

## ANNEX I

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### CORPORATE GOVERNANCE ANNUAL REPORT

### LISTED COMPANIES

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ISSUERS'S PARTICULARS
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<b>END OF FISCAL YEAR</b>	31/12/2013
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<b>EMPLOYER'S IDENTIFICATION NUMBER (CIF):</b>	A20001020
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<b>Company Name</b>
CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

<b>REGISTERED OFFICE</b>
José Miguel Iturrioz, 26 20200 BEASAIN, GUIPUZCOA

# ANNUAL CORPORATE GOVERNANCE REPORT

## LISTED COMPANIES

### A OWNERSHIP STRUCTURE

A.1 Fill out the following table on the Company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
04/08/1999	10,318,505.75	3,428,075	3,428,075

Indicate if there are different classes of shares that carry different rights:

Yes  No

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

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights	% Over total voting rights
CARTERA SOCIAL, S.A.	996,617	0	29.07%
CAJA DE AHORROS Y DE PENSIONES DE BARCELONA	0	103,188	3.01%
NORGES BANK	114,345	0	3.34%
TEMPLETON INVESTMENT COUNSEL, LLC	103,888	0	3.03%

Name or company name of indirect holder of ownership interest	Via: Name or company name of direct holder of ownership interest	Number of voting rights
CAJA DE AHORROS Y PENSIONES DE BARCELONA	COMPAÑÍA ANDALUZA DE RENTAS E INVERSIONES, S.A.	103,188

Specify the most significant variations in shareholder structure during the year:

Name or company name of shareholder Transaction date	Transaction date	Description of the transaction
BNP PARIBAS SECURITIES SERVICES, S.A.	19/07/2013	Ownership interest has fallen below 3% of share capital
NORGES BANK	12/07/2013	Ownership interest has risen above 3% of share capital
TEMPLETON INVESTMENT COUNSEL, LLC	30/04/2013	Ownership interest has risen above 3% of share capital

A.3 Fill out the following tables on the members of the company's Board of Directors who hold voting rights over shares in the company:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
DON JOSE IGNACIO BERROETA ECHEVARRIA	110	0	0.00%
DON JUAN JOSE ARRIETA SUDUPE	100	0	0.00%
KUTXABANK, S.A.	653,256	0	19.06%
XABIER GARAIALDE MAIZTEGUI	75	0	0.00%
% over total voting rights held by Board of Directors			19.06%

Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company

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

A.5 Indicate, as appropriate, any relationships of a commercial, contractual or corporate nature existing between the holders of significant ownership interests and the company and/or its Group, unless they have scant relevance or arise from the ordinary course of business:

Related name or company name
CARTERA SOCIAL, S.A

**Type of relationship:** Contractual

**Brief description:**

Workers' share instrument in CAF

Related name or company name
KUTXABANK, S.A.

**Type of relationship:** Corporate

**Brief description:**

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

A.6 Indicate whether the company has been notified of any shareholders agreements that may affect it pursuant to Sections 530 and 531 of Companies Law. If so, briefly describe them and specify the shareholders party to those agreements:

Yes  No

Indicate whether the company is cognizant of the existence of concerted actions between the shareholders. If so, briefly describe them:

Yes  No

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

A.7 Indicate whether there is any individual or legal entity that exercises, or can exercise, control over the Company, in accordance with Article 4 of the Securities Market Law If so, describe them briefly:

Yes  No

Comments
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A.8 Fill out the following tables on the company's treasury shares:

**At the end of the reporting period:**

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

**(\*) Through:**

Give details of any significant variations during the year, in accordance with Royal Decree 1362/2007:

A.9 State the conditions and the term of the authorisation currently in force granted by the General Meeting to the Board of Directors to carry out acquisitions, issues or transfers of treasury shares.

The CAF General Meeting held on 5 June 2010 resolved to authorise the derivative acquisition of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. for five years and under the following terms: a) Acquisitions can be made directly by CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. or indirectly, by any of its affiliates. b) Acquisitions can be made through purchase, exchange or any other method provided by law. c) Acquisitions can be made at any time up to the maximum amount allowed by the legislation in force. d) Acquisitions shall be made at market-fixed price. e) Acquisitions made within the purview of this authorisation shall meet the requirements pursuant to current legislation f) This authorisation shall be valid for five years

A.10 Explain any restrictions on the transfer of securities and on voting rights. Specifically, any restrictions hindering the taking of control of the Company through the acquisition of its shares on the market shall be informed.

Yes  No

A.11 State if the General Meeting has resolved to adopt measures to neutralise a take-over bid pursuant to the provisions of Law 6/2007.

Yes  No

If applicable, describe the measures approved and the terms under which the restrictions shall become void:

A.12 Indicate whether the Company has issued securities that are not traded on an EU regulated market.

Yes  No

If so, please indicate the different classes of shares and, for each class of shares, the related rights and obligations.

## B GENERAL MEETING

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

Yes  No

B.2 State if there are differences with the rules laid down in the Companies Law regarding the adoption of resolutions. If so, give details:

Yes  No

Describe how they differ from the rules established in the Companies Law.

**B.3 Please indicate the provisions applicable to amendments to the Company's Bylaws. Specifically, the required majorities for amending the bylaws shall be informed, as well as the provisions set forth for safeguarding the rights of the shareholders during the bylaw amendments, as the case may be.**

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

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

Date of Meeting	Attendance data				Total
	% Of attendance	% by proxy	% distance vote		
			Electronic vote	Other	
02/06/2012	29.59%	38.68%	0.00%	0.00%	68.27%
08/06/2013	48.57%	22.59%	0.00%	0.00%	71.16%

**B.5 Indicate whether the bylaws contain any restriction establishing a minimum number of shares required to attend the Annual General Meeting:**

Yes  No

<b>Number of shares required to attend a General Meeting</b>	100
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**B.6 Please indicate whether it was agreed that certain decisions entailing a structural change to the Company ("subsidiarisation", purchase or sale of essential operating assets, transactions involving the Company's liquidation...) should be submitted to the approval of the General Shareholders' Meeting, even though this is not expressly required under company laws.**

Yes  No

**B.7 Please indicate the Company's web site URL and how to access the information on corporate governance and other information on the General Shareholders' Meetings that needs to be made available to the shareholders through the Company's website.**

Once in the Company's website, [www.caf.net](http://www.caf.net), click on Shareholders and Investors. There is a list which includes the separate sections containing information on Corporate Governance and the General Shareholders' Meeting.

## C MANAGEMENT STRUCTURE OF THE COMPANY

### C.1 Board of Directors

C.1.1 Detail the maximum and minimum number of directors as per the bylaws:

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

C.1.2 Fill out the following table with the Board members:

Name or company name of director	Representative	Board office	Date of First appointment	Date of last appointment	Procedure for election
MR. JOSE MARIA BAZTARRICA GARIJO		CHAIRMAN	26/12/1991	05/06/2010	AT ANNUAL GENERAL MEETING
MR ANDRES ARIZKORRETA GARCIA		DIRECTOR	26/12/1991	08/06/2013	AT ANNUAL GENERAL MEETING
MR. ALEJANDRO LEGARDA ZARAGÜETA		DIRECTOR	26/12/1991	05/06/2010	AT ANNUAL GENERAL MEETING
MR. FERMIN ARRESE ARRATIBEL		DIRECTOR	18/07/1995	04/06/2011	AT ANNUAL GENERAL MEETING
MR. JOSE IGNACIO BERROETA ECHEVARRIA		DIRECTOR	07/06/2008	08/06/2013	AT ANNUAL GENERAL MEETING
MR. JOSE MIGUEL DE LA RICA BASAGOITI		DIRECTOR	25/05/1991	04/06/2011	AT ANNUAL GENERAL MEETING
MR. JUAN JOSE ARRIETA SUDUPE		DIRECTOR	07/06/2008	08/06/2013	AT ANNUAL GENERAL MEETING
KUTXABANK, S.A.	MR. JOSE ANTONIO MUTILOA IZAGIRRE	DIRECTOR	02/06/2012	02/06/2012	AT ANNUAL GENERAL MEETING
MR. LUIS MIGUEL ARCONADA ECHARRI		DIRECTOR	29/01/1992	08/06/2013	AT ANNUAL GENERAL MEETING
XABIER GARAIALDE MAIZTEGUI		DIRECTOR	18/11/2004	05/06/2010	AT ANNUAL GENERAL MEETING

<b>Total number of directors</b>	10
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Indicate any removals of directors during the reporting period:

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

## **EXECUTIVE DIRECTORS**

Name or company name of director	Committee proposing appointment	Office per Company organisation chart
MR. JOSE MARIA BAZTARRICA GARIJO		Chairman and CEO
MR ANDRES ARIZKORRETA GARCIA		Chief Executive Officer
MR. ALEJANDRO LEGARDA ZARAGÜETA		Managing Director

<b>Total number of directors</b>	3
<b>% over total of the Board</b>	30.00%

## **NON-EXECUTIVE PROPRIETARY DIRECTORS**

Name or company name of director	Committee proposing appointment	Name or company name of significant shareholder represented or proposing appointment
KUTXABANK, S.A		KUTXABANK, S.A

<b>Total number of directors</b>	1
<b>% over total of the Board</b>	10.00%

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

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

## **OTHER NON-EXECUTIVE DIRECTORS**

Name or company name of director	Committee proposing appointment
MR. FERMIN ARRESE ARRATIBEL	-
MR. JOSE IGNACIO BERROETA ECHEVARRIA	-
MR. JOSE MIGUEL DE LA RICA BASAGOITI	-
MR. JUAN JOSE ARRIETA SUDUPE	-
MR. LUIS MIGUEL ARCONADA ECHARRI	-
MR. XABIER GARAIALDE MAIZTEGUI	-

<b>Total number of other non-executive directors</b>	6
<b>% over total of the Board</b>	60.00%

Give reasons why these other non-executive directors cannot be considered either proprietary or independent members and their relations, whether with the company or its officers, or with its shareholders:

**Name or company name of director:**

MR. FERMIN ARRESE ARRATIBEL

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

MR. FERMIN ARRESE ARRATIBEL

**Reason:**

Director Fermín Arrese Arratibel holds no relationship whatsoever either with the Company or its management. However, he or she cannot be qualified as being independent because of not having been proposed by the Appointments Committee, as this Committee is still not operational.

