694	-57,302	+ 3,352	- 2,538	+22,837	-16,418

In 2019, the estimated value of the companies exceeds their carrying amount in the three cases, including in the worst case sensitivity analysis shown above, and, accordingly, no need was identified to recognise additional write-downs in the consolidated financial statements for 2020.

In 2019, EUR 2,680 thousand of goodwill of BWB Holdings Limited was written off with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss.

b) Other intangible assets

The changes in the year ended 31 December 2020 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 at 31/12/19	**45,625**	**114,262**	**193,161**	**54,330**	**407,378**
Changes in the scope of consolidation	414	1,672	-	-	2,086
Additions or charge for the year	-	-	11,034	9,286	20,320
Transfers	-	-	143	(131)	12
Disposals or reductions	-	-	(17,155)	(309)	(17,464)
Translation differences	(589)	(7,566)	(1,253)	(603)	(10,011)
Cost at 31/12/20	**45,450**	**108,368**	**185,930**	**62,573**	**402,321**
Accumulated amortisation at 31/12/19	**(5,331)**	**(7,589)**	**(102,872)**	**(26,384)**	**(142,176)**
Additions or charge for the year	(2,630)	(5,483)	(16,734)	(6,189)	(31,036)
Transfers	-	-	-	(2)	(2)
Disposals or reductions	-	-	6,958	324	7,282
Translation differences	208	615	283	325	1,431
Accumulated amortisation at 31/12/20	**(7,753)**	**(12,457)**	**(112,365)**	**(31,926)**	**(164,501)**
Impairment at 31/12/19	**-**	**-**	**(25,932)**	**(29)**	**(25,961)**
Recognised in 2020	-	-	(537)	-	(537)
Transfers in 2020	-	-	-	-	-
Disposals or reductions	-	-	9,311	9	9,320
Translation differences	-	-	12	-	12
Impairment at 31/12/20	**-**	**-**	**(17,146)**	**(20)**	**(17,166)**
Net balance at 31/12/20	**37,697**	**95,911**	**56,419**	**30,627**	**220,654**

The changes in the year ended 31 December 2019 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 at 31/12/18	**26,356**	**113,042**	**170,549**	**36,861**	**346,808**
Changes in the scope of consolidation	18,466	-	308	5,144	23,918
Additions or charge for the year	-	-	20,242	10,975	31,217
Transfers	-	-	2,210	1,145	3,355
Transfers to inventories	-	-	(344)	-	(344)
Disposals or reductions	-	-	(1)	(24)	(25)
Translation differences	803	1,220	197	229	2,449
Cost at 31/12/19	**45,625**	**114,262**	**193,161**	**54,330**	**407,378**
Accumulated amortisation at 31/12/18	**(2,642)**	**(1,926)**	**(89,244)**	**(20,516)**	**(114,328)**
Additions or charge for the year	(2,569)	(5,589)	(13,682)	(4,678)	(26,518)
Transfers	-	-	90	(1,145)	(1,055)
Disposals or reductions	-	-	-	10	10
Translation differences	(120)	(74)	(36)	(55)	(285)
Accumulated amortisation at 31/12/19	**(5,331)**	**(7,589)**	**(102,872)**	**(26,384)**	**(142,176)**
Impairment at 31/12/18	**-**	**-**	**(25,932)**	**(13)**	**(25,945)**
Recognised in 2019	-	-	-	(16)	(16)
Transfers in 2019	-	-	-	-	-
Impairment at 31/12/19	**-**	**-**	**(25,932)**	**(29)**	**(25,961)**
Net balance at 31/12/19	**40,294**	**106,673**	**64,357**	**27,917**	**239,241**

The research and development expenditure incurred in 2020 amounted to EUR 25,823 thousand (EUR 14,789 thousand were recognised in the consolidated statement of profit or loss and EUR 11,034 thousand were capitalised). The research and development expenditure incurred in 2019 amounted to EUR 36,501 thousand (EUR 16,259 thousand were recognised in the consolidated statement of profit or loss and EUR 20,242 thousand were capitalised) These amounts do not include basic engineering costs associated with contracts. In 2020 Vectia Mobility Research & Development, A.I.E. was liquidated and all its development projects, which had been written off in previous years, were derecognised.

The additions to "Development Expenditure" in 2020 correspond to the costs incurred in the development of new products, including most notably the development of highly automated signalling systems, hydrogen technologies as an alternative to diesel propulsion; virtual validation environments aimed at reducing costs and deadlines in the commissioning of vehicles, the development of the onboard registration of the digital train and the development of a TCMS platform for the implementation of critical security functions.

With regard to "Computer Software", in 2019 the Group began to implement a new ERP, with most additions in the years 2020 and 2019 relating to this project. At 31 December 2020, the Group had investment obligations of EUR 29,396 thousand (31 December 2019: EUR 16,200 thousand), mainly in relation to the new IT system which is expected to be put into operation in 2023.

In 2020 the assets related to the coupler division, mainly intellectual property, were sold. The value of this sale amounted to EUR 15,000 thousand, giving rise to a gain of EUR 11,663 thousand that was recognised with a credit to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss.

8. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

The detail of "Property, Plant and Equipment" is as follows (in thousands of euros):

	31/12/20	31/12/19
Property, plant and equipment	348,530	382,136
Right-of-use assets	55,087	67,127
Total	**403,617**	**449,263**

a) Property, plant and equipment

The changes in the year ended 31 December 2020 in "Property, Plant and Equipment" and in the related accumulated depreciation were as follows:

	Thousands of euros						
	Land and buildings	Plant and machinery	Transport equipment (leasing) (Note 3-l)	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Cost at 31/12/19	**362,403**	**335,771**	**40,420**	**37,731**	**44,093**	**9,356**	**829,774**
Changes in the scope of consolidation (Note 2-f)	67	132	-	36	11	-	246
Additions	752	4,755	-	6,659	1,476	9,545	23,187
Transfers	6,292	1,482	-	2,170	903	(11,485)	(638)
Disposals or reductions	(35)	(5,697)	(5,126)	(3,007)	(1,252)	(3)	(15,120)
Translation differences	(14,125)	(6,063)	(2,574)	(545)	(675)	(343)	(24,325)
Cost at 31/12/20	**355,354**	**330,380**	**32,720**	**43,044**	**44,556**	**7,070**	**813,124**
Accumulated depreciation at 31/12/19	**(119,232)**	**(253,633)**	**(10,976)**	**(22,913)**	**(30,434)**	**-**	**(437,188)**
Additions	(10,080)	(15,184)	(4,848)	(3,604)	(3,300)	-	(37,016)
Transfers	14	(94)	-	(156)	(1)	-	(237)
Disposals or reductions	32	4,438	2,995	1,977	1,118	-	10,560
Translation differences	3,350	4,805	769	315	319	-	9,558
Accumulated depreciation at 31/12/20	**(125,916)**	**(259,668)**	**(12,060)**	**(24,381)**	**(32,298)**	**-**	**(454,323)**
Impairment at 31/12/19	**(6,205)**	**(3,035)**	**-**	**(695)**	**(515)**	**-**	**(10,450)**
Recognised in 2020	-	-	-	(230)	(665)	-	(895)
Transfers							
Disposals or reductions	-	547	-	418	-	-	965
Translation differences	57	-	-	5	47	-	109
Impairment at 31/12/20	**(6,148)**	**(2,488)**	**-**	**(502)**	**(1,133)**	**-**	**(10,271)**
Net balance at 31/12/20	**223,290**	**68,224**	**20,660**	**18,161**	**11,125**	**7,070**	**348,530**

The change in the year ended 31 December 2019 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 the course of construction	Total
Cost at 31/12/18	**352,627**	**309,737**	**39,897**	**34,105**	**39,523**	**1,330**	**777,219**
Reclassification of assets for the right to use under IFRS 16	-	(1,896)	-	(1,221)	-	-	(3,117)
Adjusted opening balance at 01/01/19	**352,627**	**307,841**	**39,897**	**32,884**	**39,523**	**1,330**	**774,102**
Changes in the scope of consolidation (Note 2-f)	-	17,089	-	2,360	290	17	19,756
Additions	6,731	16,797	1,740	2,296	1,918	11,011	40,493
Transfers	323	(3,644)	4,272	635	2,437	(2,972)	1,051
Disposals or reductions	(24)	(2,875)	(5,902)	(597)	(203)	(43)	(9,644)
Translation differences	2,746	563	413	153	128	13	4,016
Cost at 31/12/19	**362,403**	**335,771**	**40,420**	**37,731**	**44,093**	**9,356**	**829,774**
Accumulated depreciation at 31/12/18	**(108,976)**	**(242,284)**	**(2,508)**	**(20,186)**	**(27,398)**	**-**	**(401,352)**
Reclassification of assets for the right to use under IFRS 16	-	1,556	-	332	-	-	1,888
Adjusted opening balance at 01/01/19	**(108,976)**	**(240,728)**	**(2,508)**	**(19,854)**	**(27,398)**	**-**	**(399,464)**
Additions	(9,764)	(14,663)	(6,511)	(3,204)	(3,416)	-	(37,558)
Transfers	(334)	271	(4,272)	(98)	287	-	(4,146)
Disposals or reductions	4	1,577	2,424	281	156	-	4,442
Translation differences	(162)	(90)	(109)	(38)	(63)	-	(462)
Accumulated depreciation at 31/12/19	**(119,232)**	**(253,633)**	**(10,976)**	**(22,913)**	**(30,434)**	**-**	**(437,188)**
Impairment at 31/12/18	**(6,205)**	**(4,142)**	**-**	**(423)**	**(13)**	**-**	**(10,783)**
Recognised in 2019	-	-	-	(272)	(155)	-	(427)
Transfers	-	-	-	-	(342)	-	(342)
Disposals or reductions	-	1,107	-	-	-	-	1,107
Translation differences	-	-	-	-	(5)	-	(5)
Impairment at 31/12/19	**(6,205)**	**(3,035)**	**-**	**(695)**	**(515)**	**-**	**(10,450)**
Net balance at 31/12/19	**236,966**	**79,103**	**29,444**	**14,123**	**13,144**	**9,356**	**382,136**

In 2020 the most significant investments were aimed at modernising and expanding the production areas related to the manufacture of railway vehicles and buses at the Beasain and Zaragoza plants and the plants in Poland, respectively. Mention must also be made of the electrification and equipping of the test track in Corella (Spain) and the completion of the production building at the Bagneres de Bigorre plant in France. The purpose of the most significant investments made in 2019 was to improve the Group's production capacity, the most notable of these investments being those relating to the new finishing warehouse in France, the investments at the Solaris production plants in Poland to adapt the facilities to the increased bus production and the production improvements at the Mexico plant.

