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

Consolidated Financial Statements for 2015
and Consolidated Directors' Report,
together with Auditor's Report

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

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

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. ("the Parent") and Subsidiaries ("the Group", see Note 2-f), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Parent's directors consider appropriate about the situation of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries.

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

Javier Giral Gracia
25 February 2016

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

2015 DIRECTORS' REPORT

OF THE

CONSOLIDATED GROUP

EARNINGS

The aggregates in 2015 were as follows:

- Profit from continuing operations amounted to EUR 42,614 thousand after tax and EUR 60,409 thousand before tax, compared to EUR 62,129 thousand and EUR 80,456 thousand in 2014, representing a fall of 31% and 25%, respectively.

- The depreciation and amortisation charge and impairment losses relating to non-current assets amounted to EUR 39,232 thousand which, added to the profit for the year before tax from continuing operations, generated a cash flow of EUR 99,641 thousand, representing a decrease of approximately 11% on 2014, which amounted to EUR 111,896 thousand.

- EBITDA from continuing operations totalled EUR 166,015 thousand, up approximately 13% on 2014 (EUR 146,425 thousand).

- Revenue amounted to EUR 1,283,591 thousand in 2015, down 11% on 2014 (EUR 1,447,141 thousand).

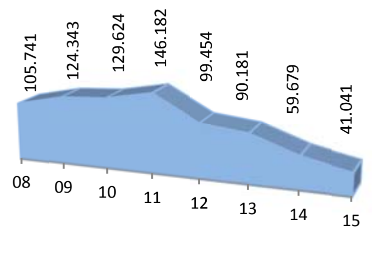
- The backlog amounted to EUR 4,869,061 thousand at 2015 year-end, down 7% on 2014 (EUR 5,251,114 thousand). This backlog continues to guarantee the continuation of the Group's normal business activities.

- The proposal for the distribution of earnings is in line with the policy of prior years of strengthening the Company's equity. Consequently, it is proposed to use EUR 17,997 thousand of the profits of the Parent, CAF, S.A., to pay dividends, amounting to a gross value of EUR 5.25 per share.

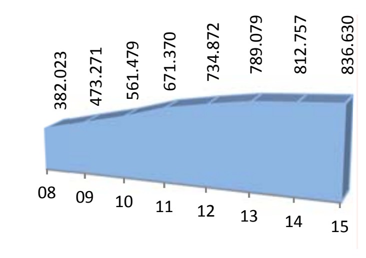
- If the proposed distribution of profit is approved, the profit allocated to reserves will raise the Group's equity to a total of EUR 696,930 thousand.

- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2015.

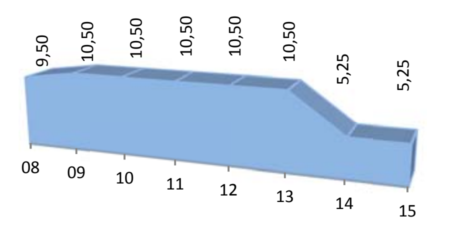
Profit attributable to the Parent
(Thousands of euros)



Group's Equity
(Thousands of euros)



Dividend/share performance
(Euros)



COMMERCIAL ACTIVITY

A significant event at our Company was the change in the chairmanship thereof, with José María Baztarrica Garijo -Chairman since 1991- becoming honorary chairman at the end of the year. He was replaced in the position of Executive Chairman by Andrés Arizkorreta García.

In Spain, after close to a decade without any calls for tender for the acquisition of new rolling stock by Renfe, CAF was shortlisted in the call for the manufacture and maintenance of high-speed trains. The tender was put out by Renfe-Viajeros at the end of the year, following the instructions of the Ministry of Public Works.

In 2015 the existing contracts from Spanish operators -Renfe-Viajeros, EuskoTren and Ferrocarrils de la Generalitat de Catalunya- were limited to orders for replacement parts and special materials, as well as modifications. Also in Spain, commissions were received for new CAF-technology gauge switching facilities and the remodelling of an existing one from UTE del Corredor Mediterráneo and ADIF.

Also of note in 2015 is CAF's designation as a licensed rail operator by the Ministry of Public Works for freight and passenger transport.

As regards the international arena, it should be noted that the Norwegian operator Flytoget commissioned 8 Oaris train units. These trains will provide the shuttle service connecting the capital with Oslo's airport, with the amount of the contract exceeding EUR 115 million.

On the island of Taiwan, in Kaohsiung -the second largest city after the capital Taipei- the first phase of the 8.7 km circular tramway is currently being tested. This is a turnkey project led by CAF, which in addition supplies the rolling stock, signalling system, electrification, ticketing system and the integration of all subsystems. Since 24 December 2015, there has been free public access to the 4 open stations, although since testing began in mid-October, access to the tram system has been based on an appointment system. It should be noted that this is a totally catenary-free project that uses CAF's Rapid Charge Accumulator (ACR) technology, and if we add to this fact the supply of the components of this system and the global integration of the entire turnkey project, it can be assured that CAF is at the cutting edge of tramway system design, manufacture and integration.

As regards tramway manufacture, various European cities have opted to commission units from CAF for an amount in excess of EUR 180 million. For the capital of Luxembourg, the state-owned company Luxtram has commissioned the supply of 21 trains with a capacity to transport up to 450 passengers, fitted out with the new ACR system for catenary-free circulation as the project includes the removal of the overhead power supply system from the Puente Rojo to the Luxembourg central station.

The French city of Saint-Etienne, capital of the Loire department in the Rhône-Alpes region, has acquired 16 new 5-car vehicles for its tramway network, which in addition to adapting to the special features of the metric gauge track and 2.15 m wide carbody, generate significant improvements with respect to the existing units as they are bi-directional and have doors on the ends for added operating flexibility.

In the Netherlands, the city of Utrecht has commissioned 27 5-car Urbos trams prepared to travel at a service speed of 70 km/h for the new Uithof line which will connect the Central Station with the university campus in the east of the city.

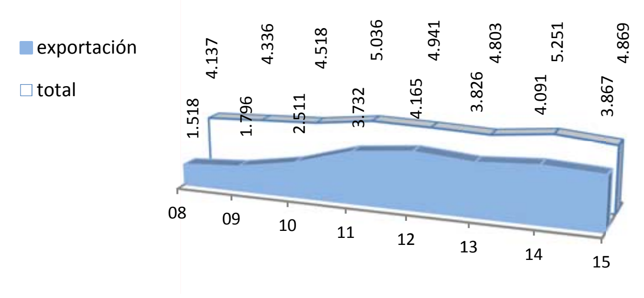
As regards the metro segment, the Columbian city of Medellín has once again renewed the initial confidence it had in CAF with a new order amounting to approximately EUR 89 million for 20 3-car sets, which together with those commissioned in 2009 and 2014 add up to a total of 36 units.