**Name or company name of director:**

MR. JOSE IGNACIO BERROETA ECHEVARRIA

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

MR. JOSE IGNACIO BERROETA ECHEVARRIA

**Reason:**

Director Jose Ignacio Berroeta Echevarria holds no relationship whatsoever either with the Company or its management and shareholders. However, he or she cannot be qualified as being independent because of not having been proposed by the Appointments Committee, as this Committee is still not operational.

**Name or company name of director:**

MR. JOSE MIGUEL DE LA RICA BASAGOITI

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

MR. JOSE MIGUEL DE LA RICA BASAGOITI

**Reason:**

Director Jose Miguel De la Rica Basagoiti holds no relationship whatsoever either with the Company or its management and shareholders. However, he or she cannot be qualified as being independent because of not having been proposed by the Appointments Committee, as this Committee is still not operational.

**Name or company name of director:**

MR. JUAN JOSE ARRIETA SUDUPE

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

MR. JUAN JOSE ARRIETA SUDUPE

**Reason:**

Director Juan Jose Arrieta Sudupe holds no relationship whatsoever either with the Company or its management and shareholders. However, he or she cannot be qualified as being independent because of not having been proposed by the Appointments Committee, as this Committee is still not operational.



**Name or company name of director:**

MR. LUIS MIGUEL ARCONADA ECHARRI

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

MR. LUIS MIGUEL ARCONADA ECHARRI

**Reason:**

Director Luis Miguel Arconada Echarrri holds no relationship whatsoever either with the Company or its management and shareholders. However, he or she cannot be qualified as being independent because of not having been proposed by the Appointments Committee, as this Committee is still not operational.

**Name or company name of director:**

XABIER GARAIALDE MAIZTEGUI

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

XABIER GARAIALDE MAIZTEGUI

**Reason:**

Director Xabier Garaiale Maiztegui holds no relationship whatsoever either with the Company or its management. However, he or she cannot be qualified as being independent because of not having been proposed by the Appointments Committee, as this Committee is still not operational.

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

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

	Number of female directors				% of total directors of each type			
	Fiscal year 2013	Fiscal year 2012	Fiscal year 2011	Fiscal year 2010	Fiscal year 2013	Fiscal year 2012	Fiscal year 2011	Fiscal year 2010
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Other non Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	0	0	0	0	0.00%	0.00%	0.00%	0.00%

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

<b>Explanation of measures</b>
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CAF maintains a clear equal opportunities policy to avoid any type of gender discrimination. Gender is under no circumstances considered selection criteria, also applicable to Directors' appointment. The structure of CAF's Board of Directors has remained stable for years and it was not deemed necessary to replace or appoint new directors to deliberately include females.

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

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

C.1.7 Explain how shareholders with substantial equity interests are represented on the Board of Directors.

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

C.1.8 Describe, if applicable, the reasons why proprietary directors have been appointed at the initiative of shareholders whose shareholding is less than 5% of share capital:

State if formal requests for a presence of the Board have been rejected from shareholders with a shareholding equal to or greater than that of others who have been successfully appointed proprietary directors. If applicable, state the reasons for such rejection:

Yes  No

C.1.9 State if a director has resigned from his or her directorship before completing the term of office, if such director has given his or her reasons to the Board and by what means; and, if the reasons have been notified in writing to the entire Board, describe below at least the reason argued by the director:

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

**Name or company name of director:**

MR. JOSE MARIA BAZTARRICA GARIJO

**Brief description:**

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

**Name or company name of director:**

MR ANDRES ARIZKORRETA GARCIA

**Brief description:**

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

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

Name or company name of director	Company name of Group company	Position
MR. JOSE MARIA BAZTARRICA GARIJO	CAF ARGENTINA	Chairman
MR. JOSE MARIA BAZTARRICA GARIJO	CAF I+D, S.L.	Sole Director
MR. JOSE MARIA BAZTARRICA GARIJO	CAF ITALIA, S.R.L.	Sole Director
MR. JOSE MARIA BAZTARRICA GARIJO	CAF MEXICO S.A. DE C.V.	Sole Director
MR. JOSE MARIA BAZTARRICA GARIJO	CAF RAIL UK LTD	Sole Director
MR. JOSE MARIA BAZTARRICA GARIJO	CAF USA INC	Chairman
MR. JOSE MARIA BAZTARRICA GARIJO	HOUSTON LRV 100	Chairman
MR. ANDRES ARIZKORRETA GARCIA	CAF ARGELIA, EURL	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF CHILE S.A.	Chairman
MR. ANDRES ARIZKORRETA GARCIA	CAF DEUTSCHLAND GmbH	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF FRANCE SAS	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF INDIA PRIVATE LTD	Chief Executive
MR. ANDRES ARIZKORRETA GARCIA	CAF NEW ZEALAND LIMITED	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF POWER AND AUTOMATION, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF RAIL AUSTRALIA PTY LTD	Director
MR. ANDRES ARIZKORRETA GARCIA	CAF SISTEME FERROVIARE, S.R.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF TRANSPORT ENGINEERING, S.L.U.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CENTRO DE ENSAYOS Y ANALISIS CETEST, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES FERROVIARIAS DE MADRID, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	ENNERA ENERGY AND MOBILITY, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	GESTIÓN ELABORACIÓN DE MANUALES INDUSTRIALES INBENIERIA Y SERVICIOS COMPLEMENTARIOS, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.	Joint and Several Director
MR. ANDRES ARIZKORRETA GARCIA	NUEVAS ESTRATEGIAS DE MANTENIMIENTO, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	RAIL LINE COMPONENTS, S.L.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	TRENES CAF VENEZUELA, C.A.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	TRENES DE NAVARRA, S.A.	Sole Director
MR. ANDRES ARIZKORRETA GARCIA	CAF TAIWAN LTD.	Chairman
MR. ALEJANDRO LEGARDA ZARAGÜETA	CONSTRUCTORA DE SISTEMAS FERROVIARIOS, S.L.	Chairman
MR. ALEJANDRO LEGARDA ZARAGÜETA	CONSTRUCTORA MEXICANA DEL FERROCARRIL SUBURBANO, S.A. DE C.V.	Chairman
MR. ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS S.A.P.I. DE C.V.	Chairman
MR. ALEJANDRO LEGARDA ZARAGÜETA	INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.	Joint and Several Director
MR. ALEJANDRO LEGARDA ZARAGÜETA	URBANIZACIÓN PARQUE ROMAREDA, S.A.	Sole Director

C.1.12. Give details, as appropriate, of any directors of the company who are members of the Boards of Directors of other non-Group companies that are listed on official securities markets, as disclosed to the Company:

Name or company name of director	Company name of Group company	Position
MR. ALEJANDRO LEGARDA ZARAGÜETA	VISCOFAN, S.A.	DIRECTOR
MR. ALEJANDRO LEGARDA ZARAGÜETA	PESCANOVA, S.A.	DIRECTOR
KUTXABANK, S.A.	ZELTIA, S.A.	DIRECTOR
KUTXABANK, S.A.	NATRA, S.A.	DIRECTOR

C.1.13 State and, if applicable, explain if the company has set forth rules on the number of boards on which its directors may hold seats:

Yes  No

Explanation of rules
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ARTICLE 25.3 of the Board Regulations states that no Board member shall simultaneously be member of the Board of Directors of more than five (5) companies, including the Company.

C.1.14 Indicate the Company's general policies and strategies that the full Board has decided to approve:

	Yes	No
Investment and financing policy	X	
Definition of the structure of the corporate group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
The strategic or business plan, as well as the annual management objectives and budgets	X	
Remuneration and performance evaluation policy for senior executives	X	
Risk control and management policy and periodic monitoring of internal reporting and control systems	X	
Dividend policy and treasury shares policy and, in particular, limits thereon	X	

C.1.15 Indicate the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	1,399
Total remuneration corresponding to pension-related rights accumulated by directors (thousands of euros)	0
Total remuneration of the Board of Directors (thousands of euros)	1,399

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

C.1.17 Indicate, as appropriate, which Board members are, in turn, members of the Board of Directors of companies of significant shareholders and/or group companies:

Name or company name of director	Company name of significant shareholder	Position
DON ANDRES ARIZKORRETA GARCIA	CARTERA SOCIAL, S.A	DIRECTOR
DON ALEJANDRO LEGARDA ZARAGÜETA	CARTERA SOCIAL, S.A	DIRECTOR

Give details, as appropriate, of any material relationships, other than those envisaged under the preceding heading, of the members of the Board of Directors with significant shareholders and/or at group companies:

C.1.18 Indicate the amendments, if any, to the Board Regulations during the year:

Yes  No

C.1.19 Indicate the procedures for the appointment, re-election, evaluation and removal of directors. Give details of the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.

The Board of Directors shall be composed of no less than seven and no more than fifteen members freely appointed by the General Annual Meeting. The director does not need to be a shareholder. Disqualification on the grounds of conflict of interest or any other legal grounds shall apply. Should a vacancy occur during the period for which the Directors were appointed, the Board of Directors may cover them with the current shareholders until the first General Meeting is held. Should the vacancy be for the position of Chairman or Chief Executive Officer, the Board of Directors may cover the vacancies and temporarily appoint a Chairman. The Board may also appoint a Chief Executive Officer with the favourable vote of two thirds of its members. Such appointments shall be fully effective until the first General Shareholders' Meeting. Additionally, in exercising its powers of proposal to the General Meeting and of cooption in case of vacancies, the Board shall ensure that, on the one hand, the number of director be the most suitable to guarantee due representation and efficient operation of the body and, on the other, that Non-executive Directors represent the majority over Executive Directors. On the other hand, Board Regulations establishes the following rules related to directors appointment: Any appointment or re-election proposal submitted by the Board of Directors to the General Meeting for approval and any appointments made by the Board by its legally stipulated powers of cooption shall be preceded by the corresponding proposal by the Appointments and Remuneration Committee, in the case of Independent Directors, and a report, in the case of the remaining Directors. Should the Board decide not to follow the proposals of the Appointments and Remuneration Committee, it shall submit and minute its reasons for such decision and state those reasons in the minutes. The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Likewise, Directors should also be offered refresher programmes when circumstances so advise. With regard to the appointment of Non-executive Directors, the Board of Directors shall ensure that candidates be individuals of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. The Board of Directors may not propose or appoint as Independent Directors any individuals who are or have been related to the Company or Group companies' management, or to a significant shareholder, or with family ties up to the second degree of kinship and blood relatives up to the third degree, professional or commercial relations with Executive Directors or any other senior executive, or significant shareholders of the Company or Group companies. Specifically, individuals matching the descriptions below shall not be proposed or appointed as Independent Directors: a) Former Group company employees or Executive Directors, except after 3 or 5 years since their resignation, respectively. b) Individuals receiving any amount or benefit from the Company or its Group other than the remuneration as Director, except when such amount is not considered significant. Dividends or pension supplements received by the Director for his/her former professional or labour relationship shall not be taken into account, for the purposes of the paragraph above, insofar as such supplements be unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company without breach of its obligations. c) Individuals who are or have been in the last 3 years partners to the external auditor or person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company. d) Executive Directors or senior management of a different company where a Company Executive Director or senior manager holds a Non-executive Director position. e) Individuals who maintain or have maintained in the last year an important business relation with the Company or Group companies, whether on his/her behalf or as significant shareholder, director or senior executive of an entity maintaining such relation either at present or in the past. Business relations shall be those of supplier of goods or services, including financial ones, or of advisor or consultant. f) Significant shareholders, Executive Directors or senior managers of an entity receiving significant donations from the Company or its Group currently or in the last 3 years. Mere employees of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company Executive Director or senior executive. h) Individuals not proposed by the Appointments Committee, whether for appointment or re-election. i) Individuals who, with regard to a significant shareholder or represented shareholder in the Board, are included in paragraphs a), e) f) or g). In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company.