At 2020 year-end and 2019 year-end, "Transport Equipment (Leasing)" included buses leased under operating leases (as indicated in Note 3-f) for a carrying amount of EUR 20,660 thousand (2019: EUR 29,444 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 2020, the Group had firm capital expenditure commitments amounting to approximately EUR 2,542 thousand, mainly related to the adaptation of certain facilities and purchase of machinery located mainly in Spain and Poland (31 December 2019: EUR 7,805 thousand mainly in Poland).

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2020 and 2019, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2020, the gross cost of fully depreciated assets in use amounted to approximately EUR 310,476 thousand (31 December 2019: EUR 327,569 thousand).

The losses recognised on property, plant and equipment disposals in 2020 amounted to approximately EUR 190 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 (2019: losses of EUR 300 thousand). In 2020 the Group sold items of property, plant and equipment amounting to EUR 1,273 thousand (2019: EUR 319 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 2020, the net amount of the grants received not yet allocated to profit or loss totalled EUR 2,577 thousand (31 December 2019: EUR 2,832 thousand). EUR 200 thousand were allocated to profit or loss in this connection in 2020 (2019: EUR 211 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated statement of profit or loss.

In 2020 the measurement of all the assets and liabilities of the subsidiary Trenes de Navarra, S.A.U. was reviewed with the assistance of an independent expert and no need to recognised additional write-downs in the consolidated financial statements for 2020 was identified.

The directors consider that there were no indications of impairment of the Group's assets at 31 December 2020 other than those described in this Note.

b) Right-of-use assets

The detail of and changes in "Right-of-Use Assets" in 2020 were as follows:

	Thousands of euros				
	Land and buildings	**Plant and machinery**	**Other fixtures, tools and furniture**	**Other items of property, plant and equipment**	**Total**
Cost at 31/12/19	**51,946**	**28,498**	**7,827**	**1,093**	**89,364**
Changes in the scope of consolidation (Note 2-f)	386	-	-	-	386
Additions	4,785	6,179	2,272	285	13,521
Transfers	-	(131)	(2,004)	-	(2,135)
Disposals or reductions	(2,120)	(8,635)	(826)	(37)	(11,618)
Translation differences	(1,281)	890	(274)	(55)	(720)
Cost at 31/12/20	**53,716**	**26,801**	**6,995**	**1,286**	**88,798**
Accumulated depreciation at 31/12/19	**(9,593)**	**(8,529)**	**(3,681)**	**(434)**	**(22,237)**
Additions	(9,788)	(8,982)	(2,228)	(444)	(21,442)
Transfers	4	599	2,037	-	2,640
Disposals or reductions	769	5,719	683	21	7,192
Translation differences	346	(319)	79	30	136
Accumulated depreciation at 31/12/20	**(18,262)**	**(11,512)**	**(3,110)**	**(827)**	**(33,711)**
Net balance at 31/12/19	**42,353**	**19,969**	**4,146**	**659**	**67,127**
Net balance at 31/12/20	**35,454**	**15,289**	**3,885**	**459**	**55,087**

The detail of and changes in "Right-of-Use Assets" in 2019 were as follows:

	Thousands of euros				
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other items of property, plant and equipment	Total
Cost at 31/12/18	**-**	**-**	**-**	**-**	**-**
Initial application of IFRS 16	44,716	3,805	3,049	949	52,519
Reclassification of finance leases under IFRS 16	-	1,896	1,221	-	3,117
Adjusted beginning balance at 01/01/19	**44,716**	**5,701**	**4,270**	**949**	**55,636**
Changes in the scope of consolidation (Note 2-f)	-	24,091	2,059	-	26,150
Additions	5,922	194	1,574	137	7,827
Transfers	1,061	(529)	48	-	580
Disposals or reductions	(18)	(1,027)	(154)	(5)	(1,204)
Translation differences	265	68	30	12	375
Cost at 31/12/19	**51,946**	**28,498**	**7,827**	**1,093**	**89,364**
Accumulated depreciation at 31/12/18	**-**	**-**	**-**	**-**	**-**
Reclassification of finance leases under IFRS 16	-	(1,556)	(332)	-	(1,888)
Adjusted beginning balances at 01/01/19	**-**	**(1,556)**	**(332)**	**-**	**(1,888)**
Changes in the scope of consolidation (Note 2-f)	-	(4,180)	(1,837)	-	(6,017)
Additions	(9,543)	(4,814)	(1,807)	(427)	(16,591)
Transfers	-	1,426	201	-	1,627
Disposals or reductions	4	615	107	-	726
Translation differences	(54)	(20)	(13)	(7)	(94)
Accumulated depreciation at 31/12/19	**(9,593)**	**(8,529)**	**(3,681)**	**(434)**	**(22,237)**
Net balance at 31/12/18	**-**	**-**	**-**	**-**	**-**
Net balance at 31/12/19	**42,353**	**19,969**	**4,146**	**659**	**67,127**

The Group leases various assets, including land, buildings, transport equipment and machinery. The average lease term is not an indicative figure, since there is a significant dispersion between the term of land and building leases and that of other leased assets. Generally, lease terms were taken to be the minimum non-cancellable lease term, applying a specific rate to each lease.

The Group availed itself of the exemptions available for short-term leases, recognising the accrued expense under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Group has no significant leases with variable lease payments.

In 2020 the main additions relate to the lease of plant and machinery, mainly from Euromaint (see Note 2-f). Also, there were no transactions relating to subleases to non-Group third parties and no sale & leaseback agreements.

In 2020 a loss of EUR 1,038 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 as a result of the derecognition of right-of-use assets.

The total amount of lease-related cash outflows in 2020 was EUR 24,308 thousand (31 December 2019: EUR 15,794 thousand).

Amounts recognised in profit or loss

	Thousands of euros	
	2020	**2019**
Depreciation of the right-of-use assets	21,442	16,591
Interest expense on the financial liability	3,114	3,017
Short-term or low-value asset lease expense	6,427	6,380

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 2020 and 2019 in "Investments Accounted for Using the Equity Method" in the accompanying consolidated balance sheet were as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Beginning balance	**7,807**	**18,188**
Amounts charged to profit or loss	(4,179)	(1,949)
Hedges (Notes 17 and 20)	(1,528)	(7,321)
Additions	-	196
Disposals	(2,704)	(1,362)
Translations differences	(225)	55
Ending balance	**(829)**	**7,807**
Registered on the asset	7,370	7,807
Registered in liabilities (Notes 20 and 26)	(8,199)	-

In 2020 the investee Orbital Sistemas Aeroespaciales, S.L. distributed dividends of EUR 190 thousand.

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

2020

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
Plan Metro, S.A. (2)	259,907	8,053	288,184	35,241	(49,099)	-	58,250	4,451	-
Consorcio Traza, S.A. (3)	205,253	19,669	234,612	5,797	(9,654)	(5,833)	20,053	(27,996)	1,281
Ferrocarriles Suburbanos, S.A.P.I. de C.V	52,447	20,302	109,938	21,621	(58,810)	-	23,123	(59,086)	276
Arabia One for Clean Energy Invest. PSC.	16,671	2,598	15,156	328	3,785	-	2,956	315	(332)
Orbital Sistemas Aeroespaciales, S.L.	18,697	3,974	3,603	732	18,336	-	4,875	(947)	-
Momentum Trains Holding Pty Ltd	168,207	4,540	146,032	58,867	(32,152)	-	44,443	5,808	(7,064)
TransJerusalem J-NET Ltd.	34,300	71,303	79,298	26,872	(567)	-	49,417	(566)	(1)

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Plan Metro, S.A. (2)	(49,099)	40	(19,640)	-	-
Consorcio Traza, S.A. (3)	(9,654)	25	(2,414)	-	(4,585)
Ferrocarriles Suburbanos, S.A.P.I. de C.V	(58,810)	43.35	(25,494)	-	-
Arabia One for Clean Energy Investments PSC.	3,785	40	1,514	1,514	126
Orbital Sistemas Aeroespaciales, S.L.	18,336	30	5,501	5,501	(284)
Momentum Trains Holding Pty Ltd	(32,152)	25.50	(8,199)	(8,199)	1,481
TransJerusalem J-NET Ltd.	(567)	50	(284)	(284)	(283)
Other investments (4)	-	-	639	639	(634)
			(48,377)	**(829)**	**(4,179)**

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).
(2) This company's shares are pledged to certain banks.
(3) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
(4) Dormant companies or companies with no significant activity.

During 2020 Consorcio Traza, S.A. has recorded significant losses as a result of uncertainties in relation to compliance with the company's financial model owing to the fall in passenger numbers due to COVID-19.

2019

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.	5,238	2,871	653	979	6,477	-	3,516	(2,550)	-
Plan Metro, S.A. (2)	286,343	8,031	314,976	32,948	(53,550)	-	57,202	2,697	-
Consorcio Traza, S.A. (3)	216,220	42,286	231,752	8,559	17,061	1,134	25,309	(2,975)	1,281
Ferrocarriles Suburbanos, S.A.P.I. de C.V.	101,122	76,183	122,388	54,917	-	-	47,628	-	-
Arabia One for Clean Energy Invest. PSC.	19,327	2,468	17,091	902	3,802	-	3.098	43	71
Orbital Sistemas Aeroespaciales, S.L.	19,420	4,201	3,449	525	19,647	-	4,950	1,330	-
Momentum Trains Holding Pty Ltd	105,252	1,375	104,650	32,873	(30,896)	-	95,027	(919)	(29,967)

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.	6,477	50	3,238	3,238	(1,275)
Plan Metro, S.A. (2)	(53,550)	40	(21,420)	-	-
Consorcio Traza, S.A. (3)	17,061	25	4,265	4,265	(744)
Ferrocarriles Suburbanos, S.A.P.I. de C.V.	-	43.35	-	-	-
Arabia One for Clean Energy Investments PSC.	3,802	40	1,521	1,521	17
Orbital Sistemas Aeroespaciales, S.L.	19,647	30	5,894	5.894	399
Momentum Trains Holding Pty Ltd	(30,896)	25.50	(7,878)	(7,878)	(234)
Other investments (4)	-	-	767	767	(112)
			(13,613)	**7,807**	**(1,949)**

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).
(2) This company's shares are pledged to certain banks.
(3) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
(4) 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 2020, the unrecognised losses exceeding the cost of the investment amounted to EUR 39,715 thousand (31 December 2019: EUR 13,011 thousand).

In 2019 the Group entered into the shareholder structure of Momentum Trains Holding Pty Ltd with an ownership interest of 25.50%. The shareholders agreement provides for the future contribution of AUD 28 million in 2024, in proportion to the Group's stake in the aforementioned associate (see Note 26).