Bringing the focus back on to Europe, and specifically with regard to the hauled stock segment, Serco Group Plc, in order to provide service to the Caledonian Sleeper franchise in Scotland, entered into a contract amounting to approximately EUR 200 million for the manufacture and supply of 75 cars, with first and second class cars, restaurant-cafeteria cars and sleepers.

The wheelset and maintenance activities continue to contribute a significant percentage to the backlog, as has been habitual in recent years.

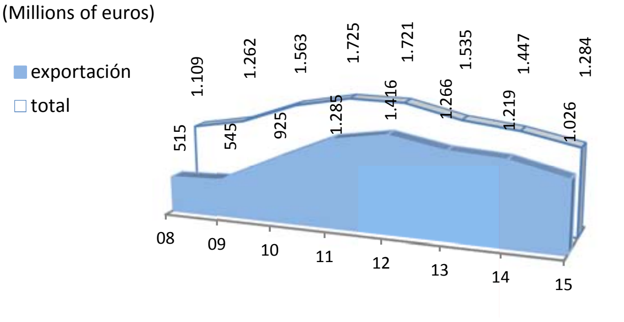
Backlog

(Millions of euros)



Revenue

(Millions of euros)



INDUSTRIAL ACTIVITY

Several projects were completed in 2015, such as the contract entered into with New Zealand's Auckland Transport for the supply of 57 electric units for its commuter train network. Also in this range, the 10-train project for Belo-Horizonte (Brazil) and 3 additional trains to the contract initially entered into with Ferrotramviaria to operate in the area of Bari (Italy) were completed. As regards the tram range, the manufacture of the 39 units for Houston was completed, 15 trams for Granada, 21 trams for Birmingham, and the 7 additional trams to the contract already in force for Stockholm, the project of 12 trams for Sidney and the 9 trams for the city of Kaohsiung (Taiwan). In terms of long-distance trains, the contract for Saudi Arabia (SRO) was completed with the delivery of the last 4 compositions of a locomotive plus trailer cars.

Also in 2015, manufacture continued of certain projects initiated in prior years, of particular note being the 42 trailer cars for the long-distance routes of the US operator Amtrak, 5 of the units of the 26 trains contract entered into with the Sao Paulo metro, 4 of the 8 trains for the Bucharest metro -this being an addendum to the original contract with the same customer for 16 trains- and 54 of the 62 trailer cars for the Saudi Arabian operator SAR which will provide service in this country along with the 12 locomotives manufactured, forming various compositions. The first 6 trains of the 35 commissioned by the operator CPTM for the city of Sao Paulo were manufactured, 4 of the 37 trains for the metro of Santiago de Chile, 25 trams of 5 modules, and 8 of 9 modules for Budapest, 3 of the 28 train units commissioned by Euskotren, the first 2 trams for the city of Cincinnati, the first 8 trains of a total of 20 commissioned for the city of Helsinki, 5 trains for the city of Freiburg, 17 of the 20 trams relating to the Tallinn project (Estonia) and the first 2 trams for the US city of Kansas.

Also, some of the most recent projects have begun the first phases of manufacture such as the project for 118 trains for NS (Netherlands), the contract for 16 trams for the city of Saint Etienne (France), or the 27 trams for the city of Utrecht.

The most important products manufactured in 2015 were as follows:

VEHICLE UNIT	**No. of vehicles**
Long-distance Amtrak carriages	42
Locomotive for Saudi Arabia (SRO)	1
Trailer car arrangement for Saudi Arabia (SRO)	6
Locomotive for Saudi Arabia (SAR)	11
Trailer car arrangement for Saudi Arabia (SAR)	54
Medium distance Civity trains for Bari	12
Commuter trains for Euskotren	9
Commuter trains for Auckland	39
Commuter trains for Belo-Horizonte	36
Commuter trains for CPTM	48
Train-trams Bahía de Cadiz	9
Sao Paulo metro	30
Bucharest metro	24
Rome metro	12
Chili metro	20
Helsinki metro	32
Medellin metro	9
Trams for Houston	54
Trams for Budapest (5 modules)	125

Trams for Budapest (9 modules) 72
Trams for Granada 55
Trams for Birmingham 10
Trams for Stockholm (4 modules) 4
Trams for Sydney 30
Trams for Cincinnati 6
Trams for Kaohsiung 10
Trams for Tallinn 51
Trams for Friburgo 35
Trams for Kansa 6
TOTAL 852

BOGIES

With welded chassis 1,130

COMPONENTS AND SPARE PARTS UNIT

Assembled axles (power car + trailer car) 3,681
Loose axle bodies 6,629
Monoblock wheels 52,502
Elastic wheels 1,120
Couplers 851
Gear units 1,721
Tyres 109

HUMAN RESOURCES

The headcount at the consolidated Group has seen a considerable reduction, which is much more pronounced at the international manufacturing plants.

	TOTAL	ANNUAL AVERAGE
31/12/14	8,206	8,027
31/12/15	7,581	7,795

In the Training area, a 2015-2016 training plan has been defined and all the training activities envisaged in it have been performed. One of the main axes of the training plan has been the adaptation of the skills of CAF's employees to the new requirements arising from the projects and the improvement of internal processes.

In 2015 tools and systems have been enhanced to promote leadership and management skills. A community of learning dedicated to management has been initiated, and development initiatives at various levels for this group of employees continue to be implemented. Worthy of mention in this area is the development of a new version of the evaluation process, placing emphasis on improving performance and defining individual development plans.

In the area of internal communication, progress continues to be made and, in addition to consolidating the initiatives put in place to date, a new communications plan to be rolled out in 2016 has been designed.

It underlines the growing importance, within the activities of the human resources area, of the programmes that offer the possibility of making initial contract with the world of business, as a supplement to regulated training. This activity is aimed at individuals in the last years of study and graduates interested in putting their knowledge into practice in an entrepreneurial environment and, in certain cases, in other countries in which CAF has headquarters. 2015 also saw the promotion of doctorate programmes linked to R&D projects.