C.1.20 Indicate whether the Board of Directors has performed an assessment of its activity during the year:

Yes  No

If so, explain to what extent the self-assessment has given rise to important changes in its internal organisation and on the procedures applicable to its activities:

<b>Description of changes</b>
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The self-assessment has not given rise to significant changes.

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

Directors must resign in the following cases: a) The Proprietary Director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of Proprietary Directors. b) When they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any presumed crime or when subjected to disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Board of Directors upon prior report from the Audit and Compliance Committee upon breaching of Director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violate the duty to provide information and abstention. f) When they breach the non-competition agreement.

Directors shall report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

**C.1.22 State whether the chairman of the Board of Board also performs the functions of the company's Chief Executive. If so, describe the measures taken to limit the risks of power being concentrated in the hands of one person:**

Yes  No

<b>Measures to limit risks</b>
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The Chairman of the Board has delegated all the Board's powers, save for those which cannot be delegated pursuant to law. In addition, there is also a Chief Executive Officer with all the Board's powers, save for those which cannot be delegated by law. The Board's composition also contributes to power restriction: There is an ample majority of non-executive directors (7) over executive directors (3). In turn, the Chairman does not hold casting vote

Indicate, and if applicable describe, any rules that have been established that authorise an independent director to request that a Board meeting be called or that new topics be included on the agenda, to coordinate and voice the concerns of non-executive directors and to manage the evaluation by the Board of Directors.

Yes  No

<b>Explanation of rules</b>
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CAF's Board Regulations set forth that, in the event that the Chairman of the Board of Directors is also the Company's CEO, the Board of Directors shall appoint one of the independent directors to request the Board's summoning, the inclusion of new items on the agenda, the coordination of the non-executive directors' concerns and to lead the Board of Director's assessment of its Chairman.

**C.1.23 Are qualified majorities, other than statutory majorities, required for any type of decision?**

Yes  No

Describe the Differences, if applicable.

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

Yes  No

**C.1.25 State whether the Chairman has a casting vote:**

Yes  No

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

Yes  No

C.1.27 Indicate whether the Bylaws or the Board Regulations set a limited term of office for independent directors other than the one established in the official rules:

Yes  No

C.1.28 Indicate whether the Bylaws or the Board regulations establish specific rules with regard to the delegation of votes in the Board of Directors, the method for doing so and, specifically, the maximum number of delegations a director may have, as well as whether it is compulsory to delegate one's vote to a director of the same nature. If so, give brief details.

CAF's Bylaws establish that the duties of representation, governance and administration of the Company are permanently vested in the Executive Director and his powers shall be defined in the delegation agreement adopted by the Board of Directors. The Board of Directors may also delegate all or part of their powers to one or more Executive Committees through an agreement with an affirmative vote of at least two thirds of its members. Neither the Bylaws nor the Board Regulations establish many limitations or specific obligations in this regard.

C.1.29 Indicate the number of Board meetings held during the year and how often the Board has met without the Chairman's attendance. For this purpose, appointments of representatives with specific instructions will be considered attendances.

<b>Number of Board meetings</b>	6
<b>Number of Board meetings without Chairman's attendance</b>	0

Indicate how many meetings of the various Board Committees were held during the year.

<b>Committee</b>	<b>Number of meetings</b>
Audit	6

C.1.30 State the number of meetings held by the Board of Directors during the financial year, with the attendance of all members. For this purpose, appointments of representatives with specific instructions will be considered attendances:

<b>Directors attendances</b>	6
<b>% of attendance over total votes during the reporting period</b>	100.00%

C.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the Board are duly certified:

Yes  No

Indicate, as appropriate, the person(s) who certified the Company's individual and consolidated financial statements for formal preparation by the Board:

<b>Name</b>	<b>Position</b>
MR. ALEJANDRO LEGARDA ZARAGÜETA	Managing Director

**C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by it from being submitted at the Annual General Meeting with a qualified auditors' report.**

The Board of Directors delegates on the Audit Committee the monitoring of financial balances and auditing services in order to avoid any qualifications. Financial statements for the year ended 31 December 2012 and previous years were approved without qualifications

**C.1.33 Is the Board Secretary a director?**

Yes  No

**C.1.34 Describe the procedures for appointment and removal of the Board Secretary, stating whether the appointment and removal are reported on by the Appointments Committee and approved by the full Board.**

**Procedure for appointment and removal**

The Secretary shall be appointed by the Board of Directors and shall not need to be a Director.

	Yes	NO
<b>Does the Appointment Committee report on the appointment</b>		X
<b>Does the Appointment Committee report on the removal</b>		X
<b>Is the appointment approved by the full Board</b>	X	
<b>Is the removal approved by the full Board</b>	X	

**Is the Board Secretary charged with the function of procuring, most especially, compliance with the good governance recommendations?**

Yes  No

**Comments**

CAF's Board Regulations establish that the Secretary shall ensure the formal and substantive compliance of the Board's actions and that it abides by its governance rules and procedures. He or she shall also hold the position of the Board's Legal Advisor.

**C.1.35 Indicate the mechanisms, if any, established by the Company to preserve the independence of the external auditors, of financial analysts, of investment banks, and of rating agencies.**

The Company has regulated the relationships with Markets and Auditors. CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for: (A) Regarding relations with Markets: (i) The Board shall guarantee the fulfilment of the obligation to deliver information to Markets pursuant to the legislation in force at each given time. (ii) The Board shall also guarantee that periodic financial information, other than Financial Statements and, in general, any other information disclosed to the Markets, is prepared pursuant to the same professional principles, criteria and practices applied to the Financial Statements and that such information is as reliable as the latter. (iii) The Board shall include information about the Company's rules of governance in its annual public report. (B) Regarding relations with Auditors: (i) Company relations with external auditors shall be channelled through the Audit Committee, pursuant to the Audit Committee Bylaws and Regulations. (ii) The Board shall inform in the Annual Report the remuneration paid to the audit firm in each period for services other than auditing. (iii) The Board shall prepare the Financial Statements in order to avoid auditor's qualifications.

However, in case the Board considers its criteria should be maintained, the content and scope of the discrepancy shall be explained. In addition, according to the Company's Bylaws, the Audit and Compliance Committee is responsible for managing the relationships with the external auditors in order to gather information on matters that may call the auditor's independence into question, as well as any other matters related to the auditing process, and any other disclosures set forth in accounting and auditing legislation and auditing standards. Pursuant to the foregoing, the Company's Board of Directors Audit Committee has its own Regulations ruling its nature, composition, functions, operating standards and powers. Such Regulations state that the Audit Committee should guarantee the external auditor's independence and, to that end, it shall: 1) Receive from the auditors or audit companies an annual written confirmation of their independence from the entity/ies directly or indirectly related to the them, as well as information concerning the additional services of any kind rendered to such entities by said auditors or companies, or by the individuals or entities related to them pursuant to Law 19/1988 of 12 July on Account Auditing. 2) Issue an annual report stating its opinion on the auditors' or audit companies' independence before the audit report is issued. This report shall refer to the provision of additional



services mentioned. 3) The Company should notify any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same. 4) The Committee should ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements established to safeguard auditors' independence; 5) The Committee should investigate the issues giving rise to the resignation of any external auditor.

**C.1.36 State whether the Company has changed its external auditor during the period. If so, identify the incoming and outgoing auditors:**

Yes  No

If there were disagreements with the outgoing auditor, describe the content of such differences:

**C.1.37 Indicate whether the audit firm performs other non-audit work for the Company and/or its group and, if so, state the amount of fees received for such work and the percentage over the fees billed to the Company and/or its Group:**

Yes  No

	Company	Group	Total
<b>Other non-audit work (thousands of Euros)</b>	0	241	241
<b>Amount of other non-audit work / Total amount billed by audit firm (as a %)</b>	0.00%	29.28%	29.28%

**C.1.38 State whether the audit report on the financial statements for the previous year contained reservations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.**

Yes  No

**C.1.39 Indicate the number of Fiscal years that the current audit firm has been uninterruptedly auditing the financial statements of the Company and/or the Group. Also indicate the number of years audited by the current audit firm as a percentage of the total number of years during which the financial statements have been audited:**

	Company	Group
<b>Number of uninterrupted fiscal years</b>	12	12
<b>Number of years audited by current firm/number of years the company has been audited (as a %)</b>	33.30%	92.30%

**C.1.40 Indicate whether there is a procedure for directors to be able to receive outside advisory services:**

Yes  No

<b>Details of procedure</b>
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Directors are advised by the Secretary, a Solicitor of renowned prestige. Directors also have access to the hiring of advising services through the Audit Committee. Additionally, Article 20 of the Board Regulations grants Non-executive Directors the power to seek expert advice at the Company's expense, if deemed necessary in furtherance of their duties.

C.1.41 Indicate whether there is a procedure for the directors to be able to receive the necessary information to prepare for meetings of the managing bodies sufficiently in advance, and if so, give details:

Yes  No

**Details of procedure**

The Board approves, at its December meetings, the Board calendar for next year, so that the Directors know the dates of meetings early enough to prepare some of the subjects to be dealt with on them.