In addition, the Company has a 50% interest in TransJerusalem J-Net Ltd. recently incorporated, and there is a commitment to make a future contribution, as a capital contribution or subordinated loan, to be made in 2027 for approximately EUR 19 million, which is guaranteed by financial institutions (Note 26). Part of this contribution will be made in Israeli sekels and is hedged against the exchange rate exposure at year-end (Note 17).

b) Non-current financial assets

The detail of "Non-Current Financial Assets" in the accompanying consolidated balance sheet is as follows:

	Thousands of euros			
	31/12/20		31/12/19	
	% of ownership	Amount	% of ownership	Amount
Equity instruments				
Alquiler de Trenes, A.I.E	5%	3,150	5%	3,885
Ferromovil 3000, S,L.	10%	11,562	10%	11,152
Plan Azul 07, S.L.	5.20%	3,571	5.20%	3,273
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	5,590	15%	5,012
Iniciativa FIK, A.I.E.	14.18%	751	14.18%	776
Albali Señalización, S.A.	3%	558	3%	561
Other		46		252
Total equity instruments		**25,228**		**24,911**
Other financial assets				
Amortised cost				
Guarantees and other financial assets		11,934		16,663
Loans to employees		3,753		3,908
Non-current tax receivables (Note 19)		28,244		41,295
Non-current trade and other receivables		338,104		435,044
Loans to associates (Note 10)		30,605		28,753
		412,640		**525,663**
Provisions				
Provision for tax payables (Note 19)		(6,462)		(9,237)
Impairment losses		(2,338)		(3,034)
		(8,800)		**(12,271)**
Total Other financial assets		**403,840**		**513,392**
Total		**429,068**		**538,303**

The changes in the non-current financial assets in 2020 and 2019 were as follows:

	Thousands of euros			
	Equity instruments	Other financial assets		
		Amortised cost	Provisions	Total
Balance at 31/12/18	**22,834**	**529,303**	**(15,076)**	**537,061**
Changes in the scope of consolidation	-	757	-	757
Changes in fair value with a charge to reserves	2,248	-	-	2,248
Translation differences	2	(247)	161	(84)
Additions	-	106,704	-	106,704
Charges to profit or loss for the year	-	-	2,644	2,644
Transfers (Note 3-m)	-	(109,247)	-	(109,247)
Disposals or reductions	(173)	(1,607)	-	(1,780)
Balance at 31/12/19	**24,911**	**525,663**	**(12,271)**	**538,303**
Changes in the scope of consolidation	-	31	-	31
Changes in fair value with a charge to reserves	535	-	-	535
Translation differences	(2)	(95,021)	3,378	(91,645)
Additions	-	112,522	-	112,522
Charges to profit or loss for the year	-	-	93	93
Transfers (Note 3-n)	-	(119,560)	-	(119,560)
Disposals or reductions	(216)	(10,995)	-	(11,211)
Balance at 31/12/20	**25,228**	**412,640**	**(8,800)**	**429,068**

c) Other financial assets

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

2020

	2022	2023	2024	2025 and subsequent years	Total
Assets at amortised cost	103,169	108,112	92,097	100,462	403,840
Total	**103,169**	**108,112**	**92,097**	**100,462**	**403,840**

2019

	2021	2022	2023	2024 and subsequent years	Total
Assets at amortised cost	138,841	125,665	126,799	122,087	513,392
Total	**138,841**	**125,665**	**126,799**	**122,087**	**513,392**

Guarentees and other financial assets

These guarantees are related mainly to the borrowings taken by the subsidiary Ctrens Companhia Manutençao, S.A. (Note 16) amounting to EUR 8,496 thousand (31 December 2019: EUR 12,179 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 2020, the Group recognised EUR 28,244 thousand under "Non-Current Financial Assets – Other Financial Assets" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2019: EUR 41,295 thousand). This amount decreased by EUR 11,947 thousand in 2020 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 2020, the Group had recognised impairment losses of EUR 6,462 thousand (31 December 2019: EUR 9,237 thousand) to adjust the face value of these receivables to their recoverable amount, with a reversal of EUR 89 thousand in 2020 (2019: a reversal of EUR 2,814 thousand) recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was a reduction in the impairment losses of EUR 2,686 thousand in 2020.

Non-current trade and other receivables

The detail of "Non-Current Trade Receivables and Loans" at 31 December 2020 and 2019 is as follows (in thousands of euros):

	31/12/20	31/12/19
Concessions - Financial asset model	313,887	413,057
Other non-current trade receivables and loans	24,217	21,987
Total	**338,104**	**435,044**

Concessions – Financial asset

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 20.5 million at 31 December 2020 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 2020, this guarantee amounted to BRL 41,959 thousand (EUR 6,583 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 Federal Participation Surpluses (Federal District Government payment risk). In 2020 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.

– 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 2020 the Group recognised balances of EUR 313,887 thousand under "Non-Current Financial Assets – Other financial assets" (31 December 2019: EUR 413,057 thousand) and EUR 89,559 thousand under "Trade and Other Receivables – Other Receivables" (31 December 2019: EUR 112,084 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2020 or 2019.

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.

Other non-current trade receivables and loans

In 2020 and 2019, long-term collection schedules were established with customers in the Buses segment, and an amount of EUR 21,544 thousand was recognised in this connection under this heading in the accompanying consolidated balance sheet (31 December 2019: EUR 14,159 thousand). These loans earn interest at market rates and are amortised on a straight-line basis over a period of between two and ten years.

This balance also includes an account receivable amounting to EUR 1,149 thousand at long term (31 December 2019: EUR 2,507 thousand) and EUR 1,498 thousand at short term (31 December 2019: EUR 1,407 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.

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					
	2020			2019		
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.	-	-	-	19	2,065	-
Plan Metro, S.A.	12,972	-	2,148	13,330	4	1,998
Ferrocarriles Suburbanos, S.A. de C.V.	12,172	19	-	12,660	31	-
Ferrocarril Interurbano, S.A. de C.V.	12,450	-	-	14,024	-	-
Momentum Trains Holding, Pty. Ltd.	107,958	-	-	34,506	-	-
TransJerusalem J-Net Ltd.	20,591	-	-	-	-	-
Great River City Light Rail Pty. Ltd.	53,304	-	-	42,634	-	-
Other	-	150	35	3,356	285	44
Total	**219,447**	**169**	**2.183**	**120,529**	**2,385**	**2,042**

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 2020, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2020 and 2019 were as follows:

	Thousands of euros							
	31/12/20				31/12/19			
Company	**Accounts receivable/ Short-term loans**	**Accounts payable**	**Contract assets and liabilities**	**Long-term loans (Note 9-b)**	**Accounts receivable/ Short-term loans**	**Accounts payable**	**Contract assets and liabilities**	**Long-term loans (Note 9-c)**
Nuevas Estrategias de Mantenimiento, S.L. (Nota 2 .f)	-	-	-	-	54	370	-	-
Plan Metro, S.A.	-	-	(1,221)	30,006	456	-	(1,238)	27,858
Ferrocarriles Suburbanos, S.A.P.I. de C.V.	1,793	23	(224)	-	947	6	(53)	-
Ferrocarril Interurbano, S.A. de C.V.	6,234	27	(20,669)	-	-	-	(31,427)	-
Momentum Trains Holding Pty. Ltd.	92	1	(38,244)	-	-	1	42,361	-
TransJerusalem J-Net Ltd.	103	-	54,007	-	-	-	-	-
Great River City Light Rail Pty. Ltd.	-	-	(35,508)	-	-	-	2,643	-
Other	8	-	-	599	-	129	-	895
Total	**8,230**	**51**	**(41,859)**	**30,605**	**1,457**	**506**	**12,286**	**28,753**

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 2,148 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 (2019: EUR 1,998 thousand).

11. INVENTORIES

The detail of "Inventories" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 22)	406,795	450,973
Advances to suppliers	74,874	36,860
Total	**481,669**	**487,833**

At 2020 year-end the Group had recognised write-downs totalling EUR 34,448 thousand (31 December 2019: EUR 32,660 thousand).

At 31 December 2020, the Group had firm raw materials purchase commitments amounting to approximately EUR 720,611 thousand (31 December 2019: EUR 748,373 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2020 and 2019, 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 2020 and 2019 is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Trade receivables - in euros	854,211	806,897
Trade receivables - in foreign currency	522,711	584,627
Write-downs	(19,786)	(19,130)
Total	**1,357,136**	**1,372,394**

The detail of this heading, by trade receivables and contract assets, is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Contract assets (Note 3-g)	813,859	812,742
Customers billed	563,063	578,782
Write-downs	(19,786)	(19,130)
Total	**1,357,136**	**1,372,394**

Contract assets and liabilities

The detail of contract assets and liabilities is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Current contract assets (Note 3-g)	813,859	812,742
Current contract liabilities (Note 3-g)	(807,549)	(852,532)
Non-current contract liabilities (Note 21)	(65,394)	(51,059)
Net balance	**(59,084)**	**(90,849)**

EUR 612,769 thousand of "Current Contract Liabilities" at 31 December 2019 were recognised as revenue in 2020 (2019: EUR 400,707 thousand). 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). 32% of that amount is expected to be recognised under "Revenue" in 2021, 25% in 2022 and the remainder in 2023 and subsequent years.

The provisions for third-party liabilities reducing "Contract Assets" amounted to EUR 56,992 thousand at 31 December 2020 (31 December 2019: EUR 53,865 thousand).

Customers billed

The amount of customers billed is recognised net of provisions for third-party liability. The provisions for third-party liability reducing the balance of customers billed at 31 December 2020 amounted to EUR 76,746 thousand (31 December 2019: EUR 83,080 thousand).

At 31 December 2020, the Group recognised EUR 39,764 thousand corresponding to billed and unbilled balances receivable for contracts already executed that have not yet been collected after obtaining arbitration awards favourable to the Group and with subsequent favourable judgments.

At 31 December 2020, 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 2020, 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 as 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 2020 and 2019, 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 2020, 27% of the billed receivables related to the top five customers (31 December 2019: 39%). "Trade Receivables" includes retentions at 31 December 2020 amounting to EUR 6,611 thousand (31 December 2019: EUR 6,144 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2020 and 2019 in addition to the past-due balances with Metro de Caracas are as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Past due > 90 days	15,174	71,377
Past due > 180 days	133,654	134,267
Total	**148,828**	**205,644**

Approximately 43% of this balance is concentrated in three countries and six agreements in relation to which the Group is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

At 31 December 2020, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to a fleet construction and supply contract in Brazil, net of advances received, amounted to EUR 8.9 million (31 December 2019: EUR 13.1 million), without taking into account the impairment losses or the provisions recognised, which cover the entire amount. (Note 26).