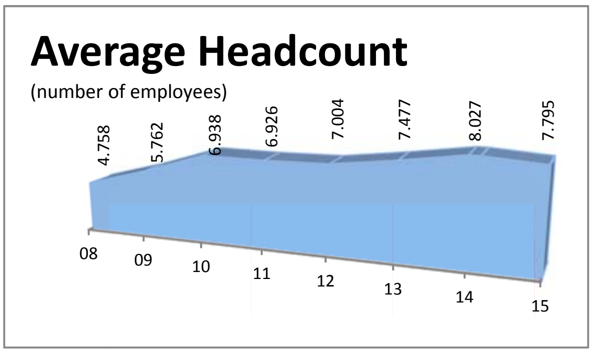
In the area of occupational risk prevention, certification based on the OHSAS 18001 standard was maintained for the Beasain, Irún and Zaragoza centres.

In general the planned prevention initiatives were carried out, in some cases improving the accident indicators defined in the annual occupational risk prevention plan.

Internationally, activities have been centred on the optimisation of the resources allocated to the projects, as a result of the operating efficiency measures put in place, as well as the management of the needs for the start-up of new projects.

A major effort has been made in the area of labour relations, ranging from collective bargaining in several countries to the control of labour costs in international projects.

Also, progress was made in the implementation of people management activities in the international arena, with the roll out of procedures focused on training and performance management.



INVESTMENTS

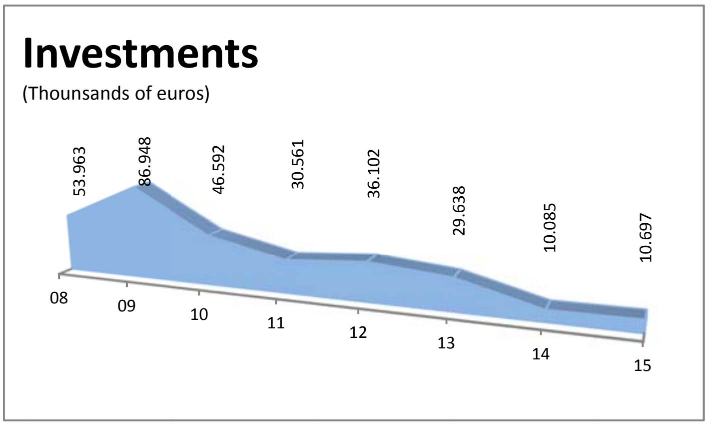
Capital expenditure by CAF in 2015 amounted to EUR 10,697 thousand. These investments most notably include:

In the wheelset business unit, following completion of the investments carried out to optimise and automate the wheel machining line, investments were made in the initial engineering and study phase for the implementation of the new axle automated machining and verification line, and will continue beyond 2016 and into the coming years. To this initiative must be added the reorganisation of the flow of production of wheels in the final phases of manufacture, aimed at grouping together the processes of review, verification and shipping, as well as the commencement of the construction of the new offices of the wheelset business unit.

In the vehicles business unit, investments in 2015 are focused mainly on updating the facilities in general and production machinery at all levels, as well as on the review and improvement of issues relating to safety and occupational risk prevention. New spaces were also refurbished for work on carbody structure, bringing together all the activities relating to this area.

In the other areas, of particular note from an IT perspective was the development and upgrade of IT software and hardware, with the enhanced capacity in processes, as well the increased storage capacity called for by the organisation in order to respond to growth and the current influx of new projects.

Lastly, added to this were the significant investments made by the Group at the subsidiary Vectia Mobility, for the development of the electric bus, as well as those carried out at various maintenance centres owned abroad, required in some cases at the beginning of new projects and in others due to the increase in the activities to be performed in those countries.



TECHNOLOGICAL DEVELOPMENT

As regards CAF and CAF I+D, in 2015 the new Group Technology Plan for 2016-2018 was completed which, aligned with the Strategic Plan, will set in motion a total of 51 new projects for CAF and its subsidiaries, and continue another 59. A total of 66 projects under the Technology Plan were underway in 2015.

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

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

The Technology Plan implemented in 2015-2017 fostered projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2015-2017 Technology Plan encompassed the following fields:

- High-speed
- Specific railway products
- Energy management and ecodesign, comprising projects relating to the reduction and optimization of energy consumption in trains and in the system as a whole, energy capture for catenary-free trams, etc.
- Signalling (on-board and fixed)
- Integration, comprising global transport system projects
- Specific products and developments using basic rail technologies, traction, spare parts, gear units, control and communications, maintenance, etc.

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

- Projects for the development of various types of vehicle.
- Project VEGA for the development of safety electronics
- Project for electronic train control, including safety functions.
- Projects for the development of expertise in driving resistance, Electromagnetic Compatibility (EMC), railway dynamics, noise and vibrations, energy management, and energy accumulation systems, with the support of regional and autonomous community governments.
- OARIS high-speed train prototype.
- ERTMS-ETCS system for the development of on-board signalling equipment.

Of particular note in this group of projects was the completion of on-track trials of the OARIS high-speed train prototype and its ERTMS-ETCS on-board system.

The CAF Group also participated in joint projects on a domestic level with RENFE and ADIF and also with various international authorities and companies as part of domestic programmes and the 7th European Framework Programme. Noteworthy projects included:

- European projects:
  - SAFEJOINT for the development of metal-metal and metal-composite hybrid structures
  - REFRESCO for the development of car body structure solutions in composite material
  - OSIRIS for reducing energy consumption in urban rail systems (with the involvement of the most important companies in the industry)
  - MERLIN for the establishment of energy management strategies at global network level and the development of tools to optimise the energy consumption and cost associated with a railway network
  - NGTC for the study of an interface between ERTMS and the satellite positioning module
  - ROLL2RAIL, a 2-year project led from a technical standpoint by CAF and prior to Shift2Rail, the objective of which is the development of a series of key technologies that will enable a major leap forward in innovation in the field of railway vehicles

In European projects CAF is one of the eight founding members of the Shift^{2}Rail Joint Undertaking (JU) to promote railway R&D activity as part of the Horizon 2020 programme. The technology development work on this project will continue until 2024 and begin in 2016.