Normally, a schedule is approved containing six sessions per year, spread out with sufficient time in between them to study and prepare the necessary information. On the other hand, the Board receives and approves at beginning of each year a specific Annual Plan with the group's detailed month-by-month economic outlook for the current year. Subsequently, the Board receives every two months the actual economic information compared to such Annual Plan. The Board also receives additional information on the group's commercial, industrial and human resources departments. In addition, ordinary Board meetings shall be convened at least 5 days in advance, although in practice this is done earlier, and shall include the meeting's agenda, acknowledging Directors' right to request all the information they may reasonably need on the Company and its group for the furtherance of their duties. This right to information should be channelled through the Board Chairman, who shall provide the information, identify the appropriate people to contact in the Company or make the necessary arrangements so that the requested inspection or examination may take place.

C.1.42 Indicate whether the Company has put forward rules that compel directors to disclose and, if applicable, resign in situations that may harm the Company's credit and reputation. If so, give details.

Yes  No

**Describe the rules**

Under the Board Regulations, Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any offence, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such determinations in the Annual Corporate Governance Report. Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.43 State whether any Board member has advised the Company that he or she has been prosecuted or ordered to stand trial for any of the criminal offences referred to in Article 213 of the Companies Law:

Yes  No

State whether the Board of Directors has analysed the case. If so, provide the rationale of the decision as to whether or not the director should continue to remain on the Board or, if appropriate, whether to disclose the actions taken by the Board of Directors through the date of this report or which it expects to take.

C.1.44 State any significant agreement entered into by the Company which may come into force, be amended or terminated in the event of a change of control of the Company due to a takeover bid, and its outcomes.

C.1.45 Identify in general and indicate specifically the agreements on severance payment, guarantee or golden parachute clauses between the Company and its managers and directors or employees, where the latter resign or are unfairly dismissed or where the employment relationship terminates due to a takeover bid or other types of operations.

**Number of beneficiaries: 0**

**Type of beneficiary:**

**Description of resolution:**

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

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

	<b>Yes</b>	<b>No</b>
<b>Is the Annual General Meeting informed of the clauses?</b>	<b>X</b>	

## C.2 Committees of the Board of Directors

C.2.1 List all Board of Directors' committees, their members and the proportion of proprietary and independent directors in them:

### Audit Committee

<b>Name</b>	<b>Position</b>	<b>Type</b>
MR JUAN JOSE ARRIETA SUDUPE	CHAIRMAN	Other external
MR ALEJANDRO LEGARDA ZARAGÜETA	VOCAL	Executive
MR LUIS MIGUEL ARCONADA ECHARRI	VOCAL	Other external

<b>% executive directors</b>	33.30%
<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	0.00%
<b>% Other non-executive directors</b>	66.60

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

	<b>Number of female directors</b>							
	<b>Fiscal year 2013</b>		<b>Fiscal year 2012</b>		<b>Fiscal year 2011</b>		<b>Fiscal year 2010</b>	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
Executive	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 State whether the Audit Committee is responsible for the following functions:

	<b>Yes</b>	<b>No</b>
Supervise the preparation and the integrity of the financial information on the Company and, if applicable, the Group, reviewing compliance with the regulatory requirements, proper delimitation of the scope of consolidation and correct application of accounting policies.	<b>X</b>	
Conduct periodic reviews of risk management and internal control systems, so that the principal risks are adequately identified, managed and disclosed properly.	<b>X</b>	
Safeguard the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; proposing the budget for internal audit; receiving regular information regarding its activities; and verify that the conclusions and recommendations of its reports are taken into account by the top management.	<b>X</b>	
Establish and supervise a mechanism that allows employees to report the irregularities of potential importance, especially financial and accounting ones, that they detect inside the Company, confidentially and, if considered appropriate, anonymously.	<b>X</b>	
Bring before the Board proposals for selection, appointment, re-election and replacement of the external auditor, as well as the terms of the auditor's engagement.	<b>X</b>	
Regularly receive information on the audit plan and the results of its execution from the external auditor, and verify that the senior management takes into account its recommendations.	<b>X</b>	
Ensure the independence of the external auditor	<b>X</b>	

#### C.2.4 Describe the rules of organisation and functioning, and the responsibilities attributed to each of the Board committees.

Name of the Committee APPOINTMENTS AND REMUNERATION COMMITTEE Brief description Organisation and operation: The Committee shall be composed of no less than three (3) and no more than five (5) Directors, as determined by the Board of Directors, the majority of which should be Independent Directors with the appropriate experience and knowledge for the duties they should perform. The members of the Committee should meet the following conditions: (a) be Company Non-executive Directors; (b) be individuals of proven experience as Directors or in the furtherance of other relevant duties in the business sector, according to the Board of Directors. Committee members shall be appointed by the Board of Directors among the Directors who meet the conditions stated in the paragraphs above. The Chairman of the Committee shall be elected by the Board of Directors among Committee members who are Independent Directors. The Chairman is responsible for summoning the Committee, organising the agenda for the meeting and acting as moderator during the debates. In the absence of the Chairman, the Committee shall be chaired by the member with the highest seniority, or the most senior one should several Directors hold the same seniority. Committee members shall be appointed for a three-year term, and shall be re-elected for equal periods while their appointments as Company Directors are effective. The Committee shall convene when summoned by its Chairman or so requested by at least half of its members. The Chairman, however, shall summon the Committee whenever the Board or its Chairman may request a report or the adoption of proposals and, in any case, whenever suitable for the appropriate furtherance of its duties. The call notice shall be issued in writing by post, fax, telegram or electronic mail, and authorised by the Chairman's signature. The call notice shall be issued at least five days prior to the meeting. The call notice shall include the meeting's agenda and the relevant information duly summarised and prepared. Prior call notice of Committee meetings shall not be necessary when 100% of its members are convened and accept holding the meeting by unanimous vote. Provisions stated in the Board of Directors Regulations for Board meetings shall be applied to Committee meetings with regard to summoning extraordinary meetings and voting in writing without a meeting. Committee members may proxy their vote to another Director member of the Committee through notification via any of the media specified in the abovementioned Article addressed to the Chairman of the Committee, including proxy terms. The Committee shall be duly convened when, at least, the majority of its members attend the meeting in person or by proxy. The meeting shall be chaired by the Chairman of the Committee. In the absence or inability of the Chairman, the meeting shall be chaired by the most senior member. Should several Directors hold the same seniority, the meeting shall be chaired by the most senior member among them. The Chairman shall organise the debate ensuring and promoting the participation of all Committee members during the body's deliberations. Where no provisions are specially made, the rules stated in the Board Regulations shall apply, provided they are compatible with the Committee's nature and function. Company Executive Directors and managers shall attend the Committee meetings, with voice and no vote, when so required. Except when different voting quorums are specifically provided, resolutions shall be adopted by majority vote of the Directors attending the meeting both in person or by proxy. The Chairman of the Committee has the casting vote in the event of a tie. Adopted resolutions shall be minuted, reported by the Chairman and approved during such meeting or at the beginning of the next one immediately after. Once the minutes are recorded, a copy thereof shall be submitted to all Committee members.

#### C.2.5 Indicate, as appropriate, whether there are any regulations for the Board Committees; if so, indicate where they can be inquired and whether any amendments have been made during the year. Also indicate whether any annual report on the activities of each committee has been prepared voluntarily.

Name of the Committee APPOINTMENTS AND REMUNERATION COMMITTEE Brief description CAF's Board approved in 2007 the Appointments and Remuneration Committee Regulations, which is also available on CAF's website ([www.caf.net](http://www.caf.net)) under Information for Shareholders and Investors Such approval was notified to the National Securities Market Commission as report of significant event Name of the Committee AUDIT COMMITTEE Brief description The Audit Committee's organisation and operation is regulated by its own Regulations. Such Regulations were amended during fiscal year 2010 to adapt them to Law 12/2010 of 30 June on the Auditing Law Amendment. The Audit Committee Regulations is available on CAF's website ([www.caf.net](http://www.caf.net)) under Information for Shareholders and Investors.

#### C.2.6 Indicate whether the composition of the executive or committee reflects the participation of the various directors on the Board according to their status:

Yes

No

**If negative, explain the Executive Committee's composition**

There is no Executive Committee

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

- D.1 Identify the competent body and explain, as appropriate, the procedure used to approve related-party transactions and intra-group transactions.

<b>Competent body to approve related-party transactions</b>
-------------------------------------------------------------

The Board of Directors, after a report from the Audit Committee.

<b>Procedure to approve related-party transaction</b>
-------------------------------------------------------

The Board of Directors formally reserves the right to maintain confidential any Company transaction with a significant shareholder, after first receiving a report from the Audit Committee. The Board of Directors and the Audit Committee, in issuing its report, shall evaluate the transaction from the point of view of the market conditions, also analysing the transactions with significant shareholders under the shareholders' equal opportunities policy. General authorisation of the operations line and its implementation conditions shall suffice for transactions that form part of the ordinary course of Company business and are regular or recurring in nature. The Company shall report its transactions with Directors, significant shareholders and Related Persons in the regular reporting package, to the extent provided by Law. Similarly, the Company shall include information in the Notes on the Company's or Group companies' transactions with the Directors and Related Persons and those acting on their behalf, when these transactions do not form part of the ordinary course of business or are not performed under regular market conditions.

Explain if the approval of related-party transactions has been delegated, indicating, as appropriate, the body or persons to whom it has been delegated.

- D.2 List the transactions that are significant due to their amount or relevant due to their subject-matter performed between the Company or Group companies and the Company's significant shareholders:
- D.3 List the transactions that are significant due to their amount or relevant due to their subject-matter performed between the Company or Group companies and the Company's directors or executives:
- D.4 Give details of material transactions by the Company with other companies of the same group, where such transactions are not eliminated in the process of preparing the consolidated financial statements and are not conducted within the course of the Company's ordinary business, as regards their subject-matter or terms and conditions.

In every case, any intra-group transaction performed with entities established in countries or territories deemed tax havens shall be reported:

- D.5 State the amount of the transactions performed with other related parties  
(Thousands of Euros).
- D.6 Give details of the mechanisms in place for detecting, identifying and resolving any potential conflicts of interest between the Company and/or its Group and its directors, executives or significant shareholders.