Write-downs

The changes in write-downs in 2020 and 2019 were as follows:

2020

	Thousands of euros
Balance at 31/12/19 (Note 2-f)	**19,130**
Translation differences	(2,059)
Amount used	(1,936)
Provisions reversed with a credit to "Other Operating Expenses"	4,393
Reclassifications	258
Balance at 31/12/20	**19,786**

2019

	Thousands of euros
Balance at 31/12/18	**16,372**
Changes in the scope of consolidation (Note 2-f)	345
Translation differences	21
Amount used	(22)
Provisions reversed with a credit to "Other Operating Expenses"	2,164
Reclassifications	250
Balance at 31/12/19	**19,130**

13. OTHER CURRENT FINANCIAL ASSETS

The detail of "Other Current Financial Assets" at 31 December 2020 and 2019 is as follows:

2020

	Thousands of euros		
Financial assets: type/category	**At Amortised Cost**	**At Fair Value through Profit or Loss**	**Total**
Other financial assets	40,903	61,097	102,000
Short-term/current	**40,903**	**61,097**	**102,000**

2019

	Thousands of euros		
Financial assets: type/category	**At Amortised Cost**	**At Fair Value through Profit or Loss**	**Total**
Other financial assets	34,587	60,564	95,151
Short-term/current	**34,587**	**60,564**	**95,151**

"Financial Assets at Amortised Cost" includes, mainly, 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 2020 and 2019 the Group recognised income in this connection and in relation to the cash surpluses amounting to EUR 2,585 thousand (2019: EUR 6,703 thousand).

14. EQUITY

a) Share capital of the Parent

At both 31 December 2020 and 2019, 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 2020 and 2019 were as follows:

	% 2020	% 2019
Cartera Social, S.A. (1)	24.56%	24.87%
Kutxabank, S.A. (2)	14.06%	14.06%
Indumenta Pueri S.L.(3)	5.02%	5.02%
Daniel Bravo Andreu (4)	5.00%	-
Norges Bank	3.26%	-
EDM Gestión, S.A. S.G.I.I.C. (5)	-	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) Daniel Bravo Andreu's ownership interest is indirect; the direct holder is Danimar 1990, S.L.
(5) EDM Gestión, S.A. S.G.I.I.C was the indirect holder. It controls the voting rights of different companies of the Group.

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.

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.

Lastly, the Annual General Meeting held on 13 June 2020 resolved to empower the Board of Directors to acquire treasury shares for a period of five years from that date. This authorisation rendered null and void the authorisation granted in a resolution adopted by the shareholders at the Annual General Meeting held on 13 June 2015. At the date of preparation of these consolidated financial statements, no treasury shares had been acquired since that resolution.

b) Share premium

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

c) Revaluation reserve

The amount held in this reserve in 2020 and 2019 is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Gipuzkoa Regulation 11/1996	8,701	8,701
Total	**39,119**	**39,119**

Revaluation reserve Gipuzkoa 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 Gipuzkoa 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 2020 and 2019 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 92,983 thousand at 31 December 2020 (31 December 2019: approximately EUR 91,601 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Gipuzkoa 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 2020 year-end EUR 66,774 thousand of the reserves were restricted as to their use (2019 year-end: EUR 70,642 thousand).

f) Dividends of the Parent

The Annual General Meeting held on 13 June 2020 resolved to pay dividends amounting to EUR 28,864 thousand, of which EUR 1,950 thousand related to profit for 2019, and EUR 26,914 thousand were distributed with a charge to voluntary reserves. At 31 December 2020, the Parent recognised these amounts net of withholding tax under "Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated balance sheet. This amount was paid in January 2021 (see Note 15).

The Annual General Meeting held on 15 June 2019 resolved to pay dividends amounting to EUR 26,225 thousand, of which EUR 4,285 thousand related to profit for 2018 and EUR 21,940 thousand were distributed with a charge to voluntary reserves.

g) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
CAF México, S.A. de C.V.	(2,643)	(1,532)
CAF Brasil Indústria e Comércio, S.A.	(57,831)	(45,093)
Construcciones y Auxiliar de Ferrocarriles Argentina, S.A.	(3,073)	(2,946)
CAF USA, Inc.	(3,702)	1,632
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(3,506)	(1,579)
CAFTurk Tren Sanayí Ve Tícaret Límíted Sírketí	(2,159)	(1,672)
CAF Argelia (EURL)	(942)	(498)
CAF India Private Limited	(1,889)	(1,008)
Ctrens Companhia de Manutençao, S.A.	(125,084)	(89,140)
Provetren, S.A. de C.V.	1,207	1,897
Solaris Bus & Coach, sp z.o.o.	(14,269)	2,324
CAF Group UK Limited	(2,313)	(230)
Euromaint Gruppen AB	4,339	1,474
Euromaint Rail AB	(853)	(47)
Other companies	1,187	1,736
Total	**(211,531)**	**(134,682)**

h) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes there in 2020 and 2019 is as follows:

	Thousands of euros
Balance at 31 December 2018	**5,555**
Profit attributable to non-controlling interests	345
Business combination	73
Transactions with non-controlling shareholders	7,484
Dividends	(1,327)
Balance at 31 December 2019	**12,130**
Profit attributable to non-controlling interests	1,241
Business combination	(423)
Transactions with non-controlling shareholders	(893)
Dividends	(821)
Saldo al 31 de diciembre de 2020	**11,234**

i) 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 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.

At 31 December 2020 and 2019, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (Note 9-c) and Solaris (Note 16). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of euros	
	31/12/20	**31/12/19**
Net financial debt:		
Interest-bearing refundable advances and deferrals with public entities (Notes 15 and 19)	15,250	11,363
Bank borrowings - Non-current liabilities (Note 16)	808,849	868,072
Bank borrowings and debt instruments – Current liabilities (Note 16)	170,760	199,979
Financial assets - Non-current assets (Note 9-c)	(8,432)	(12,144)
Current financial assets (Note 13)	(101,636)	(94,709)
Cash and cash equivalents	(573,928)	(538,983)
	310,863	**433,578**
Equity:		
Attributable to the Parent	632,969	733,237
Non-controlling interests	11,234	12,130
	644,203	**745,367**

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

The detail of the Group's financial liabilities at 31 December 2020 and 2019, by type and category for measurement purposes, is as follows:

	Thousands of euros			
	31/12/20		**31/12/19**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Refundable advances	31,458	11,111	33,151	10,002
Employee benefit obligations (Note 23)	2,847	-	3,153	-
Share purchase liabilities	4,184	3,804	4,591	7,519
Payable to non-current asset suppliers (Note 8)	-	3,976	-	7,594
Obligations under finance leases (Note 8-b)	39,114	17,882	49,024	18,939
Dividend payable (Note 14-f)	-	25,616	-	-
Other liabilities	1,012	123	873	90
Total	**78,615**	**62,512**	**90,792**	**44,144**

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

	2020
2022	20,153
2023	20,610
2024	9,700
2025	6,286
2026 and subsequent years	21,866
Total	**78,615**

	2019
2021	28,970
2022	18,070
2023	14,668
2024	8,176
2025 and subsequent years	20,908
Total	**90,792**

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 2020 and 2019 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/18	**32,929**
Additions	8,293
Adjustments and other	331
Translation differences	3
Transfers to short term	(8,405)
Balance at 31/12/19	**33,151**
Changes in the scope of consolidation (Note 2-f)	150
Additions	10,846
Adjustments and other	(205)
Translation differences	(59)
Transfers to short term	(12,425)
Balance at 31/12/20	**31,458**

Employee benefit obligations

At 31 December 2020, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR 2,847 thousand and EUR 2,649 thousand, respectively (31 December 2019: EUR 3,153 thousand and EUR 2,712 thousand, respectively), related to the present value estimated by the Parent's directors of the future payments to be made to employees who, at December 2020 with whom hand-over contracts had been entered into. The net provision for 2020 was recognised with a charge of EUR 2,745 thousand (2019: EUR 3,050 thousand) to "Staff Costs" in the accompanying consolidated statement of profit or loss (see Note 23).

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 2020 and 2019, is as follows (Note 3-j):

	Thousands of euros	
	31/12/20	**31/12/19**
Present value of the obligations assumed	59,430	51,374
Less – Fair value of plan assets	(58,989)	(50,882)
Other current (assets) liabilities, net	**441**	**492**

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	2020	2019
Discount rate	0.72%-0.73%	0.99%-1.05%
Mortality tables	PERM/F/2000P	PERM/F/2000P
Annual salary or pension increase rate	1-2%	1-2%
Retirement age	65-67	65-67

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

Share purchase liabilities

"Share Purchase Liabilities" includes the amounts foreseeably payable for the cross call options to acquire the remaining share capital of BWB Holdings Limited (26% of the remaining share capital) and the put options granted to the non-controlling interest of Lander Simulation and Training Solutions, S.A (23,87% of the remaining share capital). The strike price of these transactions varies, depending on the certain financial parameters of both companies on the date the options are exercised.

In 2020 the minority shareholders exercised the related put options on 12% of the share capital of Lander Simulation and Training Solutions, S.A. and on 25% of the remaining share capital of Rifer, SRL, giving rise to a payment of EUR 2,684 thousand (see Note 2-f). Also, in 2020 payment was made of EUR 1,125 thousand for the 7.06% of the share capital of Lander Simulation and Training Solutions, S.A. acquired in 2019.

The put options on the rest of the share capital of Lander Simulation and Training Solutions, S.A. are exercisable until 2021. The initial price established in the options is based on the appraisal conducted by an independent expert.

Obligations under finance leases

In 2020 "Obligations under Finance Leases" includes all the assets the Group holds as a lessee (see Note 8-b).