The subsidiaries continued their normal technological development activity including the following milestones:

- The successful commercial operation of the catenary-free, autonomous energy accumulation system installed in the Seville tramway and its application to the Seville, Zaragoza and Granada tramways and future application in Kaohsiung (Taiwan) and Luxembourg.
- The development of traction equipment covering a range of catenary voltages of up to 25 kV, enabling its commercialisation in projects for Indian Railways, Auckland Metro and locomotive refurbishment projects in various countries.
- The performance and award of various tenders by ADIF for ERTMS track products and marketing of the ETCS system introduced in various projects

The most relevant engineering projects undertaken by the Group in 2015 were as follows:

- Metro UTO for Santiago de Chile
- Euskotren s/950
- LRV for Metro of Boston (USA)
- Train Civity for NS (Holland)
- Trailer cars for Caledonian (UK)
- Trams of Budapest (Hungary) and Kansas (USA)

The following engineering projects entered into service in 2015:

- Oaris high-speed trains for Flytoget (Norway)
- Metro Medellín (Colombia)
- Units for Toluca (Mexico)
- Trams for St Etienne (France), Utrech (Holland), Luxembourg

RISK MANAGEMENT POLICY

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

1.- Financial risks

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

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

a) Market risk

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

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

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

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

b) Credit risk

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

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

c) Liquidity risk

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

The CAF Group manages liquidity risk using the following mechanisms:

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

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

- Maintaining a strong short-term liquidity position.

- Maintaining surplus undrawn credit balances.

The average payment period to suppliers in 2015 was 69,53 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Group is to make an effort to align events giving rise to payments to those giving rise to collection in order to reduce the payment time without losing necessary liquidity.

d) Cash flow and fair value interest rate risk

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

e) Risks arising from variances with respect to project budgets

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

2.- Risks arising from environmental damage

CAF is fully committed to protecting the environment. With this objective in mind, it has implemented the principles of the EU's environmental action programme based on preventative measures and the rectification of problems at source. To this end, the Company has introduced a programme of measures in various areas of environmental concern relating to the atmosphere, spills, waste, consumption of raw materials, energy, water and noise, and has obtained certification under the ISO14001 standard.

3.- Legal and contractual risks arising mainly from harm caused to third parties as a result of deficiencies or delays in the provision of services

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

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

All CAF's plants use the most advanced technology available and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 standard.

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

4.- Occupational risks or damage to plant assets

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

CORPORATE SOCIAL RESPONSIBILITY

In 2015 CAF was fully committed to making advances in the area of Corporate Social Responsibility with the preparation and approval by the Board of Directors on 29 December 2015 of CAF's Corporate social responsibility policy.

Throughout 2015 steps were taken along this line of work, reinforcing CAF's commitment to certain principles of action included in this policy relating, inter alia, to the legal system, good governance practices, information and responsible communication.

The most significant initiatives undertaken in 2015 are as follows:

- Crime Prevention Manual: At its meeting of 29 April 2015, CAF's Board of Directors approved a Crime Prevention Manual, adapted to the provisions of the new Criminal Code that came into force on 1 July 2015.

- Policy on communication and contact with shareholders, institutional investors and voting advisers: On 28 October 2015, the Board of Directors of CAF approved the Policy on communication and contact with shareholders, institutional investors and voting advisers in accordance with the provisions of the Good Governance Code for Listed Companies approved by the Spanish National Securities Market Commission (CNMV).

- Director selection policy: On 28 October 2015, CAF's Board of Directors approved the Director selection policy, thereby complying with the Spanish Limited Liability Companies Law and the recommendations of the Good Governance Code.

The detail of the initiatives undertaken by the Company in relation to certain of the commitments assumed by CAF in its Corporate social responsibility policy is as follows:

Commitment to innovation and sustainability

In the area of innovation, 2015 saw a continuation of R&D activities and the new initiatives included in the technology plan established for the period 2015-2017 were initiated, as discussed herein in the section on Technological Development.

In 2015 advances were made in quality assurance across all the areas of activity of CAF's various businesses and headquarters in accordance with internationally recognised standards as evidenced in the table below:

External audits (ISO 9001:2008 and IRIS v2)

Standard	Scope	Date
ISO 9001:2008	Vehicles - US	01/15
IRIS v2 – ISO 9001:2008	CAF P&A	01/15
ISO 9001:2008	Rail services – various/Spain	02/15
ISO 9001:2008	Transport systems	04/15
IRIS v2 – ISO 9001:2008	Vehicles - Beasain and Irún	05/15
ISO 9001:2008	CAF Signalling	06/15
IRIS v2 – ISO 9001:2008	Vehicles - Zaragoza	09/15
ISO 9001:2008	Vehicles - US	09/15
IRIS v2 – ISO 9001:2008	Wheelsets - Beasain	10/05
IRIS v2 – ISO 9001:2008	Rail services	10/05
ISO 9001:2008	Rail services - Algeria	10/05
ISO 9001:2008	CAF T&E	11/15
IRIS v2 – ISO 9001:-2008	CAF P&A	11/15
ISO 9001:2008	Vehicles - Brazil	11/15

Also, in the area of project safety, the products and services produced and provided by CAF for its customers have seen progress in the definition of proprietary safety systems developed in line with benchmark regulations in the markets in which CAF operates.

As regards safety, CAF implemented Plan S with the objective of reinforcing all the activities aimed at promoting safety across all the operations carried out by it.

In 2015 advances were made in the implementation of the activities contained in Plan S, both in the vehicles business unit and the other businesses of the CAF Group. It should be noted that the vehicles business units defined its own safety management system which was audited and received certification in July 2015, adapting to European Directive 402/2013 –Common Safety Methods- and the international EN 50126 standard. These standards set out the guidelines to be followed across a railway project's entire industrial process, from the design, manufacture, quality testing and service operation offering to the end of the useful life of the product.

Commitment to the environment

CAF assumes environmental protection to be one of the organisation's objectives from various standpoints: to offer more environmentally efficient and respectful means of transport, minimise negative environmental impacts and prevent pollution across all the Group's industrial activities.

In the manufacturing plants of CAF, since 2001 the environmental management system has been up and running and has been certified, in accordance with ISO14001:2004, which includes the organisational structure, the planning of environmental protection initiatives, responsibilities, environmental objectives and the resources for carrying out, reviewing and updating the environmental policy. Also, in the months of May and November 2015 audits for the maintenance and recertification under ISO 14001:2004 of the Environmental Management System were successfully performed at the Beasain, Irún and Zaragoza plants.

Efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and, where necessary, minimise important areas of environmental concern, such as emissions into the atmosphere, waste generation and energy consumption. The aim is to preserve natural resources, in line with the environmental advantages relating to the manufacturing of means of railway transport which are favoured due to their reduced impact on the environment. It should be noted that, CAF is in the process of implementing the "product sustainability function" by introducing ecodesign methods into the engineering processes to optimise and control from the conception of products their environmental impacts over their life cycles.