Section 229 of the Capital Companies Law requires directors to communicate to the Board of Directors any conflict, either director or indirect, that may arise as regards the interest of the company. In addition, in case of conflict of interests, the affected director should refrain from intervening in the transaction causing such conflict. Likewise, directors shall communicate any shareholding they (and any related individual under Section 231 of the Corporations Law) may have in the share capital of a company engaging in an activity that is identical, similar or complementary to the company's activity, and shall also communicate the positions they hold. Any conflict of interest should be mentioned in the Annual Report. In turn, the Board Regulations closely regulate the non-competition agreement and the conflict of interest situations, and state specific rules of application and consequences for breaching such rules. They include, among others, Directors' duty to request Board's expressed authorisation to act as shareholders, directors, executives or advisors of another company engaging in an activity that is identical, similar or complementary to the Company's activity. Directors should also tender their resignation to the Board and formalise the corresponding resignation, should the latter consider it appropriate, if they are disqualified on the grounds of conflict of interest or fail to comply with the duties to provide information, abstention or the non-competition agreement. Finally, the Control and Monitoring body, regulated by the Internal Code of Conduct, helps the Board of Directors control possible conflicts of interest with the Company.

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

Yes  No

Identify the subsidiary companies that are listed in Spain:

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

#### E.1 Explain the scope of the Company's Risk Management System.

The purpose of the risk management and control policy implemented by the Company is to identify, at least: 1) The different types of risk (operational, technological, financial, legal, reputational) the Company is exposed to, including contingent liabilities and other off-balance-sheet risks under financial or economic risks. 2) Risk level considered acceptable by the Company. 3) Measures in place to mitigate the impact of risk events, should they occur. 4) The internal reporting and control systems to be used to oversee and manage the above risks, including contingent liabilities and off-balance-sheet risks.

#### E.2 Identify the Company's bodies in charge of preparing and executing the Risk Management System.

The Audit Committee shall be responsible for reviewing internal control and risk management systems on a regular basis, so that main risks are properly identified, managed and disclosed.

#### E.3 Indicate the main risks that can affect the achievement of the business objectives.

The most important risks the Company may face are grouped according to the following categories: (i) Financial risks: - Exchange rate risk, mainly arising when the reference currency of the contract with the client is other than the euro. - Risk of default or bad debt derived from customer's failure to observe his/her payment obligations, which bears a special impact on exports. - Risk derived from deviations from project budgets on which the corresponding tenders were based. (ii) Risks derived from environmental damages resulting from CAF's plant operations and service provision. (iii) Risks derived from civil liabilities due to deficiencies or delays in service provision. (iv) Labour risks or damages to plant goods or assets. v) Legal risks.

#### E.4 State whether the entity has a risk tolerance level.

Along general lines, the Company has a low level of tolerance to risk and has a prudent profile in making decisions that can entail exposure to risk. The Company also attempts to adopt risk mitigation measures wherever possible.

#### E.5 State what risks have arisen during the year.

No significant risk has arisen during the year.

#### E.6 Explain the response and supervision plans for the entity's main risks.

The risks affecting the Company at any given time are being continually studied internally, with the participation of the persons in charge of the different areas involved. This analysis leads to risk mitigation proposals and even vetoes of certain types of transactions. Additionally, the Audit Committee periodically reviews the internal control and risk management systems, ensuring they work properly.

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

Describe the dynamics of the internal control and risk management systems in relation to the Company financial reporting (ICSFR).

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

Report indicating its main characteristics on, at least, the following:

**F.1.1 Which bodies and/or duties are responsible for: (i) The existence and maintenance of an adequate and effective Internal Control System over Financial Reporting (SCIIF) (ii) ICSFR implementation; and (iii) ICSFR oversight.**

CAF's Board of Directors is the body responsible for having and maintaining a proper and effective Financial Information Internal Control System. According to the duties assigned by the Board of Directors, the Audit Committee is the body responsible for overseeing the regulated financial reporting preparation and presentation process and the efficiency of the company's internal control, internal audit services and risk management systems, as well as discussing with account auditors or audit companies the most relevant internal control system weaknesses detected during the audit. These functions are described in the Board's Audit Committee Regulation. The Internal Audit Department is mandated by the Audit Committee to effectively supervise the Financial Information Internal Control System through its single and independent oversight role, in line with the professional quality regulations and standards, which shall contribute to good corporate governance and ensure that the financial information has been prepared in a reliable manner. The Economic Department is the division in charge of designing, implementing and maintaining an adequate and effective internal control system on financial information.

**F.1.2 Whether the following items are present, particularly regarding financial reporting:**

- Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) defining clear-cut levels of responsibility and authority, distributing tasks and roles adequately; and (iii) ensuring that necessary procedures are in place to duly make them known companywide.

General Management and the Human Resources Department are in charge of designing and reviewing the organisational structure and defining the lines of responsibility and authority for each business unit and subsidiary. As regarding to the processes defined as critical for financial reporting information include the main tasks and controls to be performed and the people responsible for both their implementation and supervision, clearly defining responsibility and authority lines. The breakdown of functions of the tasks considered incompatible is also documented for these processes

- Code of Conduct, approving body, level of disclosure and examination, standards and values included (specifying whether there is any express requirement as to registration of transactions and preparation of financial information), body in charge of examining breaches and suggesting corrective measures and penalties.

CAF Group has a Code of Conduct that was approved by CAF's Board of Directors on 27 July 2011 and which is available on the website, disclosing the set of general standards and principles on corporate governance and professional conduct that are applicable to all professionals of CAF, S.A. and subsidiaries which belong to CAF Group. The Code of Conduct defines the ethical structural principles that serve as a basis to establish the behavioural criteria that are mandatory for CAF professionals and the agents they interact with as part of their Company business. These ethical structural principles refer to strict compliance with lawfulness, quality, reputation, protection of human resources, the respect for and commitment to the community and environment and the duty of transparency. Particularly, with regard to the Financial Information, the Code of Conduct sets forth that the information conveyed to the shareholders shall be truthful, complete and current and shall adequately reflect the Company's position. Adherence to this maxim shall be especially scrupulous with regard to the financial information. CAF acts with total transparency, adopting specific procedures to ensure the financial documentation is correct and truthful. CAF pays special attention to the fact that the abovementioned information is recorded and conveniently disclosed to the market. The Compliance Committee is in charge of advising the Board of Directors on compliance with the Code of Conduct. Its duties include analysing possible breaches and proposing corrective actions and penalties.

- Reporting channel to inform the Audit Committee of any financial or accounting irregularity, and any potential breach of the Code of Conduct and irregular activities within the organisation, indicating whether such breach is confidential, if applicable.

CAF has specific channels whereby workers may report any irregular situation that may affect the performance of their work. A separate tool has also been developed to inform the Audit Committee of possible irregularities with potential significance of a financial or accounting nature, and which is soon to be implemented. The senders of this information shall be required to identify themselves, although this system guarantees that their identity will be protected and kept confidential.

- Training programmes and regular refresher training for staff involved in the preparation and review of financial information, and ICFR evaluation, covering at least, accounting standards, auditing, internal control and risk management.

The Group has a corporate training budget and a training plan designed biannually. Training needs are detected and activities for each department are scheduled as part of this plan. Staff performance assessments are held every year and an individual development and training plan is set out for every employee included in the Training Plan. In addition, refresher courses taught by external specialist are held at least on an annual basis so as to ensure staff remains up-to-date on regulatory changes that can affect the preparation of the financial statements.

With regard to learning programmes for CAF S.A.'s Economic and Financial Department, which supported the different businesses in fiscal year 2013, the main reference indicators of this activity have been as follows: • Number of persons in the department involved in the training plans: 37 • Number of training hours: 1368 hours • Main training activities: o Technical courses on economic and financial matters o Courses on project management and leadership skills o Language courses.

## F.2 Financial information risk assessment.

Report on, at least, the following:

### F.2.1 Main characteristics of the risk identification process, including errors and fraud, as to:

- Whether the process is in place and on record.

The identification of risks in financial reporting is a continuous process carried out by the Company's Management.

- Whether the process covers all financial information objectives (existence and occurrence, integrity; assessment; presentation, breakdown and comparability, rights and obligations), whether it is updated, and how often.

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

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

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

- Whether the process considers the effects of other kinds of risks (operational, technological, financial, legal, reputational, environmental, etc.) on the financial statements.

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

- Governance body in charge of supervising the process.

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



## F.3 Control tasks

Report, indicating its main characteristics, if it includes, at least, the following:

**F.3.1 Financial information review and authorisation procedures and ICSFR description to be disclosed to securities markets, specifying responsible officers, and explanatory documentation of the flows of activity and control (including those relating to risk of fraud) of the various transactions which might materially affect financial statements, including the procedure for closing reporting periods, and specific review of relevant assessments, estimates, measurements and projections.**

Certification of financial statements: the company's General Manager, member of the Audit Committee has certified the annual financial reporting to be released to the securities markets. There has been a prior supervision process of submitted data conducted by senior staff involved in preparing these financial statements, as well as control activities designed to mitigate risks of error that may affect financial reporting. The main financial reporting generation processes significantly affecting financial statements are documented and programmed. The financial reporting processes that are covered include the following: • Consolidation and Reporting • End of the reporting period • Remuneration to employees • Provisions • Treasury Management • Income and expense recognition (for every business unit) • Billing and customers • Inventory and purchases (for each business unit) • Investments • Taxes • Provisions • Information systems. The risks of error that may affect the reliability of the financial information (including risks of error in relevant judgements, estimates, assessments and projections) have been identified for each one of these processes, as have the control activities to mitigate those risks. A person is appointed for each control activity, in charge of implementing and overseeing the activity, the timing of implementation, as well as the evidence necessary to execute the activity. This system is updated on a continual basis and is adapted according to the risks identified.

**F.3.2 Internal control procedures and policies referring to information systems (including, among others, access security, change control, their implementation, continuity of operations, and segregation of duties) supported by the entity's relevant processes with regard to the preparation and publication of financial information.**

There is an Internal Information and Communication and Information Technology Management and Control Policy which defines the guidelines that are to inspire the management and control procedures on Communication and Information Technology. This policy is applicable to management of the ICT divisions of CAF Group. The policy establishes its scope and the guidelines for the following matters: • Licences and regulatory requirements: Activities aimed at ensuring that the hardware and software installed complies with signed agreements. • Access to information: Procedures that ensure that users only have access to the resources and tools they need to perform their duties (segregation of duties). • Business continuity: o Procedures to make backup copies of critical data and their recovery, and protection of personal computers and servers. o Physical and environmental security of the data processing centres o Contingency plans • Operation and monitoring of transactions: Procedures that ensure that all incidents are logged, identified, defined and resolved. • Change management: procedures aimed at learning the impacts of new developments and reducing the risk of transferring elements to the production environment that should not be transferred, which jeopardise the data systems. Applicable control activities have been identified for each one of these areas, with a person in charge of execution and oversight, a given timing, as well as the proper evidence that the activity has been performed.