The detail, by maturity in the coming years, of obligations under finance leases is as follows (in thousands of euros):

	2020		2019
2022	12,154	2021	15,590
2023	10,312	2022	10,956
2024	4,912	2023	9,440
2025	2,499	2024	3,823
2026 and subsequent years	9,237	2025 and subsequent years	9,215
Total	**39,114**	**Total**	**49,024**

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					
			31/12/20			31/12/19	
	Nominal currency	Non-current	Current	Total	Non-current	Current	Total
Loans and credit accounts							
Ctrens – BNDES	BRL	70,604	13,698	84,302	107,159	15,826	122,985
Provetren - Banking syndicate	USD	38,076	18,898	56,974	61,976	16,371	78,347
Parent (CAF, S.A.)	EUR	600,630	29,532	630,162	585,658	9,631	595,289
CAF Investment Projects, S.A.U.	EUR	19,901	-	19,901	19,866	-	19,866
Solaris Group	PLN/EUR	79,053	85,251	164,304	92,710	75,459	168,169
Actren Mantenimiento Ferroviario, S.A.	EUR	-	8,979	8,979	-	-	-
Other Group companies	EUR	585	2,359	2,944	703	223	926
		808,849	**158,717**	**967,566**	**868,072**	**117,510**	**985,582**
Debt instruments or other marketable securities							
Commercial paper issue	EUR	-	10,000	10,000	-	80,000	80,000
Accrued interest payable		-	2,043	2,043	-	2,469	2,469
Total		**808,849**	**170,760**	**979,609**	**868,072**	**199,979**	**1,068,051**

In 2020 the changes in "Bank borrowigs and debt instruments or other marketable securities" were as follows:

	Thousands of euros
Balance at 31 December 2019	**1,065,582**
Cash flows	
New drawdowns	472,084
Maturity payments	(515,919)
	(43,835)
Other changes (without cash flows)	
Translation differences	(51,526)
Amortised cost adjustments and other	7,345
	(44,181)
Balance at 31 December 2020	**977,566**

In addition, at 31 December 2020 the suppliers the Group had drawn down EUR 38,166 thousand against non-recurse reverse factoring lines.

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. In 2020, in a similar manner to the agreement with CPTM to extend the payment period, in June 2020 Ctrens requested the COVID-19 debt standstill offered by BNDES, which was accepted in July 2020, thus suspending the

repayment of the borrowings and the interest payments in the period from July to December 2020. The payments restarted as normal in January 2021, with no change to the final financing period.

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 2020 and 2019.

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 Indústira e Comércio, S.A.

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 it is habitual in financing of this kind, Provetren entered into an interest rate hedge agreement for 80% of the financing and 80% of the term (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 2020 and 2019.

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 2020 the Parent drew down two loans arranged in 2019 for an amount of EUR 45 million, and arranged four additional loans with financial institutions for an amount of EUR 105 million, which have been fully drawn down as of December 31, 2020.

In addition, in 2020 the Parent repaid EUR 50.6 million on maturity and four loans for EUR 70 million early.

On the other hand, during the year 2020, the Parent Company has negotiated new conditions for an existing loan amounting to 70 million euros, both in terms of financial cost and extension of maturity from one year to an average life of 4.7 years.

Solaris

On October 28, 2016, Solaris Bus & Coach, sp. z.o.o. (Solaris) entered into financing facilities with a consortium of Polish banks. Such financing comprises at year-end 2020 a tranche in loan format for PLN 250 million (EUR 55 million) drawn down by PLN 248 million as of December 31, 2020 and a tranche in credit line format for PLN 250 million (EUR 55 million),

of which nothing was drawn down as of December 31, 2020. Both tranches had an initial maturity in October 2021, with the same having been extended during 2020 until December 2024.

In addition to the foregoing, Solaris has a current payable amounting to PLN 340 million (EUR 75 million) relating to discounted drafts, which accrue interest at market rates.

All of the above loan accrues interest at market rates and subject to compliance with a series of financial covenants, which include maintaining a debt/equity ratio lower than 3 (or 4.5 if recourse factoring is taken into account in the debt-equity ratio), a debt service coverage ratio equal to or higher than 1.5, an equity-to-asset ratio equal to or higher than 12%, positive equity and a maximum investment amount. These conditions were met at 31 December 2020.

In addition, Solaris Bus & Coach, sp. z.o.o. has contracted a new loan with financial institutions in the amount of PLN 100 million (EUR 22 million at the closing exchange rate) with a single two-year maturity in 2020. This loan is fully drawn down as of December 31, 2020.

The entire financing package is secured in full mainly by guarantees on its assets and receivables (property, plant and equipment, trademarks, current accounts and accounts receivable, among others) delivered by Solaris to the banks.

Lastly, there is a limit in current payable amounting to EUR 10 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, sp. z.o.o.

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 2020 and 2019, 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. The programme was extended for a period of 12 months in December 2019 increasing the aggregate maximum principal amount to EUR 250 million, not having been renewed in December 2020. In 2020 EUR 162.7 million have been issued with a charge to this programme, which were repaid on maturity. Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF was able to issue ordinary fixed-income securities with a maturity of less than 364 days, which could be listed on the regulated market of the Irish Stock Exchange, or on any other stock exchange or trading system. At 31 December 2020, EUR 10 million had not yet matured. This amount is related to issues maturing in the first few months of 2021 (31 December 2019: EUR 80 million).

To replace the programme registered with the Irish Stock Exchange, since it was not renewed in December 2020, the Parent, in accordance with the approval given by the Board of Directors on 17 December 2020, formalised the commercial paper issue programme (Commercial Paper Programme CAF 2020) for an aggregate maximum principal amount of EUR 250 million, which was listed on the Spanish Alternative Fixed-Income Market ("MARF") on 21 December 2020. The Programme will enable the Parent, under the terms and conditions established in the Programme's Information Memorandum and for a period of 12 months, to issue commercial paper with a maturity of less than 730 days, which will be listed on the MARF. At 2020 year-end, no issues had been made under this programme.

Undrawn credit facilities and maturities

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. To this end, 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 borrowings, the needs arising from investment plans, the expected level of customer advances and the evolution of working capital.

The Group's companies have undrawn credit facilities amounting to EUR 439,746 thousand (31 December 2019: 280,100 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):

	31.12.20
2022	181,147
2023	97,144
2024	188,421
2025	240,233
2026 and subsequent years	101,904
Total	**808,849**

	31.12.19
2021	213,457
2022	146,821
2023	89,107
2024	181,754
2025 and subsequent years	236,933
Total	**868,072**

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 and interest 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 2020 and 2019 is as follows:

2020

	Maturity (in currency)		
Currency put options at 31/12/20	**2021**	**2022**	**2023 and subsequent years**
Fair value hedges			
USD currency forwards (*)	377,986,634	1,817,804	-
GBP currency forwards	172,648,152	180,166,152	63,657,877
EUR currency forwards	21,724,206	-	-
BRL currency forwards	116,253,685	-	-
SEK currency forwards	673,370,602	113,046,807	208,762,058
AUD currency forwards	82,062,177	322,374,908	372,075,157
SAR currency forwards	88,292,442	-	-
MXN currency forwards	1,086,632,799	49,088,605	-
CAD currency forwards	1,056,000	-	-
TRY currency forwards	1,540,950	-	-
JPY currency forwards	13,767,210,625	-	-
NZD currency forwards	1,600,000	-	-
HKD currency forwards	-	92,696,630	-
HUF currency forwards	2,774,460,109	-	-

(*) 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 191,424 thousand.

Currency call options at 31/12/20	Maturity (in currency) 2021	2022	2023 and subsequent years
Fair value hedges			
USD currency forwards	15,153,788	28,553,760	-
EUR currency forwards	2,487,506	7,617,317	-
MXN currency forwards	700,878,878	-	-
JPY currency forwards	1,482,706,334	-	-
GBP currency forwards	137,586,127	899,259	-
AUD currency forwards (Note 9-a)	6,572,272	2,500,000	28,078,510
Cash flow hedges			
COP currency forwards	-	41,426,907,240	-
ILS currency forwards (Notes 9-a and 26)	21,798,566	20,000,000	-
JPY currency forwards	658,494,064	-	-

Interest rate derivatives	Loan maturity (in currency) 2021	2022	2023 and subsequent years
Euribor swap	-	-	25,000,000
LIBOR swap	USD 58,988,067	-	-

	Thousands of euros			
	Fair value		Cash flow	
	31/12/20	31/12/19	31/12/20	31/12/19
Hedges:				
USD currency forwards	4,246	(6,769)	-	-
GBP currency forwards	(3,219)	(4,845)	-	-
MXN currency forwards	(974)	(9,677)	-	-
BRL currency forwards	(1,183)	(2,005)	-	-
EUR currency forwards	(380)	(143)	-	-
SEK currency forwards	(4,690)	(1,009)	-	-
SAR currency forwards	1,903	2,621	-	-
TWD currency forwards		(460)	-	-
JPY currency forwards	2,953	2,702	(281)	901
AUD currency forwards	(4,643)	(3,369)	-	-
Currency forwards in other currencies	802	(140)	843	977
Forward rate agreements		-	(670)	(690)
Measurement at year-end (*)	**(5,185)**	**(23,094)**	**(108)**	**1,188**

(*) Before considering the related tax effect.

2019

Currency put options at 31/12/19	Maturity (in currency) 2020	2021	2022 and subsequent years
Fair value hedges			
USD currency forwards (*)	354,790,102	68,655,183	-
GBP currency forwards	264,369,800	54,448,371	243,824,029
EUR currency forwards	2,318,940	-	-
BRL currency forwards	70,870,207	-	-
SEK currency forwards	856,207,895	-	-
AUD currency forwards	16,842,010	45,922,439	645,802,427
TWD currency forwards	77,422,500	-	-
SAR currency forwards	81,139,390	-	-
MXN currency forwards	1,842,418,091	15,934,685	-
TRY currency forwards	2,410,882	-	-
JPY currency forwards	6,791,754,460	6,975,456,165	-
ARS currency forwards	122,000,000	-	-
NZD currency forwards	3,500,687	-	-
HUF currency forwards	215,790,000	-	-

(*) 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 199,782 thousand.

Currency call options at 31/12/19	Maturity (in currency) 2020	2021	2022 and subsequent years
Fair value hedges			
USD currency forwards	44,344,161	6,632,384	-
EUR currency forwards	39,289,240	-	-
BRL currency forwards	6,439,468	-	-
MXN currency forwards	1,021,333,911	-	-
JPY currency forwards	1,265,916,000	-	-
GBP currency forwards	110,208,756	39,792,125	-
AUD currency forwards	-	7,682,932	28,078,510
Cash flow hedges			
COP currency forwards	48,000,000,000	-	-
JPY currency forwards	1,759,692,274	-	-

Interest rate derivatives	Loan maturity (in currency) 2020	2021	2022 and subsequent years
Euribor swap	-	-	25,000,000
LIBOR swap	USD 16,150,923	USD 58,988,067	-

At 2020 and 2019 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 4,002 thousand at 31 December 2020, net of the related tax effect (31 December 2019: EUR 4,322 thousand). Also, the associate Momentum Trains Holding Pty Ltd (see Note 9-a) has arranged an interest rate swap. This derivative was designated as cash flow hedge, and the negative value thereof attributable to the Group amounted to EUR 9,491 thousand at 31 December 2020 (31 December 2019: EUR 7,642 thousand). These amounts were recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated balance sheet as at 31 December 2020.