CAF also integrates methods and tools into its design processes that enable it to assess and select the best product solutions and configurations mainly through the following initiatives:

- Recyclability analysis in accordance with the ISO 22628 standard to select the best materials.

- Analysis of the life cycle in accordance with the ISO 14040 standard for the environmental evaluation of the product in each stage of its life cycle.

As a result, CAF published environmental product declarations (EPDs) in accordance with ISO 14025 and in 2015 renewed the EPD verifying the Urbos 100 tram for the city of Zaragoza, and published new EPDs for the M3000 Metro for the city of Helsinki, the Urbos AXL for the city of Stockholm and the Urbos 100 for Kaohsiung (Taiwan). All of them have been verified by third parties in accordance with the PCR UN CPC 495 standard of UNIFE-ENVIRONDEC and registered on its website (http://www.environdec.com); 6 EPDs have now been published by CAF.

Also, in fulfilment of the Kyoto Protocol, note should be taken that greenhouse gas emissions were kept below the level of their allocated emission allowances.

Commitment to the shareholder

CAF is highly committed to the creation and promotion of the conditions necessary in order to ensure the involvement of shareholders in the decisions for which it has competence, by guaranteeing the equality of information and the exercise by the shareholders of their rights, within the framework of the corporate interest of the Company.

In this regard, throughout 2015 the corporate website (www.caf.es) has been confirmed as CAF's main official communication channel, with the information that may be of interest to shareholders and investors being updated on a permanent basis.

In 2015 the shareholder and investor helpdesk was strengthened through the allocation of both more human and material resources in order to provide information and effectively and swiftly respond to queries, questions or the shareholders' suggestions.

Commitment to the customer

CAF is committed to offering its customers the projects, products and services best suited to their needs at any one time, thereby providing the highest degree of quality and safety.

In the area of quality and safety, the activities carried out in 2015 have already been mentioned in the section on Sustainability.

It should also be noted that in recent years various initiatives have been launched, designed to improve the customers' experience with CAF's products and projects.

In 2015 advances continued to be made along the lines marked out for the 2016 time horizon in the Plan Q16. Of special note was the consolidation of the product quality area, the objective of which is to ensure the quality of the product offered through new actions focused particularly on the initial phases of design and conception, and the SQA area (Suppliers Quality Assurance), in this case with the aim of optimising the quality assurance activities of the products and materials supplied to CAF.

In the industrial quality area, the inspections in progress have been reorganised to bring them into line with the manufacturing process, in the framework of which major advances have been made in the control of special processes, consolidating, in addition to the process of welding, those of coating, crimping, painting and tightening torques.

Commitment to people

CAF's people are an indispensable factor in its success and CAF undertakes to promote their professional development, taking into account the best possible balance between the Company's objectives and the needs and expectations of the employees. Accordingly, in 2015 more than 1,300 training actions were conducted representing more than 70,000 hours of training, while a 3-year skill reinforcement plan has been launched for the training of employees that will enable them to assume new responsibilities in the future.

In the area of internal communication, a new communications channel was launched consisting of the installation of information panels that supplement the information provided in the CAF portal, the corporate magazine and the other media available for this purpose.

In this Directors' Report, a specific space is given over to the activities carried on in the people area in relation to: hiring and induction, training and development, communication, labour relations and occupational risk prevention both in Spain and abroad.

Commitment to suppliers

CAF is committed to all supplier selection processes being characterised by the search for competitiveness and quality, thereby ensuring equal opportunities among our organisation's suppliers and other partners.

To this end, CAF launched an on-line bid request and submission platform which in 2015 saw the inclusion of new suppliers and, as a result, at the reporting date a high percentage of orders are responded to through this platform. The platform leads to a standardisation and supervision of the contracting process based on a thorough control of quality, compliance and excellence in line with the commitments acquired in the Corporate Social Responsibility policy.

At the same time, new requirements have been added such as security in the validation process, thereby fostering the active involvement of the other departments that take part in the process of searching for quality and competitiveness in the contracting of suppliers, while also ensuring equal opportunities among all of them.

Commitment to society

CAF is committed to the local, national and international, communities, developing and promoting initiatives aimed at improving the quality of people's lives in the communities in which it operates and in the context of its business activity.

In 2015 CAF continued to create opportunities for the development of young professionals, establishing cooperation agreements with educational bodies and public and private entities.

In this period stable agreements were maintained with the principal business schools (e.g. Goierri Eskola) and university centres in the area of the Group's headquarters (e.g. Universidad de Deusto, Universidad del País Vasco, Universidad de Navarra (Tecnun), Universidad de Mondragón, etc.).

Similarly, 170 placements of students and graduates at the organisation were arranged, carrying out targeted learning projects and activities of mutual interest both in Spain and at CAF's headquarters abroad.

In 2015 support continued to be given to certain cultural and linguistic activities. A highlight of the year was the participation, together with Fundación Elhuyar, in the CAF-Elhuyar Awards whose objective is to promote, reward and acknowledge the dissemination of scientific and technological works in the Basque language. Once again CAF supported the Igartza Awards organised by the Beasain Municipal Council and the publisher ELKAR, the objective of which is the promotion of literary creation among the young.

Forthcoming activities

CAF's intention for 2016 is to continue making progress in the implementation of new measures and the development of new practices that are governed by the commitments and principles approved in the Corporate social responsibility policy, in line with internationally accepted policies.

OUTLOOK

The Group's outlook for the coming years is focused on the following points:

- Development of the Group’s potential in railway-related services, such as concessions, the operation of rail systems, and the lease, maintenance and refurbishment of trains and locomotives, etc.

- Progressive growth in activities relating to the conception and construction of turnkey rail systems and rail signalling, including on-board and infrastructure ERTMS solutions, capitalising on the developments in these fields made by the Group in prior years, thereby offering complete ready-to-operate systems and, when customers so require, the maintenance or operation thereof, as the case may be, on a stand-alone basis or through the forging of alliances.

- Continuation of the Group's technological development through a major investment effort in the research and development of new systems and subsystems and expansion of our vehicle portfolio (rolling stock). Among others, those envisaged in the European rail technological initiative, Shift2Rail.

- Growth in commercial activity in international markets, particularly in those with the greatest growth potential and the highest volumes, such as the European regional rolling stock segment.

- Promotion of the rolling stock platforms developed in recent years (Civity, Urbos, Oaris) and standardisation of modular solutions since these constitute a major advance towards cost reduction and the maximisation of the reliability of our products.