**F.3.3 Internal control policies and procedures aimed at supervising the management of outsourced activities, as well as those assessment, calculation or measurement tasks assigned to independent experts, which may materially affect the financial statements.**

There is a Manual of Accounting and Financial Procedures and Policies applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing financial statements. The main activities identified as having been subcontracted to third parties include the preparation of the payroll and tax returns of certain subsidiaries (areas considered to be low-risk and in subsidiaries that cannot materially affect the Group's financial statements) and the subcontracting of services in the IT department (the effectiveness of which is regularly monitored). Assessments by independent experts have been specifically requested (impairment tests). In these cases, the Company's policy is to resort to firms of renowned background and independence.

## F.4 Information and communication

Report, indicating its main characteristics, if it includes, at least, the following:

**F.4.1** A specific function in charge of defining and keeping the accounting policies updated (accounting policies area or department), and of addressing any inquiry or settling any dispute arising from the interpretation thereof, maintaining a fluent communication with the persons responsible for the organisation's transactions, as well as an updated accounting policies manual that must be communicated to the units through which the company operates.

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

**F.4.2** Criteria for collecting and preparing the financial information with standard formats, to be applied and used by all of the company's or group's units, which may support the main financial statements and notes, as well as ICSFR related information.

Every year a schedule is drawn up of the information required to prepare the financial information for the following year. The financial information of each subsidiary is reported directly to CAF, S.A.'s Economic Department, through a web-based tool with consistent reporting formats which is used to gather the information supporting the consolidated financial statements, as well as the consolidated information in the financial statement notes and which is also used to roll up and consolidate the reported information. CAF, S.A.'s Economic Department is responsible for establishing the formats on the web application (chart of accounts, reporting package). Those who have been designated for each subsidiary and are in charge of control supervise the process used to harmonise the information of each subsidiary with the Group standards.

## **F.5 System operation supervision**

Report indicating its main characteristics on, at least, the following:

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

CAF's Audit Committee oversees the financial information. The Audit Committee should ensure the Financial Information Internal Control System works effectively, obtaining sufficient evidence as to its adequate design and working order, which requires evaluations of the identification process of risks that can affect the fair presentation of the financial information, verifications that there are controls in place to mitigate them and making sure they work properly. The role of CAF's Audit Committee of evaluating the Financial Information Internal Control System has been delegated to the Internal Audit Department. In addition, as part of the external audit, meetings are held with the external auditors so that they may present the conclusions of their audit work performed (which include material aspects detected in the internal control area). The Audit Committee ensures the staff involved in the Financial Information Internal Control System evaluation tasks: - Show integrity and is independent in the performance of their work, so that their conclusions are objective and impartial. - Are competent and have the necessary technical ability to perform their work diligently. The Head of Internal Audit shall inform the Audit Committee at least once a year on the audit work plan to be implemented the following year, which shall include the tasks to be carried out to properly evaluate the Financial Information Internal Control System. Based on this plan, the Head of Internal Audit shall inform the Audit Committee of his or her appreciations regarding the Financial Information Internal Control System, summarise the most relevant findings and the action plans designed to correct those findings. This report can be presented either in person at the Audit Committee meetings or by sending it to the Committee. In the 2013 reporting period the Annual Work Plan submitted and subsequently implemented by the Internal Audit Department covers the following matters: ● Analysis of the company's annual plan and identification of the main risks involving financial information. ● Review of the financial information sent to the National Securities Market Commission (CNMV) on a quarterly basis, together with a review that the main control activities involving fiscal year closing processes, consolidation and reporting have been adequately fulfilled, as well as a review of the main judgments and estimates. ● Audit of financial reporting processes and of the main subsidiaries, as per a three-year turnover plan. ● Follow-up on the status of the action plans proposed to tackle identified shortfalls. ● Submittal to the Audit Committee of the results of the work performed.

F.5.2 Whether it has a discussion procedure through which the auditor [pursuant to the provisions of the Technical Auditing Standards, (NTA, Spanish acronym)], internal audit and other experts may notify the senior executives and the Board of Auditors or the company directors about any significant weakness observed in the internal control procedures during the review of the financial statements or during other processes entrusted to them. Likewise, it will report on the availability (or not) of an action plan aimed at correcting or mitigating any weakness observed.

It is common practice for the Company's Audit Committee to meet prior to issuing the financial information to the markets. During the 2013 reporting period, 6 meetings were held by the Audit Committee where the Internal Audit Department reported the results of the work performed and the existing plans of action in order to conduct corrective measures. The Committee has also held two meetings during 2013 with external auditors where information about the progress and the results of the external audit related to every semester were received.

F.6 Other disclosures

F.7 External auditor report:

Report on:

F.7.1 If the information of the ICSFR sent to the markets has been reviewed by the external auditor, the entity should include the relevant report as annex, or explain the reasons for doing otherwise.

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

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

State the extent to which the Company complies or fails to comply with Unified Code recommendations.

If a recommendation is not complied with or is only partly complied with, please include a detailed explanation of the reasons so that the shareholders, investors and the market in general have sufficient information to assess the Company's actions. Explanations of a general nature shall be unacceptable.

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

See subsections: A.10, B.1, B.2, C.1.23 and C.1.24.

Complies  Explain

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

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
- b) The mechanisms in place to resolve possible conflicts of interest.

See subsections: D.4 and D.7

Complies applicable  Partly complies  Explain  Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

a) **The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**

b) **Any acquisition or disposal of key operating assets that would effectively alter the Company's corporate purpose;**

c) **Operations that effectively add up to the Company's liquidation.**

See subsection: B.6

Complies  Partly complies  Explain

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the Meeting notice.

Complies  Explain

5. Separate votes should be taken at the General Shareholders' Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) **The appointment or ratification of directors, with separate voting on each candidate;**

b) **Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.**

Complies  Partly complies  Explain

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

Complies  Explain

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the Company's best interest and, as such, strive to maximise its economic value over time.

It should likewise ensure that the Company abides by the laws and regulations in its dealings with stakeholders; It should as well fulfil its obligations and contracts in good faith; respect the customs and good practices of the sectors and territories where it does business and uphold any additional social responsibility principles it has subscribed to voluntarily.

Complies  Partly complies  Explain

8. The Board should see the core components of its mission as to approve the Company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the Company's interests and corporate purpose. As such, the Board in full should reserve the right to approve:

**a) The Company's general policies and strategies, and in particular:**

- i) The strategic or business plan, as well as the annual management objectives and budgets;
- ii) Investment and financing policy;
- iii) Definition of the structure of the corporate group;
- iv) Corporate governance policy;
- v) Corporate social responsibility policy;
- vi) Remuneration and performance evaluation policy for senior executives;
- vii) Risk control and management policy and periodic monitoring of internal reporting and control systems.
- viii) Dividend policy and treasury shares policy and, in particular, limits thereon.

See subsections: C.1.14, C.1.16 and E.2

**b) The following decisions :**

- i) At the proposal of the company's chief executive, the appointment and potential removal of senior executives, as well as their indemnity clauses.
- ii) The remuneration of directors, as well as in the case of executive directors, the additional compensation for their executive functions and other conditions to be fulfilled by their contracts.
- iii) The financial information listed companies must periodically disclose.
- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;
- v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

**c) Transactions which the Company conducts with directors, significant shareholders, shareholders with Board representation or other persons related thereto ("related-party transactions").**

However, Board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the board basis to a large number of clients.

2. They go through at market rates, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the Company's annual revenues.

It is advisable that related-party transactions should only be approved by the Board on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes.

Ideally the above powers assigned to Board should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full Board.

See subsections: D.1 and D.6

Complies  Partly complies  Explain

The Board undertakes as the core of its mission approving the Company's strategy and ensuring that Management meets the objectives set while pursuing the Company's interests and corporate purpose. To that end, the Board in full has reserved the right to approve most of the policies, decisions and transactions indicated above.

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See subsection: C.1.2

Complies  Explain

10. External, proprietary and independent directors should occupy a broad majority of Board places, while the number of executive directors should be the minimum practical, bearing in mind the complexity of the corporate group and the ownership interests they control.

See subsections: A.3 and C.1.3.

Complies  Partly complies  Explain

Non-executive directors(proprietary and other non-executive directors) occupy an ample majority of Board places, while the number of executive directors is the minimum one required.

11. That among non-executive directors, the relation between proprietary members and independents should match the proportion between the capital represented on the Board by proprietary directors and the remainder of the Company's capital.

**This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:**

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.
2. In companies with a plurality of shareholders represented on the Board but not otherwise related.

See subsections: A.2, A.3 and C.1.3

Complies  Explain

The Company has 7 non-executive directors, one of which is proprietary. The other 6 are classified as being non-executive directors, in accordance with the definition of the independent director.

**12. The number of independent directors should represent at least one third of all Board members.**

See subsection: C.1.3

Complies  Explain

Out of CAF's 10 directors, 6 are classified as falling in the non-executive director category, in accordance with the definition of independent director.

**13. The nature of each director should be explained to the Shareholders' General Meeting, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Appointments Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

See subsections: C.1.3 and C.1.8

Complies  Partly complies  Explain

Partly complies, except for prior verification by the Appointments Committee, which has not yet been established

**14. That when the number of female directors is low or nil, the Appointments Committee ensures that when new vacancies arise:**

- a) The process of filling Board vacancies has no implicit bias against female candidates;**
- b) The Company makes a conscious effort to include women with the target profile among the candidates for Board places.**

See subsections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Complies applicable  Partly complies  Explain  Not applicable

**15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of Board meetings; and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the Company's Chief Executive, along with the chairmen of the relevant board committees.**

See subsections: C.1.19 and C.1.41

Complies  Partly complies  Explain

16. When a Company's Chairman is also its chief executive, an independent director should be empowered to request the calling of Board meetings or the inclusion of new issues on the agenda; to coordinate and give voice to the concerns of non-executive directors; and to lead the Board's evaluation of the Chairman.

See subsection: C.1.22

Complies  Partly complies  Explain  Not applicable

17. The Secretary should take care to ensure that the Board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the Company Bylaws and the Regulations of the General Shareholders' Meeting, the Board of Directors and others;
- c) Are informed by those good governance recommendations of the Unified Code that the Company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Appointments Committee and approved by a full Board meeting; and the relevant appointment and removal procedures being spelled out in the Board's regulations.