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):

	2020	2019
Non-current assets	41,736	45,001
Current assets	15,589	40,010
Non-current liabilities	(42,547)	(45,777)
Current liabilities	(20,071)	(61,140)
Balance sheet net total	**(5,293)**	**(21,906)**
Fair value	(5,185)	(23,094)
Cash flow	(108)	1,188
Total derivatives, remeasured	**(5,293)**	**(21,906)**

In 2020 the ineffective portion of the hedging transactions charged to profit or loss resulted in an income of EUR 2,104 thousand (2019: expense of EUR 1,731 thousand) mainly as a result of changes in the estimated amounts of the hedged items.

Also, the settlement in the value of the fair value derivatives resulted in an expense of EUR 2,700 thousand in 2020 (2019: expense of EUR 34,456 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) or as net investment in foreign countries.

18. CURRENT AND DEFERRED TAXES

The Group calculated the provision for income tax at 31 December 2020 in accordance with the applicable tax legislation. 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 Gipuzkoa 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	
	2020	**2019**
Accounting profit before tax	**49,077**	**61,138**
Tax rate of the Parent	24%	24%
Income tax calculated at the tax rate of the Parent	**11,778**	**14,672**
Effect of the different tax rate of subsidiaries	3,216	2,602
Effect of exempt income and non-deductible expenses for tax purposes	6,079	24,630
Effect of tax credits and other tax relief recognised in the year	(2,990)	(5,162)
Effect of tax assets and deferred taxes not recognised in previous years	22,450	(2,312)
Adjustments recognised in the year relating to prior years' income tax	(1,794)	1,616
Change in tax rate	85	2
Total income tax expense recognised in the consolidated statement of profit or loss	**38,824**	**36,048**
Current tax expense (income) (*)	**48,018**	**37,577**
Deferred tax expense (income)	**(9,194)**	**(1,529)**

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

In 2013 the Parent availed itself of the tax incentive provided for in Article 39 of Gipuzkoa Income Tax Regulation 7/1996. At 31 December 2020, 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 Gipuzkoa 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.

	Thousands of euros					
	31/12/19	**Inclusions in the scope of consolidation**	**Additions regularizations and tax rate changes**	**Disposals**	**Translation differences**	**31/12/20**
Deferred tax assets:						
Tax credit and tax loss carryforwards (Note 3-k)	60,419	256	(876)	(3,995)	(29)	55,775
Provisions temporarily not deductible	78,052	-	23,039	(13,051)	(4,085)	83,955
Effect of asset revaluation Gipuzkoa Regulation 1/2013	2,259	-	-	(190)	-	2,069
Elimination of profits on consolidation and other	5,404	-	1,268	(173)	(1,150)	5,349
	146,134	**256**	**23,431**	**(17,409)**	**(5,264)**	**147,148**
Deferred tax liabilities:						
Clients portfolio provisions, unrestricted and accelerated depreciation (Notes 7, 8 and 9)	113,883	-	3,131	(5,617)	(17,900)	93,497
Revaluation of intangible and material assets (Notes 2-f and 14)	42,785	444	-	(1,950)	(1,342)	39,937
Exchange differences	549	-	-	(440)	-	109
Goodwill	16	-	-	-	-	16
Elimination of profits on consolidation and other	1,912	-	(1,262)	-	24	674
	159,145	**444**	**1,869**	**(8,007)**	**(19,218)**	**134,233**

	Thousands of euros					
	31/12/18	Inclusions in the scope of consolidation	Additions	Disposals	Translation differences	31/12/19
Deferred tax assets:						
Tax credit and tax loss carryforwards (Note 3-k)	70,084	-	116	(9.784)	3	60.419
Provisions temporarily not deductible	70,796	440	25,263	(18,466)	19	78,052
Effect of asset revaluation Guipúzcoa Regulation 1/2013	2,451	-	1	(193)	-	2,259
Elimination of profits on consolidation and other	5,217	-	427	(184)	(56)	5,404
	148,548	**440**	**25,807**	**(28,627)**	**(34)**	**146,134**
Deferred tax liabilities:						
Clients portfolio provisions, unrestricted and accelerated depreciation (Notes 7, 8 and 9)	135,939	221	4,625	(27,668)	766	113,883
Revaluation of intangible and material assets (Notes 2-f and 14)	39,134	7,145	242	(4,109)	373	42,785
Exchange differences	74	-	542	(68)	1	549
Goodwill	16	-	-	-	-	16
Elimination of profits on consolidation and other	2,028	-	(107)	-	(9)	1,912
	177,191	**7,366**	**5,302**	**(31,845)**	**1,131**	**159,145**

In 2020 the Group expects to take tax credits amounting to EUR 9,643 thousand (2019: EUR 16,285 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 2020 amounted to EUR 97,280 thousand (2019: EUR 120,583 thousand), of which EUR 25,440 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2019 EUR 27,320 thousand). The tax loss carryforwards recognised amounted to EUR 30,335 thousand at 31 December 2020 (31 December 2019: EUR 33,099 thousand). The tax loss carryforwards relate mainly to the Parent's tax group EUR 29,251 thousand (31 December 2019: EUR 32,185 thousand).

At 31 December 2020, Provetren, S.A. de C.V. also recognised deferred tax liabilities of EUR 57,879 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 2019: EUR 68,569 thousand).

Lastly, at 31 December 2020 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 31,656 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 2019: EUR 41,734 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 159,887 thousand (2019: EUR 154,196 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 10,988 thousand (2019: EUR 12,785 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	
	31/12/20	**31/12/19**
Expiring in 2020	-	316
Expiring in 2021	372	1,988
Expiring in 2022	-	666
Expiring in 2023	1,036	430
Expiring in 2024	380	380
Expiring in 2025	743	557
Expiring in 2026	1,571	1,604
Expiring in 2027	1,023	825
Expiring in 2028	956	657
Expiring in 2029 and subsequent years	120,799	106,093
Unlimited	43,995	53,465
	170,875	**166,981**

The differences between the estimated income tax for 2019 and the tax return ultimately filed gave rise to income of EUR 1,794 thousand (2019: expense of EUR 1,616 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 2020 year-end the Group had 2016 and subsequent years open for review by the tax authorities for income tax and 2017 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 September 25, 2020, the assessments related to the verification and investigation actions of partial scope related to Corporate Income Tax for the periods 2012 to 2015 of the Parent Entity, as well as of the Tax Group No. 03/07/G, were signed in conformity, without any liability having arisen for the Parent Entity or for the entities comprising the Tax Group.

19. PUBLIC AUTHORITIES

The detail of the receivables from and payables to public authorities at 31 December 2020 and 2019 is as follows:

	Thousands of euros							
	31/12/20				31/12/19			
	Assets		Liabilities		Assets		Liabilities	
Concept	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Accrued social security taxes	-	29	-	23,503	-	11	-	22,102
Regular taxes								
VAT (Note 9-b)	21,782	62,881	-	23,355	32,058	79,247	-	38,441
Other	-	1,439	-	72	-	4,705	-	72
Personal income tax withholdings	-	-	-	16,901	-	-	-	13,192
Income Tax (Note 3-k)	-	8,774	-	15,044	-	12,417	-	9,113
Grants receivable	-	10,333	-	-	-	12,991	-	-
Total	**21,782**	**83,456**	**-**	**78,875**	**32,058**	**109,371**	**-**	**82,920**

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

Included in these balances are payables relating to deferred payments to foreign public entities amounting to EUR 5,229 thousand.

20. SHORT AND LONG-TERM PROVISIONS

The changes in "Short-term Provisions" and "Long-term Provisions" in 2020 and 2019 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 31/12/18	**6,877**	**58,312**	**157,639**	**2,798**	**6,221**	**224,970**
Changes in the scope of consolidation	213	-	135	-	281	416
Net charge for the year	44,474	15,868	69,316	274	6,311	91,769
Amounts used charged to profit or loss	(3,117)	(20,537)	(57,943)	(1,131)	(317)	(79,928)
Translation differences	(761)	(60)	671	3	12	626
Transfers	103	(656)	816	-	(635)	(475)
Balance at 31/12/19	**47,789**	**52,927**	**170,634**	**1,944**	**11,873**	**237,378**
Net charge for the year	4,151	23,569	115,945	2,486	2,807	144,807
Amounts used charged to profit or loss	(1,518)	(29,954)	(69,466)	(394)	(3,577)	(103,391)
Translation differences	(11,615)	(1,028)	(7,524)	(77)	(1,214)	(9,843)
Transfers	7,690	(363)	1,311	(21)	68	995
Balance at 31/12/20	**46,497**	**45,151**	**210,900**	**3,938**	**9,957**	**269,946**

Long-term provisions

As a result of the administrative decision in July 2019, arising as result of the investigation initiated in 2013 into the participation of various rolling stock manufacturers in possible anti-competitive practices described in Note 26, the Group keeps a provision amounting to EUR 28 million (31 December 2019: EUR 38 million). In 2020, as a consequence of the depreciation of the Brazilian real, the effect of the translation differences gave rise to a reduction in the provision of approximately EUR 11 million.

At 31 December 2020, the Group had recognised under "Long-Term Provisions" EUR 8,199 thousand relating to the negative value of its ownership interests in companies accounted for using the equity method (see Note 9).

Also, 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 41,416 thousand under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss for 2020 (2019: income of EUR 10,756 thousand with a credit to the

aforementioned caption) relating to the difference between the provisions required in this connection at 2020 year-end and the provisions recognised at 2019 year-end.

The expenses incurred in 2020 and 2019 in connection with the provision of contractual warranty services (approximately EUR 69,466 thousand and EUR 57,943 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated statements of profit or loss for 2020 and 2019.

21. OTHER NON-CURRENT/CURRENT ASSETS AND LIABILITIES

The detail of the Group's "Other Assets" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Assets for the right to recover (Note 3-f)	6,592	7,208
Other non-current assets	**6,592**	**7,208**
Prepayments	9,737	17,130
Other current assets	**9,737**	**17,130**

The detail of the Group's "Other Liabilities" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	31/12/20	**31/12/19**
Advances received on sales or services rendered (Note 12)	65,394	51,059
Advances received on operating leases (Note 8)	19,587	28,935
Refund liabilities	8,933	6,643
Other non-current liabilities	**93,914**	**86,637**
Advances received on operating leases (Note 8)	2,711	4,257
Unearned revenue	1,484	1,666
Refund liabilities	468	1,352
Other current liabilities	**4,663**	**7,275**

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	
	2020	**2019**
Materials used (*)	1,236,308	1,157,466
Work performed by other companies	242,498	231,312
Total	**1,478,806**	**1,388,778**

(*) 69% in euros, and the remainder mainly in US dollars, pounds sterling and Polish zlotys (2019: 66% in euros).

b) Other operating expenses

	Thousands of euros	
	2020	**2019**
Outside services	317,738	371,072
Taxes other than income tax	3,760	4,710
Change in operating provisions and allowances and other (Notes 12 and 20)	44,119	23,605
Other current operating expenses	762	8,711
Total	**366,379**	**408,098**

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 1,285 thousand in 2020 (2019: EUR 1,263 thousand). Of this amount, EUR 660 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2019: EUR 659 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 236 thousand were billed in 2020 (2019: EUR 165 thousand), EUR 181 thousand for audit-related attest services including six-monthly reviews (2019: EUR 144 thousand), EUR 7 thousand for tax services (2019: EUR 7 thousand) and the remainder for other services.

c) Information on the environment

In 2020 investments made in systems, equipment and facilities designed for environmental protection and improvement amounted to EUR 2,971 thousand (2019: EUR 2,256 thousand).