- Systematic and recurring application of cost and working capital cutting initiatives and the search for excellence in matters of quality across all the Group's business activities and areas in a highly competitive environment.

- Ongoing adaptation of the organisation, strategic and operational processes and the Group's support tools to the changing needs of each specific market, culture and time in which the activity is carried on.

EVENTS AFTER THE REPORTING PERIOD

At 31 January 2016, the Group had a firm backlog of EUR 5,548,924 thousand.

2015

ANNUAL

CORPORATE GOVERNANCE

REPORT

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

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

END OF FISCAL YEAR DATE	31/12/2015

EMPLOYER'S IDENTIFICATION NUMBER (CIF):	A20001020

COMPANY NAME
CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A

REGISTERED OFFICE
JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete 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 whether different types of shares exist with different associated 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 corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
TEMPLETON INVESTMENT COUNSEL, LLC	0	103,888	3.03%
CARTERA SOCIAL, S.A	892,780	0	26.04%
INVESCO LIMITED	0	35,007	1.02%
KUTXABANK, S.A.	653,256	0	19.06%
BESTINVER GESTIÓN S.A., S.G.I.I.C.	0	105,759	3.09%

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
TEMPLETON INVESTMENT COUNSEL, LLC	GROUP COMPANIES	103,888
INVESCO LIMITED	GROUP COMPANIES	35,007
BESTINVER GESTIÓN S.A., S.G.I.I.C.	BESTINVER PENSIONES EGPF, S.A.	105,759

Indicate the most significant movements in the shareholder structure during the year:

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
BESTINVER GESTIÓN S.A., S.G.I.I.C.	09/09/2015	Ownership interest has risen above 3% of share capital

A.3 Complete the following tables on company directors holding voting rights through company shares.

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
MR. JOSE IGNACIO BERROETA ECHEVARRIA	110	0	0.00%
MR. XABIER GARAIALDE MAIZTEGUI	75	0	0.00%
MR. JUAN JOSE ARRIETA SUDUPE	100	0	0.00%

Total % of voting rights held by the Board of Directors	0.00%

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 applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related name or company name
CARTERA SOCIAL, S.A
CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

Type of relationship: Contractual

Brief description:

Workers' share instrument in CAF

Related name or company name
KUTXABANK, S.A.
CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

Type of relationship: Corporate

Brief description:

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

A.6. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes [ ] No [X]

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes [ ] No [X]

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

Not applicable

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Law. If so, identify:

Yes [ ] No [X]

Comments

A.8 Complete the following tables on the company's treasury stock:

At year-end:

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

(*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Explain the significant changes

A.9. Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

The CAF General Meeting held on 13 June 2015 resolved to authorise the derivative acquisition of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. for five years and under the following terms: a) Acquisitions may be executed by CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. directly, or indirectly through its affiliates. b) Acquisitions shall be performed through purchase or exchange transactions or any others permitted by law. c) Acquisitions shall be done, at each given time, up to the maximum amount provided by law. d) Acquisitions shall be done at market price. e) Acquisitions performed within the scope of this authorisation shall fulfil the legal requirements in force. f) This authorisation shall be valid for a five-year term. This authorisation disregards the authorisation granted by resolution of General Shareholders' Meeting held on 5 June 2010.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	47.76

A.10. Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes ☐ No ☒

A.11. Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes ☐ No ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☐ No ☒

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

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 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC.

Yes ☐ No ☒

Describe how they differ from the rules established in the LSC.

B.3 Indicate the rules governing 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 25% or more but less than 50% 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 this person 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:

	Attendance data				
Date of General Meeting	% attendance in person	% attendance by proxy	% remote voting		Total
			Electronic vote	Other	
07/06/2014	46.35%	27.29%	0.00%	0.00%	73.64%
13/06/2015	45.63%	24.77%	0.00%	0.00%	70.40%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings:

Yes ☒ No ☐

Number of shares required to attend a General Meeting	100

B.6 Section repealed.

B.7 Indicate the address and mode of accessing corporate governance content on the company's website as well as other information on General Meetings which must be made available to shareholders on the website.

The corporate information is available under "Shareholders and investors" of the corporate website (www.caf.net). The complete path is http://www.caf.es/es/accionistas-inversores/index.php.

This link includes, in a structured format, the information required by Royal Decree-Law 1/2010, of 2 July, which approved the Consolidated Companies Law, the Consolidated Securities Market Law, approved by Royal Decree-Law 4/2015, of 23 October, the Circular 3/2015, of 13 June, on technical and legal specifications and information to be contained in the websites of listed companies and savings banks issuing securities admitted for trading in official secondary stock markets.

Apart from current by-laws, specifically subsection "Corporate Governance" contains the most important information on this matter (General Shareholders' Meeting and Board of Directors Regulations; the Company's Internal Rules of Conduct within the sphere of Stock Markets; structure of the Board of Directors and its committees; Corporate Governance Annual Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, and other regulations and codes).

In addition, the subsection "General Shareholders' Meeting" contains information on this body, including the announcement of the agenda and call, the proposed related agreements, the documents subject to the approval of the General Shareholders' Meeting, explanations related to the exercise of the right to information and attendance, procedures and means for voting delegation and remote voting, requests for information and clarifications, as well as information on the Meeting's performance and the agreements reached after it was held.

In addition, in compliance with article 539.2 of the Companies Law, simultaneously with the call to each general meeting, a direct access to the Electronic Shareholders Forum is enabled to facilitate communication among shareholders regarding the call and the meeting itself.

C MANAGEMENT STRUCTURE OF THE COMPANY

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	15
Minimum number of directors	7

C.1.2 Complete the following table with Board members' details.