See subsection: C.1.34

Complies  Partly complies  Explain

Partly complies, except with respect to the Appointments Committee, which has not yet been established

18. The Board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items.

See subsection: C.1.29

Complies  Partly complies  Explain

19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See subsections: C.1.28, C.1.29 and C.1.30

Complies  Partly complies  Explain



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

Complies  Partly complies  Explain  Not applicable

21. The board in full should evaluate the following points on a yearly basis:

**a) The quality and efficiency of the Board's operation;**

**b) Starting from a report submitted by the Appointments Committee, how well the Chairman and Chief Executive have carried out their duties;**

**c) The performance of its Committees on the basis of the reports furnished by the same.**

See subsections: C.1.19 and C.1.20

Complies  Partly complies  Explain

Partly complies, except with respect to the Appointments Committee, which has not yet been established

22. All directors should be able to exercise their right to receive any additional information they require on matters within the Board's competence.

Unless the Bylaws or Board Regulations indicate otherwise, such requests should be addressed to the Board's Chairman or Secretary.

See subsection: C.1.41

Complies  Explain

23. All directors should be entitled to call on the Company for the advice and guidance they need to carry out their duties. The Company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the Company's expense.

See subsection: C.1.40

Complies  Explain

24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Complies  Partly complies  Explain

25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) **Directors should apprise the Appointments Committee of any other professional obligations, in case they might detract from the necessary dedication.**
- b) **Companies should lay down rules about the number of Boards on which their Board members can take part.**

See subsections: C.1.12, C.1.13 and C.1.17

Complies  Partly complies  Explain

26. The proposal for the appointment or renewal of directors which the Board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the Board:

- a) **On the proposal of the Appointments Committee, in the case of independent directors.**
- b) **Subject to a report from the Appointments Committee in all other cases.**

See subsection: C.1.3

Complies  Partly complies  Explain

The Appointments Committee has not been established

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

- a) **Professional experience and background;**
- b) **Directorships held in other companies, listed or otherwise;**
- c) **An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with.**
- d) **The date of their first and subsequent appointments as a Company director, and;**
- e) **Shares held in the Company and any options on the same.**

Complies  Partly complies  Explain

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

See subsections: A.2, A.3 and C.1.2

Complies  Partly complies  Explain

29. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Appointments Committee. Specifically, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds, as set forth in Order ECC/461/2013.

**The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.**

See subsections: C.1.2, C.1.9, C.1.19 and C.1.27

Complies  Explain

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

**The moment a director is indicted or tried for any of the crimes stated in Article 213 of the Companies Law, the Board should examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not he or she should be called on to resign. The Board should also disclose all such determinations in the Annual Corporate Governance Report.**

See subsections: C.1.42, C.1.43

Complies  Partly complies  Explain

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

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

**The terms of this Recommendation should also apply to the Secretary of the Board; director or otherwise.**

Complies  Partly complies  Explain  Not applicable

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

See subsection: C.1.9

Complies  Partly complies  Explain  Not applicable

33. Remuneration comprising the delivery of shares in the Company or other companies in the group, share options or other share-based instruments, payments linked to the Company's performance or membership of pension schemes should be confined to executive directors.

**The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.**

Complies  Partly complies  Explain  Not applicable

34. External directors' remuneration should sufficiently compensate them for the dedication, skills and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies  Explain  Not applicable

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

Complies  Explain  Not applicable

36. In the case of variable remunerations, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector or circumstances of this kind.

Complies  Explain  Not applicable

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

See subsections: C.2.1 and C.2.6

Complies  Partly complies  Explain  Not applicable

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

Complies  Explain  Not applicable

39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Appointment and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the Appointment and Remuneration committee or committees should be set forth in the Board Regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each Committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first full Board following each meeting;
- b) These committees should be formed exclusively of non-executive directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.
- c) Committees should be chaired by an independent director.
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of meeting proceedings should be drawn up and a copy sent to all Board members.

See subsections: C.2.1 and C.2.4

Complies  Partly complies  Explain

CAF Board approved the creation of an Appointments and Remuneration Committee, whose members are yet to be appointed. The Board also approved the Appointments and Remuneration Committee Regulations, including composition and operation rules indicated above. The status of Chairman of the Audit Committee has been changed to "other external director" due to the fact that its appointment has not been renewed by the Appointments Committee, which has not been established yet.

40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Appointments Committee or, as the case may be, separate Compliance or Corporate Governance Committees.

See subsections: C.2.3 and C.2.4

Complies  Explain

41. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies  Explain

42. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

See subsection: C.2.3

Complies  Explain

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

Complies  Partly complies  Explain

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

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

See subsection: E

Complies  Partly complies  Explain

45. The Audit Committee's role should be:

**1. With respect to internal control and reporting systems:**

- a) That the main risks identified as a result of the oversight by the Company of internal controls and internal audit, be duly managed and reported.
- b) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; proposing the budget for internal audit; receiving regular information regarding its activities; and verifying that senior executives are acting on the findings and recommendations of their reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

**2. With respect to the external auditor:**

- a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.
- b) Monitor the independence of the external auditor, to which end:
  - i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
  - iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

See subsections: C.1.36, C.2.3, C.2.4 and E.2

Complies  Partly complies  Explain

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

Complies  Explain

47. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

- a) **The financial information listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b) **The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**
- c) **Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See subsections: C.2.3 and C.2.4

Complies  Partly complies  Explain

48. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See subsection: C.1.38

Complies  Partly complies  Explain

49 The majority of Appointment Committee members –or Appointment and Remuneration Committee members, as the case may be– should be independent directors.

See subsection: C.2.1

Complies  Explain  Not applicable

The Appointments and Remuneration Committee has not yet been established, but its Regulations state most of its members shall be Independent Directors

50. The Appointments Committee should have the following functions in addition to those stated in earlier recommendations:

- a) **Evaluate the balance of skills, knowledge and experience on the Board, define the roles and skills required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**

**b) Examine or organise, in appropriate form, the succession of the Chairman and Chief Executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner.**

**c) Report on the senior officer appointments and removals which the Chief Executive proposes to the Board.**

**d) Report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See subsection: C.2.4

Complies  Partly complies  Explain  Not applicable

The Appointments and Remuneration Committee shall be responsible for some of the above, such as reporting and reviewing criteria for the composition and selection of Board of Directors members, or evaluating the time and dedication necessary for each member to duly perform its duties. The Committee shall also report on senior officers' appointments and removals planned by the Board

**51. The Appointment Committee should consult with the Company's Chairman and Chief Executive, especially on matters relating to executive directors.**

**Any Board member may suggest directorship candidates to the Appointments Committee for its consideration.**

Complies  Partly complies  Explain  Not applicable

**52. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:**

**a) Propose to the Board of Directors:**

- i) The remuneration policy for directors and senior officers;
- ii) The individual remuneration and other contractual conditions of executive directors.
- iii) The standard conditions for senior officer employment contracts.

**b) Oversee compliance with the remuneration policy set by the Company.**

See subsections: C.2.4

Complies  Partly complies  Explain  Not applicable

The Appointments and Remuneration Committee shall be responsible for some of the above, such as proposing Directors and senior executives' remuneration policy to the Board of Directors, and ensure compliance with the remuneration policy established by the Company

**53. The Remuneration Committee should consult with the Chairman and Chief Executive, especially on matters relating to executive directors and senior officers.**

Complies  Explain  Not applicable



## H OTHER INFORMATION OF INTEREST

1. If the Company or Group companies are dealing with any relevant matters in terms of corporate governance that have not been addressed in the rest of the sections in this report, but which must be included so as to provide more complete and reasoned information on the structure and governance practices of the entity or that of its group, please provide a brief description.
2. This section can include any other information, clarification or qualification relating to the previous sections of the report, provided that it is material and not repetitive.

In particular, indicate whether the Company is subject to any legislation other than the Spanish law on corporate governance and, if so, include any mandatory information different from the one required for the purposes of this Report.

3. The Company may also indicate if it has voluntarily adhered to other codes of ethical principles or good practices, whether international, sector-specific or otherwise. If so, please state the code in question and the date of adherence.

A.3. As the system only allows for 2 decimal points, we have not been able to enter the correct percentages of the total voting rights, which are as follows: 14.168.908B.JOSE IGNACIO BERROETA ECHEVARRIA 0.003 percent 72,564,821M. JUAN JOSE ARRIETA SUDUPE 0.003 percent A95653077. KUTXABANK, S.A. 19.056 percent 15.116.224A XABIER GARAIALDE MAIZTEGUI 0.002 percent TOTAL 19.064 percent C.1.19. Due to the limitation in the number of characters, the text continues as follows: Proprietary Directors forced to resign after their shareholders sell their shareholding may only be re-elected as Independent Directors when the shareholder they represented up to that moment sold his/her entire shareholding in the Company. A Director with Company shares may be an Independent Director provided he/she meets all the requirements pursuant to this ARTICLE and does not hold a significant shareholding. RE-ELECTION Directors shall hold office for five years. Directors may be re-elected once or several times for equal periods. Directors' appointments shall be effective upon acceptance thereof. The Board of Directors shall be renewed upon members' office expiration. ASSESSMENT The Appointments and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Appointments and Remuneration Committee has the following basic responsibilities:

1. Report and review the criteria that must be followed with respect to the composition and remuneration of the Board of Directors and the selection of candidates. The Committee shall define the necessary Board members' functions and skills and shall evaluate the time and dedication needed for each member to perform his/her duties correctly. The Committee shall always ensure that the existing relation between the number of Proprietary, Independent and Executive Directors is the most suitable for the Company's appropriate operation and the protection of minority shareholders. The Committee shall also report on senior officers' appointments and removals planned by the Board. 2. Submit to the Board proposals for Directors' appointment through cooption or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. Any Director shall, for that purpose, request the Committee to consider them in case they are adequate potential candidates to cover Directors' vacancies. REMOVAL The Board Regulations state the following rules for Directors' removal: Directors' removal shall comply with the legislation in force at each given time. Directors must tender their resignation to the Board of Directors and formalise their resignation, if the latter deems it appropriate, in the following events:

a) The Proprietary Director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of Proprietary Directors. b) When they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any presumed crime or when subjected to disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Board of Directors upon prior report from the Audit and Compliance Committee upon breaching of Director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violate the duty to provide information and abstention. f) When they breach the non-competition agreement. Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any offence, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such determinations in the Annual Corporate Governance Report. Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation C.2.4. Due to the limitation in the number of characters, the text continues as follows: COMMITTEE RESPONSIBILITIES The Appointments and Remuneration Committee has the following basic responsibilities: 1. Report and review the criteria that must be followed with respect to the composition and remuneration of the Board of Directors and the selection of candidates. The Committee shall define the necessary Board members' functions and skills and shall evaluate the time and dedication needed for each member to perform his/her duties correctly. The Committee shall always ensure that the existing relation between the number of Proprietary, Independent and Executive Directors is the most suitable for the Company's appropriate operation and the protection of minority shareholders. The Committee shall also report on senior officers' appointments and removals planned by the Board. 2. Submit to the Board proposals for Directors' appointment through cooption or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. Any Director shall, for that purpose, request the Committee to consider them in case they are adequate potential candidates to cover Directors' vacancies. 3. Propose Directors and senior executives' remuneration policy to the Board of Directors, and ensure compliance with the

remuneration policy established by the Company. With regard to Directors' appointment, the Committee shall review Director's selection criteria and shall assist the Board to define the profile the candidates should meet, addressing Board needs and according to the areas of the Board that may need to be strengthened. Upon Board of Directors' request, the Committee shall select the possible candidates for appointment as Company Directors, if applicable, and shall submit its proposals to the Board of Directors through its Chairman. It should, therefore, verify that the general requirements for all candidates to Company directorship stated by the Bylaws, the Board Regulations and current legislation are met. Once the mentioned procedure is completed, the Committee shall submit to the Board a report including its proposals for Directors' appointment by the Company General Shareholders' Meeting or, if applicable, by the Board of Directors itself through cooption to cover the vacancies. With regard to Directors re-election, the Committee shall, prior to the end of a Directors' term of office, examine the convenience of his/her re-election and permanence, if applicable, in the Board of Directors Committee of which that Director is a member. The Committee shall verify that the Director to be re-elected, if applicable, still meets the requirements pursuant to the Law, the Bylaws, the Regulations of the Board of Directors and these Regulations, and assess the quality of the work and dedication to the directorship in question. Once the procedure is finalised, the Committee shall submit a report to the Board of Directors including its proposal for the re-election of Directors. Name of the Committee AUDIT COMMITTEE Brief description Organisation and operation: The Committee shall be composed of three (3) members, appointed by the Board of Directors. At least the majority of the Committee members should be non-executive members of the Board of Directors. At least one member of the Committee should be independent and shall be appointed considering its knowledge and expertise in accounting, auditing or both. Committee members shall be appointed for a four-year term, without prejudice to their possible re-election. The Board of Directors is responsible for its renewal, re-election or removal, pursuant to legal and Company Bylaws provisions. The Board of Directors shall also appoint the Chairman among members acting as Non-executive Directors of the Committee. The Chairman shall be replaced every four years and may be re-elected after stepping down for one year.

In addition, the Audit Committee shall appoint its Secretary, who shall not necessarily hold the office of Director, although no Executive Director may be appointed for such office. All members of the Audit Committee, particularly its chairman, should be appointed based upon their knowledge, skills and background in accounting, auditing and risk management matters. The Committee shall convene upon the Chairman's decision to perform its functions. The Committee shall convene at least twice a year. The Committee shall also convene upon request of, at least, one of its members. The request shall be submitted to the Committee Chairman and shall include the agenda with the matters to be addressed by the Committee. The Chairman of the Committee is responsible for summoning it. The notice call, except for special emergency reasons considered by the Chairman, shall be issued to Committee members at least eight calendar days in advance by post, fax, telegram or electronic mail. The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss matters not included in the agenda. The Committee shall be duly convened when half of the members plus one attend the meeting in person or by proxy. A proxy shall only be granted in favour of another Director member of the Committee. The Committee Chairman and Secretary shall be those individuals appointed for such positions. In case of absence or inability, the Chairman shall be replaced by the member of the Committee with more seniority, or the most senior Committee member in case of several members holding the same seniority. In the absence or inability, the Secretary shall be replaced by the member of the Committee of less age. Resolutions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Secretary shall record the minutes of each meeting which, once approved either at the end of the meeting or in the following one, shall be signed by the Chairman and the Secretary.

Once the minutes are recorded, a copy thereof shall be submitted to all the Committee members. COMMITTEE RESPONSIBILITIES The Committee is responsible for assisting the Company Board of Directors in supervising the financial statements and controlling CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and its Group companies.

The Committee shall, therefore, be responsible for: (i) Reporting the General Shareholders' Meeting about matters raised therein by shareholders. (ii) Monitor the preparation and presentation of regulated financial information. Namely, with respect to internal control and reporting systems, the Committee shall: a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles. b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed. c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; proposing the budget for internal audit; receiving regular information regarding its activities; and verifying that senior executives are acting on the findings and recommendations of their reports. d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm. (iii) Monitor the efficiency of the company's internal control, internal audit services, if applicable, and risk management systems, as well as discuss with auditors and audit companies about the significant flaws detected in the internal control system during the audit process. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year. (iv) Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of auditors or audit companies pursuant to legislation applying to the company. Namely, make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his/her engagement. (v) Maintain appropriate relations with auditors or audit companies to gather information on matters that may affect their independence, for review by the Committee, as well as information on any other matters related to the audit process, and any other disclosures established in auditing legislation and standards. The Audit Committee shall be specifically responsible for: a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations. b) Monitor the independence of the external auditor, to which end: 1) Receive from the auditors or audit companies an annual written confirmation of their independence from the entity/ies directly or indirectly related to the them, as well as information concerning the additional services of any kind rendered to such entities by said auditors or companies, or by the individuals or entities related to them pursuant to Law 19/1988 of 12 July on Account Auditing. 2) Issue an annual report stating its opinion on the auditors' or audit companies' independence before the audit report is issued. This report shall refer to the provision of additional services mentioned. 3) The

Company should notify any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same. 4).

The Committee should ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements established to safeguard auditors' independence;5)Should the external auditor resign, the Committee shall examine the reasons therefore. c) With regard to the Group, urge the group auditor to take on the auditing of all member companies. (vi) The Audit Committee should prepare information on the following points for input to Board decision-making: a) The financial information listed companies must periodically disclose. The Committee shall ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, shall ask the external auditor to conduct a limited review. b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group. c) Related party transactions.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on 26/02/2014.

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

Yes

No

**Construcciones y Auxiliar  
de Ferrocarriles, S.A. and  
Subsidiaries of  
CAF Group (Consolidated)**

Auditor's Report on the "Internal Control  
System over Financial Reporting" for the  
fiscal year ended 31 December 2013

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

As requested by the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries (hereinafter, the Group), and pursuant to our offer letter dated 16 October 2013, we have applied certain procedures on the accompanying "Information related to the Internal Control System over Financial Reporting (ICSFR)" in the Annual Corporate Governance Report of Construcciones y Auxiliar de Ferrocarriles, S.A. for 2013, summarising the Group's internal control procedures in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures to reasonably ensure the implementation, maintenance and supervision of a proper internal control system as well as the enhancement of this system and the preparation and creation of the information related to the Internal Control System over Financial Reporting.

We must bear in mind that, regardless of the quality of the design and operation of the internal control system adopted by the Group in relation to the annual financial information, this can only provide reasonable, but not absolute, assurance as to the objectives sought, due to the inherent limitations present in all internal control systems.

In the course of our audit work of the consolidated annual financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our internal control assessment of the Group is to allow us to establish the scope, nature and timing of the audit procedures of the Group's annual financial statements. Therefore, our internal control assessment, performed for purposes of the audit of these financial statements, has not been extensive enough to allow us to issue a specific opinion on the effectiveness of this internal control on the regulated annual financial information.

For purposes of issuing this report, we only applied the specific procedures described below and indicated in the "*Guidelines for Action on the Auditor's Report on the information related to the Financial Information Internal Control System of listed companies*", published by the National Securities Market Commission (CNMV) on its website, which establishes the work to be performed, its minimum scope, as well as the contents of this report. As the work resulting from these procedures has, at any rate, a limited and substantially reduced scope than the scope in an audit or a review of the internal control system, we do not express an opinion on its effectiveness or its design and operating effectiveness, in relation to the Group's annual financial information for 2013 which is described in the information related to the Internal Control System over Financial Reporting. Consequently, if we would have applied additional proceedings to those required by the abovementioned Guidelines or performed an audit or review on the internal control system in relation to the regulated annual financial information, we could have come across other events or aspects we would have reported on.

Furthermore, as this special work does not constitute a financial statements audit and is not subject to the Consolidated Audits Law, approved by Royal Decree-Law 1/2011, of 1 July, we are not providing an audit opinion pursuant to the terms set forth in the abovementioned regulations.

The procedures applied include the following:

1. Reading and understanding the information prepared by the Group in relation to the Internal Control System over Financial Reporting – information included in the management report and assessing whether this information addresses all information required that will comply with the minimum content described in section F, regarding the description of the Internal Control System over Financial Reporting, of the specimen Annual Corporate Governance Report, as set forth in Circular No. 5/2013 of the CNMV dated 12 June 2013.
2. Inquiries of the staff in charge of preparing the information listed in point 1 above, with the purpose of: (i) gaining an understanding of the preparation process; (ii) obtaining information that will be useful in assessing whether the terminology used is in keeping with the abovementioned framework definitions; (iii) obtaining information on whether the control procedures described have been implemented and are operational within the Group.
3. Reviews of the documentary support of the information listed in point 1 above, and which shall include mainly the documentation made available to those in charge of drafting the descriptive information of the Internal Control System over Financial Reporting. This documentation includes reports prepared by the internal audit division, senior management and other internal or external specialists in their roles of supporting the Audit Committee.
4. Comparing the information listed in point 1 above with the Group's knowledge of the Internal Control System over Financial Reporting obtained as a result of having applied the procedures performed as part of the audit work on the annual financial statements.
5. Reading the meeting minutes of the Board of Directors, Audit Committee and other Group committees so as to assess the consistency between the matters addressed in them in relation to the Internal Control System over Financial Reporting and the information described in point 1 above.
6. Obtaining the letter of representations regarding the work performed duly signed by the persons in charge of preparing and drafting the information described in point 1 above.

As a result of the procedures applied on the information related to the Internal Control System over Financial Reporting, we have not come across any inconsistencies or incidents possibly affecting it.

This report was solely prepared pursuant to the requirements set forth by Law 24/1988, of 28 July on Securities Markets, as amended by Law 2/2011, of 4 March on Sustainable Economy and by CNMV Circular No. 5/2013 of 12 June 2013 on the National Securities Market Commission on the description of the Internal Control System over Financial Reporting in the Annual Corporate Governance Reports.

DELOITTE, S.L.



Javier Giral Gracia  
26 February 2014