The Group did not receive any environmental grants in 2020.

At 31 December 2020 and 2019, 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 2020 the Group incurred environmental expenses amounting to EUR 1,726 thousand (2019: EUR 825 thousand).

d) Grants related to income

Most of the grants transferred to profit or loss in 2020 and 2019 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 2020 under “Other Operating Income” in the accompanying consolidated statement of profit or loss amounted to EUR 5,366 thousand (2019: EUR 4,633 thousand).

23. AVERAGE HEADCOUNT AND STAFF COSTS

The average headcount in 2020 and 2019 is as follows:

	Average number of employees	
Professional category	**2020**	**2019**
Board members	2	2
Senior executives	10	11
Employees	6,282	5,894
Manual workers	6,788	6,577
Total (*)	**13,082**	**12,484**

(*) At 31 December 2020, there were 13,057 employees (31 December 2019: 13,179 employees).

The breakdown, by gender, of the average headcount in 2020 and 2019 is as follows:

	2020		2019	
Professional category	**Men**	**Women**	**Men**	**Women**
Board members	1	1	1	1
Senior executives	9	1	10	1
Employees	4,651	1,631	4,364	1,530
Manual workers	6,479	309	6,282	295
Total	**11,140**	**1,942**	**10,657**	**1,827**

At 31 December 2020, the Parent's Board of Directors comprised 7 men and 4 women (2019: 7 men and 3 women).

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

	2020	**2019**
Wages and salaries (Note 15)	517,528	490,537
Social security costs	145,902	138,050
Other expenses (Note 3-j)	31,609	26,020
Total	**695,039**	**654,607**

"Staff Costs - Wages, Salaries and Similar Expenses" in the accompanying consolidated statement of profit or loss includes an amount of EUR 4,224 thousand relating to costs borne by the Group for restructuring, mainly in the companies Trenes de Navarra, S.A.U. and Euromaint Group.

24. INFORMATION ON THE BOARD OF DIRECTORS

a) Remuneration and other benefits of directors

In 2020 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 1,716 thousand (2019: EUR 1,907 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. During 2020, the Parent made contributions to long-term savings plans, instrumented by a long-term collective savings insurance under the defined contribution system, from which the Parent is a policy holder and beneficiary, for an amount of EUR 1,300 thousand (2019: EUR 1,300 thousand). At 31 December 2020 and 2019, 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 2020 EUR 67 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2019: EUR 59 thousand).

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

In 2020 and 2019 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, amounted to EUR 2,369 thousand in 2020 (2019: EUR 3,008 thousand).

In 2020 and 2019 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 2020, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 3,532 million (31 December 2019: EUR 3,331 million) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 8.4 million 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 2019: EUR 10.6 million); and EUR 58.2 million related to the guarantees provided for the future contribution the Group will make in 2024 and 2027 in the investees Momentum Trains Holding Pty Ltd and TransJerusalem J.Net Ltd (31 December 2019: EUR 17.5 million).

In March 2014, following the 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. In July 2019 the CADE tribunal rendered its administrative decision and thereby ordered the subsidiary to pay a penalty amounting to BRL 167,057,982.53 (EUR 26,211 thousand) and recommended the competent authorities not to grant the subsidiary certain tax benefits for five years. The Group provisioned this amount in 2019 with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss and a credit to "Long-Term Provisions" in the accompanying consolidated balance sheet (EUR 37,872 thousand at the 2019 average exchange rate) (see Note 20). The amount of the fine was increased by the related interest cost in accordance with the Brazilian Special System for Settlement and Custody (SELIC) interest rate and EUR 815 thousand were recognised in 2020 with a charge to "Finance Costs" in the accompanying consolidated statement of profit or loss (2019: EUR 958 thousand). At the date of authorisation for issue of these consolidated financial statements, the dependent company has appealed the CADE decision judicially after the CADE's administrative process was completed.

The subsidiary rejects CADE's assessment of events when imposing the aforementioned penalty and alleges that its actions in relation to the matter under investigation were always carried out in strict compliance with the applicable legislation. The subsidiary's legal advisers consider that there is reasonable chance that the final amount of the penalty imposed will be reduced to a quantity substantially lower than the aforementioned amount, all without prejudice to the possibility of the fine being completely annulled. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 137 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, initiated court against which the Group has filed the corresponding defences. 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.

The CAF Group continues to defend its interests in these proceedings. However, at the reporting date it was not possible to determine the result or the impact that these proceedings might have on the Group's consolidated financial statements should the outcome be unfavourable and, therefore, no liabilities were recognised therein in this connection.

In addition, the CAF Group subsidiary in Brazil 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. This project has given rise to various administrative and court proceedings involving analysis of the potential termination of the contract, the imposition of damages, fines and penalties or the potential breach of contract by both the Consortium and the customer, mainly in relation to the civil engineering works, among other issues. Both the Consortium and the CAF Group subsidiary in Brazil have contested these proceedings in court. In relation to the issue of breach of contract, 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 the court find against the Consortium for breach of contract, since the breaches are mainly attributable to other members of the Consortium, CAF could claim the potential losses from such members (see Note 12).

At 31 December 2020, 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. At 2019 year-end, a report justifying the delays was issued by an independent expert and no decision had yet been handed down in this proceeding at the date of authorisation for issue of these consolidated financial statements.

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.L.U. and its parent Construcciones y Auxiliar de Ferrocarriles, S.A. as it is jointly and severally liable. On 15 September 2020, the Statement of Objections was issued. CAF Signalling, S.L.U. filed pleadings against the Statement of Objections. At the date of authorisation for issue of these consolidated financial statements the investigation remains open, awaiting the proposed judgment and, subsequently, the ruling of the Spanish National Markets and Competition Commission (CNMC), which will foreseeably be handed down in the second half of 2021. This resolution can be subject to appeal for judicial review at the National Appellate Court.

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.L.U. and Construcciones y Auxiliar de Ferrocarriles, S.A. are accused. The investigation is ongoing at 31 December 2020.

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.

	2020	2019
	Days	Days
Average period of payment to suppliers	88.96	86.18
Ratio of transactions settled	88.72	86.90
Ratio of transactions not yet settled	89.61	83.94
	Thousands of euros	Thousands of euros
Total payments made	731,898	905,557
Total payments outstanding	267,623	234,650

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 accompanying consolidated balance sheet.

The statutory maximum payment period applicable to the Parent in 2020 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 2020, the firm backlog, net of progress billings, amounted to approximately EUR 8,807,278 thousand (31 December 2019: EUR 9,446,468 thousand) (Note 11).

In January 2021, the RATP transport operator selected the consortium formed by CAF and Bombardier as the preferred bidder to supply 146 trains to be operated jointly by RATP and SNCF on the RER B suburban line that crosses Paris from North to South. This selection was ratified in February 2021.

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. JAVIER MARTÍNEZ OJINAGA	Director
Mr. JUAN JOSÉ ARRIETA SUDUPE	Director
Mr. LUIS MIGUEL ARCONADA ECHARRI	Director
Ms. CARMEN ALLO PÉREZ	Director
Ms. ANE AGIRRE ROMARATE	Director
Mr. JULIÁN GRACIA PALACÍN	Director
Mr. IGNACIO CAMARERO GARCÍA	Director
Ms. IDOIA ZENARRUTZABEITIA BELDARRAIN	Director
Mr. MANUEL DOMÍNGUEZ DE LA MAZA	Director
Ms. MARTA BAZTARRICA LIZARBE	Director-Secretary

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 2020 by the Board of Directors at its meeting on 25 februay 2021, the directors have signed this document, consisting of 191 sheets numbered sequentially from 1 to 191, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 25 february 2021.

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

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

By resolution of the Board of Directors, the Annual General Meeting shall be held on an exclusively remote basis, on 5 June 2021, at 12:00, on first call and, if need be, on the following day at the same venue and time on second call, to consider and resolve the matters included in the Agenda.

AGENDA

One: Examination and approval, where appropriate, of the financial statements and directors' report of Construcciones y Auxiliar de Ferrocarriles, S.A., and the consolidated financial statements and directors' report of its consolidated group of companies for 2020, and of the management of the Board of Directors.

Two: Approval of the consolidated non-financial information statement for 2020.

Three: Approval of the proposal for the allocation of loss for 2020

Four: Re-election of Julián Gracia Palacín as independent director.

Five: Amendment of the bylaws:

5.1. Amendment of Articles 21, 22 bis, 26 and 27 of the bylaws and inclusion of the new Article 22 ter for the purpose of adjusting the regulation of telematic attendance at the Annual General Meeting to the changes made to the Spanish Limited Liability Companies Law.

5.2. Inclusion of a new Article 22 quater in the bylaws for the purpose of including the possibility of holding meetings by telematic means only, in accordance with the latest developments included in the Spanish Limited Liability Companies Law.

5.3. Amendment of Articles 13, 34, 37 bis and 40 of the bylaws, in relation to the powers and obligations of the Annual General Meeting, the Board of Directors and the Audit Committee, mainly in order to adapt them to the changes introduced relating to related-party transactions in the Spanish Limited Liability Companies Law and relating to non-financial information.

5.4. Amendment of Article 39 of the bylaws to update the content thereof relating to the remuneration of the Board of Directors.

5.5. Amendment of Articles 14, 23, 31 and 32 of the bylaws in order to introduce good governance technical improvements and recommendations, among others, in relation to the adoption of resolutions by the Annual General Meeting and the Board of Directors.

Six: Amendment of the Regulations of the General Meeting:

6.1. Should the resolution submitted for consideration by the General Meeting under point 5.1 of the agenda be approved, amendment of Articles 8, 9, 9 bis, 11 and 12 and inclusion of a new Article 9 ter of the Regulations of the General Meeting for the purpose laid out in the preceding point 5.1.