Name or corporate name of director	Representative	Director's status	Position in the Board	Date of first appoint.	Date of last appoint.	Procedure for election
MR. ANDRES ARIZKORRETA GARCIA		Executive	CHAIRMAN AND CEO	26/12/1991	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JUAN JOSE ARRIETA SUDUPE		Independent	DIRECTOR	07/06/2008	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JAVIER MARTINEZ OJINAGA		Independent	DIRECTOR	13/06/2015	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	28/10/2015	COOPTION
MR. ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JOSE IGNACIO BERROETA ECHEVARRIA		Independent	DIRECTOR	07/06/2008	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING

Name or corporate name of director	Representative	Director's status	Position in the board	Date of first appoint.	Date of last appoint.	Procedure for election
LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
XABIER GARAIALDE MAIZTEGUI		Independent	DIRECTOR	18/11/2004	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING

Total number of directors	8

Indicate any removals of directors during the reporting period:

Name or corporate name of director	Director's status upon termination	Date of termination
FERMIN ARRESE ARRATIBEL	Other External	29/04/2015
JOSE MIGUEL DE LA RICA BASAGOITI	Other External	29/04/2015
KUTXABANK, S.A.	Proprietary	26/10/2015
JOSE MARIA BAZTARRICA GARIJO	Executive	29/12/2015
MARIA JOSE DE LARREA GARCIA-MORATO	Independent	21/07/2015

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

EXECUTIVE DIRECTORS

Name or corporate name of director	Position per Company organisation chart
ANDRES ARIZKORRETA GARCIA	Chairman and CEO

Total number of executive directors	1
% of the board	12.50%

NON-EXECUTIVE PROPRIETARY DIRECTORS

Name or corporate name of director	Name or company name of significant shareholder represented or proposing appointment
JOSE ANTONIO MUTILOA IZAGUIRRE	KUTXABANK, S.A.

Total number of proprietary directors	1
% of the board	12.50%

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name or corporate name of director:

MR. JOSE IGNACIO BERROETA ECHEVARRIA

Profile:

Degree in economics and business administration. The main part of his broad professional experience has been undertaken in companies within the energy and financial sectors, holding high responsibility positions.

Name or corporate name of director:

JUAN JOSE ARRIETA SUDUPE

Profile:

PhD in economics and business administration. He has a broad experience in the management of renowned financial entities and business schools.

Name or corporate name of director:

XABIER GARAIALDE MAIZTEGUI

Profile:

He has a broad experience in companies within the financial sector and has been a member of the Board of Directors in different companies.

Name or corporate name of director:

JAVIER MARTINEZ OJINAGA

Profile:

Solicitor and economist. He has developed is professional career in companies within the electric sector as well as in project management and interim management. Has a broad experience in accounting and auditing.

Total number of independent directors	4
Total % of the Board	50.00%

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 EXTERNAL DIRECTORS

Other External directors will be identified and reasons will be provided on why these Other External 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 corporate name of director:

LUIS MIGUEL ARCONADA ECHARRI

Company, officer or shareholder with whom relation is maintained:

LUIS MIGUEL ARCONADA ECHARRI

Reason:

Director Luis Miguel Arconada Echarri holds no relationship whatsoever either with the Company or its management and shareholders. However, he cannot be considered as independent since he has been Director for more than twelve years.

Name or corporate name of director:

ALEJANDRO LEGARDA ZARAGÜETA

Company, officer or shareholder with whom relation is maintained:

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

Reason:

Director Alejandro Legarda Zaragüeta has been CAF Managing Director until fiscal year 2014.

Total number of Other External directors	2
Total % of the Board	25.00%

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

Name or corporate name of director	Date of change	Previous status	Current status
JOSE IGNACIO BERROETA ECHEVARRIA	25/02/2015	Other External	Independent
JUAN JOSE ARRIETA SUDUPE	25/02/2015	Other External	Independent
XABIER GARAIALDE MAIZTEGUI	25/02/2015	Other External	Independent

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 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012
Committee	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 External	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.

Explanation of the measures
The company attempts to include a number of women in the Board of Directors so as to reach a balanced number of men and women. The Nomination and Remuneration Committee has proposed the appointment of a female director this year, who was appointed by the General Meeting but then resigned, generating the subsequent vacancy. In addition, CAF has approved a Directors' Selection Policy aimed at, among others, favouring gender diversity in appointing the members of the Board of Directors, pursuant to recommendation 14 c) under the Code of Listed Companies' Good Governance, and articles 529 bis and 529 quindecies of Companies Law. Particularly, the express purpose of the Directors' Selection Policy is that the number of female directors represent at least thirty percent of all Board of Directors' members by year 2020. In order to attain as much compliance as possible with corporate governance rules, the Board of Directors has established an action plan in its evaluation report to be followed-up during fiscal year 2016, which includes considering the gender diversity criterion in the future Board appointments, particularly facilitating the selection of female directors. According to such action plan, during the first Board of Directors' meeting held in fiscal year 2016, with the prior favourable report from the Nomination and Remuneration Committee, a new female director was appointed by cooption.

C.1.6 Explain the measures that would have been decided by the Nomination 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:

Explanation of the measures
CAF's Nomination and Remuneration Committee ensures that, in covering new vacancies, the selection processes used are not implicitly impartial and do not hinder the selection of female directors, thus including women with the expected profile among potential candidates under the same conditions. Such role appears in point 3 of the Company's Nomination and Remuneration Committee, as approved by the Board of Directors. The Nomination and Remuneration Committee has proposed the appointment of a female director in fiscal year 2015, who was appointed by the General Meeting but then resigned. In addition, in the Nomination and Remuneration Committee's Report on the Board of Directors' annual evaluation issued in fiscal year 2015, this Committee has expressly proposed as an action plan for the following fiscal year that such body consider the gender diversity criterion to select its members, as set forth in such Committee's evaluation report on its own performance. In line with this recommendation, during its first 2016 meeting, the Nomination and Remuneration Committee proposed CAF's Board of Directors to appoint a new female director by cooption.

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:

Description of the reasons
The Company's Annual General Meeting, held on 13 June 2015, agreed to appoint an independent female director for a term of four years. However, in July 2015, the female director resigned from her position for personal reasons, which is the reason why there is no gender diversity in the Company's Board of Directors at the end of fiscal year 2015. However, subsequently, the Company's Board of Directors appointed a new female director by cooption during its first meeting in fiscal year 2016.

C.1.6 bis Explain the Nomination Committee's conclusions on the verification of the compliance with the directors' selection policy. Particularly, explain how such policy is promoting the goal whereby the number of female directors should reach 30% of the Board of Directors' total members by 2020.

Explanation of the findings
The Directors' Selection Policy was approved by the Board of Directors on 28 October 2015, which is why it was not fully applied during this fiscal year.

However, the Nomination and Remuneration Committee considers that both the Board of Directors and the Committee itself have reasonably complied with such policy during its short effective term since it was approved and expects to have more implementation and follow-up opportunities throughout 2016.

A proof of this is the appointment by cooption of a new female director during the first Board of Directors' meeting held in fiscal year 2016.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

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

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the 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 so, explain why these requests have not been entertained:

Yes ☐ No ☒

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director:

FERMIN ARRESE ARRATIBEL

Reasons for resignation:

Resignation notified in writing to the Board of Directors, for personal reasons.