6.2. Should the resolution submitted for consideration by the General Meeting under point 5.2 of the agenda be approved, amendment of Articles 14 and 17 and inclusion of a new Article 9 quater of the Regulations of the General Meeting for the purpose laid out in the preceding point 5.2.

6.3. Should the resolution submitted for consideration by the General Meeting under point 5.3 of the agenda be approved, amendment of Article 4 of the Regulations of the General Meeting for the purpose laid out in the preceding point 5.3.

6.4. Should the resolution submitted for consideration by the General Meeting under point 5.5 of the agenda be approved, amendment of Article 3 of the Regulations of the General Meeting for the purpose laid out in the preceding point 5.5.

6.5. Amendment of Articles 7 and 16 of the Regulations of the General Meeting in order to adapt them to the changes introduced in the Spanish Limited Liability Companies Law relating to rights arising from shares.

Seven: Authorisation of the Board of Directors to, pursuant to Article 297.1.b) of the Spanish Limited Liability Companies Law, enable it to increase the share capital at the time and by the amount that it decides, within a maximum period of five years, up to half of the share capital at the date of the Meeting approving such authorisation, on one or more occasions, through the issuance of new shares. Also to empower the Board of Directors, under the terms and conditions established in Article 506 of the Spanish Limited Liability Companies Law, with the possibility of disapplying the pre-emption right, relating to the increases that may be limited to a maximum amount of 20% of the share capital at the time of authorisation. Consequent revocation of the powers delegated to the Board of Directors in the resolution of the Annual General Meeting held on 2 June 2018.

Eight: Advisory vote on the 2020 Annual Report on Directors' Remuneration.

Nine: Information to the General Meeting regarding the amendments to the Regulations of the Board of Directors approved by the Board of Directors of CAF at the meeting held on 17 December 2020.

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

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

Proposed distribution of income

Appropiate the Parent's loss after tax of EUR 49,137 thousand to voluntary reserves.

Board of Directors

Mr. ANDRÉS ARIZKORRETA GARCÍA	Chairman
Mr. JAVIER MARTÍNEZ OJINAGA	Director
Mr. JUAN JOSÉ ARRIETA SUDUPE	Director
Mr. LUIS MIGUEL ARCONADA ECHARRI	Director
Ms. CARMEN ALLO PÉREZ	Director
Ms. ANE AGIRRE ROMARATE	Director
Mr. JULIÁN GRACIA PALACÍN	Director
Mr. IGNACIO CAMARERO GARCÍA	Director
Ms. IDOIA ZENARRUTZABEITIA BELDARRAIN	Director
Mr. MANUEL DOMÍNGUEZ DE LA MAZA	Director
Ms. MARTA BAZTARRICA LIZARBE	Director-Secretary

This information relates to the composition of the Company's Board of Directors at 25 February 2021, date on which the Financial Statements of the Company and its consolidated group for financial year 2020 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 2016-2020

Consolidated Statements of Financial Position
Consolidated Income Statements

Consolidated Statements of Financial Position

as of December 31st 2020, 2019, 2018, 2017, 2016 (Thousands of Euros)

Assets	2020	2019	2018	2017	2016
Non-current assets:					
Intangible assets					
Goodwill	103,339	109,011	101,827	24,124	15
Other intangible assets	220,654	239,241	206,535	46,421	40,129
	323,993	**348,252**	**308,362**	**70,545**	**40,144**
Property, plant and equipment	**403,617**	**449,263**	**365,084**	**244,513**	**229,309**
Investments accounted for using the equity method	**7,370**	**7,807**	**18,188**	**19,752**	**18,572**
Non-current financial assets	**429,068**	**538,303**	**537,061**	**560,660**	**653,558**
Non-current hedging derivatives	**41,736**	**45,001**	**10,720**	**15,842**	**12,861**
Deferred tax assets	**147,148**	**146,134**	**148,548**	**144,989**	**159,176**
Other non-current assets	**6,592**	**7,208**	**2,684**	**-**	**-**
Total non-current assets	**1,359,524**	**1,541,968**	**1,390,647**	**1,056,301**	**1,113,620**
Current assets:					
Inventories	**481,669**	**487,833**	**375,426**	**71,654**	**60,287**
Trade and other receivables					
Trade receivables for sales and services	1,357,136	1,372,394	1,311,835	1,277,243	1,306,363
Other receivables	170,794	216,940	205,122	198,470	204,033
Current tax assets	8,774	12,417	13,633	10,030	13,426
	1,536,704	**1,601,751**	**1,530,590**	**1,485,743**	**1,523,822**
Current financial assets	**102,000**	**95,151**	**94,293**	**84,838**	**95,098**
Current hedging derivatives	**15,589**	**40,010**	**5,849**	**41,864**	**45,382**
Other current assetss	**9,737**	**17,130**	**6,343**	**3,229**	**3,206**
Cash and cash equivalents	**573,928**	**538,983**	**602,813**	**371,625**	**392,022**
Total current assets	**2,719,627**	**2,780,858**	**2,615,314**	**2,058,953**	**2,119,817**
Total Assets	**4,079,151**	**4,322,826**	**4,005,961**	**3,115,254**	**3,233,437**

Equity and Liabilities	2020	2019	2018	2017	2016
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 accumulated reserves and profit for the year attributable to the Parent	796,774	817,680	837,217	812,895	793,281
	858,075	**878,981**	**898,518**	**874,196**	**854,582**
Valuation adjustments					
Available-for-sale financial assets	-	-	39	-	-
Hedges	(13,575)	(11,062)	(5,024)	(6,580)	(5,908)
Translation differences	(211,531)	(134,682)	(141,782)	(117,238)	(76,703)
	(225,106)	**(145,744)**	**(146,806)**	**(123,779)**	**(82,611)**
Equity attributable to the Parent	**632,969**	**733,237**	**751,712**	**750,417**	**771,971**
Non-controlling interests	**11,234**	**12,130**	**5,555**	**9,783**	**11,706**
Total equity	**644,203**	**745,367**	**757,267**	**760,200**	**783,677**
Non-current liabilities:					
Long-term provisions	**46,497**	**47,789**	**6,877**	**7,071**	**4,646**
Non-current financial liabilities					
Bank borrowings and debt instruments or other marketable securities	808,849	868,072	766,464	625,645	648,145
Other financial liabilities	78,615	90,792	47,774	52,039	47,854
	887,464	**958,864**	**814,238**	**677,684**	**695,999**
Deferred tax liabilities	**134,233**	**159,145**	**177,191**	**153,805**	**172,137**
Non-current hedging derivatives	**42,547**	**45,777**	**11,206**	**18,131**	**13,574**
Other non-current liabilities	**93,914**	**86,637**	**82,186**	**55,821**	**58,039**
Total non-current liabilities	**1,204,655**	**1,298,212**	**1,091,698**	**912,512**	**944,395**
Current liabilities:					
Short-term provisions	**269,946**	**237,378**	**224,970**	**227,939**	**227,937**
Current financial liabilities					
Bank borrowings and debt instruments or other marketable securities	170,760	199,979	255,416	46,262	103,075
Other financial liabilities	62,512	44,144	23,356	40,725	23,059
	233,272	**244,123**	**278,772**	**86,987**	**126,134**
Trade and other payables					
Payable to suppliers	710,496	688,104	664,865	423,385	376,531
Other payables	976,801	1,032,114	911,961	646,593	657,056
Current tax liabilities	15,044	9,113	6,447	5,009	969
	1,702,341	**1,729,331**	**1,583,273**	**1,074,987**	**1,034,556**
Current hedging derivatives	**20,071**	**61,140**	**64,167**	**52,313**	**116,468**
Other current liabilities	**4,663**	**7,275**	**5,814**	**316**	**270**
Totall current liabilities	**2,230,293**	**2,279,247**	**2,156,996**	**1,442,542**	**1,505,365**
Total Equity and Liabilities	**4,079,151**	**4,322,826**	**4,005,961**	**3,115,254**	**3,233,437**

Consolidated Statements of Profit or Loss

as of December 31st 2020,2019, 2018, 2017, 2016 (Thousands of Euros)

(Debit) Credit	2020	2019	2018	2017	2016
Continuing operations:					
Revenue	2,762,472	2,597,655	2,048,419	1,477,039	1,318,200
+/- Changes in inventories of finished goods and work in progress	(39,347)	18,235	73,250	(77,035)	(15,474)
In-house work on non-current assets	2,381	13,901	14,488	8,977	9,778
Procurements	(1,478,806)	(1,388,778)	(1,089,940)	(542,771)	(608,669)
Other operating income	16,197	27,518	21,339	7,886	15,792
Staff costs	(695,039)	(654,607)	(518,473)	(446,381)	(397,634)
Other operating expenses	(366,379)	(370,226)	(347,605)	(247,463)	(186,723)
Adjusted Ebitda	**201,479**	**243,698**	**201,478**	**180,252**	**135,270**
Depreciation and amortisation charge	(89,494)	(80,667)	(46,738)	(34,690)	(34,669)
Impairment and gains or losses on disposals of non-current assets	8,899	(165)	(10,572)	148	11,239
Other results	11	-	-	-	-
Adjusted EBIT	**120,895**	**162,866**	**144,168**	**145,710**	**111,840**
Non-recurring items	-	(37,872)	-	-	-
EBIT	**120,895**	**124,994**	**144,168**	**145,710**	**111,840**
Finance income	6,121	17,402	7,627	7,309	13,643
Finance costs	(47,641)	(72,885)	(64,160)	(68,551)	(72,819)
Changes in fair value of financial instruments	(35)	33	7	35	870
Exchange differences	(26,106)	(6,120)	(6,673)	(17,591)	5,916
DImpairment and gains or losses on disposals of financial instruments	22	(337)	9	4	(594)
Financial Loss	**(67,639)**	**(61,907)**	**(63,190)**	**(78,794)**	**(52,984)**
Result of companies accounted for using the equity method	(4,179)	(1,949)	(403)	594	473
Profit before Tax	**49,077**	**61,138**	**80,575**	**67,510**	**59,329**
Income tax	(38,824)	(36,048)	(40,955)	(24,993)	(22,049)
Profit for the year from continuing operations	**10,253**	**25,090**	**39,620**	**42,517**	**37,280**
Adjusted Consolidated Profit for the Year	**10,253**	**62,962**	**39,620**	**42,517**	**37,280**
Consolidated Profit for the Year	**10,253**	**25,090**	**39,620**	**42,517**	**37,280**
Attributable to:					
The Parent	9,012	24,745	43,462	42,406	35,013
Non-controlling interests	1,241	345	(3,842)	111	2,267
Earnings per share (euros)					
Basic	0.26	0.72	1.27	1.24	1.02
Diluted	0.26	0.72	1.27	1.24	1.02

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