Name of director:

JOSE MIGUEL DE LA RICA BASAGOITI

Reasons for resignation:

Resignation notified in writing to the Board of Directors, for personal reasons.

Name of director:

KUTXABANK, S.A.

Reasons for resignation:

Resignation notified in written to the Board of Directors, for personal reasons.

Name of director:

JOSE MARIA BAZTARRICA GARIJO

Reasons for resignation:

Resignation notified in writing to the Board of Directors, for personal reasons.

Name of director:

MARIA JOSE DE LARREA GARCIA-MORATO

Reasons for resignation:

Resignation notified in writing to the Board of Directors, for personal reasons.

C.1.10 Indicate what powers, if any, have been delegated to the managing director(s).

Name or corporate name of director:

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 corporate name of director	Corporate name of the group entity	Position	Does he hold any executive positions?
ANDRES ARIZKORRETA GARCIA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
ANDRES ARIZKORRETA GARCIA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF DEUTSCHLAND GMBH	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF SISTEME FEROVIARE, S.R.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF NEW ZEALAND LIMITED	Director	YES
ANDRES ARIZKORRETA GARCIA	CAF TAIWAN LTD.	Chairman	YES
ANDRES ARIZKORRETA GARCIA	CAF CHILE, S.A.	Chairman	NO
ANDRES ARIZKORRETA GARCIA	CAF ARGELIA EURL	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF FRANCE SAS	Chairman	YES

Name or corporate name of director	Corporate name of the group entity	Position	Does he hold any executive positions?
ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF HUNGARY Korlátolt Felelösségu Társaság	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	TRENES DE NAVARRA, S.A.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	INVERSIONES EN CONCESIONES FERROVIARIAS, S.A.U.	Joint and Several Director	YES
ANDRES ARIZKORRETA GARCIA	CAF INDIA PRIVATE LTD	Managing Director	YES
ANDRES ARIZKORRETA GARCIA	GESTION ELABORACION DE MANUALES INDUSTRIALES INGENIERIA Y SERVICIOS COMPLEMENTARIOS, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	NUEVAS ESTRATEGIAS DE MANTENIMIENTO, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	ENNERA ENERGY AND MOBILITY, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	RAIL LINE COMPONENTS, S.L.U	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CENTRO DE ENSAYOS Y ANALISIS CETEST, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CONSTRUCCIONES FERROVIARIAS DE MADRID, S.L.U.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	CAF TRANSPORT ENGINEERING, S.L.	Sole Director	YES
ANDRES ARIZKORRETA GARCIA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS S.A.P.I. DE C.V.	Chairman and Non-Executive	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Name or corporate name of director	Corporate name of the group entity	Position
ALEJANDRO LEGARDA ZARAGÜETA	VISCOFAN, S.A.	DIRECTOR
ALEJANDRO LEGARDA ZARAGÜETA	PESCANOVA, S.A.	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes ☐ No ☒

C.1.14 Section repealed.

C.1.15 List the total remuneration paid to the Board of Directors in the year:

Board remuneration (thousands of Euros)	1,477
Amount of the pension rights accumulated by current directors (in thousands of Euros)	0
Amount of the pension rights accumulated by former directors (in thousands of Euros)	0

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

Name or corporate name	Position
JESUS ESNAOLA ALTUNA	CHIEF COMMERCIAL OFFICER
AITOR GALARZA RODRIGUEZ	CHIEF FINANCIAL AND STRATEGY OFFICER
IÑIGO ONA LARUMBE	CHIEF OPERATING OFFICER
IBON GARCIA NEILL	RAIL SERVICES DIRECTOR
FELIX FERNANDEZ LOPETEGUI	PROJECT MANAGEMENT DIRECTOR
JOSU VILLAR ELORZA	QUALITY AND SAFETY DIRECTOR
EDUARDO GALVEZ LISON	CHIEF TECHNICAL OFFICER
JUAN GASTESI IRIARTE	HUMAN RESOURCES DIRECTOR
EDUARDO ECHEVERRIA ARRATIBEL	CORPORATE DEVELOPMENT DIRECTOR
MARTA BAZTARRICA LIZARBE	GENERAL COUNSEL
JOSU IMAZ MURGUIONDO	WHEELSETS DIVISION DIRECTOR
MIKEL ORTEGA AÑORGA	INTERNAL AUDITOR
IRUNE LOPEZ FERNANDEZ	INTERNAL AUDITOR
LUIS TERRADILLOS ANDRES	CHIEF FINANCIAL OFFICER

Total remuneration of senior executives (thousand Euros)	2,262

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

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

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any amendment has been made to the Board Regulations during the year:

Yes [X] No [ ]

Description of amendments
During its meeting held on 25 February 2015, the Company's Board of Directors unanimously adopted the agreement to amend certain articles from its Regulations for the purpose of adapting them to the Companies Law amendments introduced by Law 31/2014, of 3 December, whereby the abovementioned Companies Law was amended to improve corporate governance and to introduce certain technical improvements arising from current regulations. The amended articles are: Article 1 (Purpose). Article 5 (General Office of Supervision).

Article 7 (Structure).
Article 8 (Board of Directors' Chairman)
Article 9 (Board of Directors' Secretary)
Article 13 (Board of Directors' meetings)
Article 14 (Development of meetings)
Article 15 (Directors' appointment)
Article 16 (External directors' appointment)
Article 18 (Directors' redundancy)
Article 19 (Objectivity. Secret voting)
Article 20 (Information powers)
Article 22 (Board of Directors' remuneration)
Article 23 (Directors' general duties)
Article 24 (Directors' confidentiality obligation)
Article 25 (Non-compete obligation)
Article 26 (Conflicts of interest)
Article 27 (Non-public information)
Article 28 (Business opportunities)
Article 29 (Indirect transactions)
Article 30 (Corporate Governance Annual Report).
The remaining articles have not been amended.
The amended Board of Directors' Regulations were communicated as a Material Event to the National Securities Market Commission (CNMV) and has been available since then in CAF's corporate website, www.caf.net.

C.1.19 Indicate the procedures for the appointment, re-election, evaluation and removal of directors. List the competent bodies, procedures and criteria used for each of these procedures.

APPOINTMENT 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 or, in case of early vacancy, by the same Board through cooption. 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 Directors were appointed, the Board of Directors may cover them until the first General Meeting is held. Should the vacancy take place once the General Meeting has been called but before it is held, the Board of Directors may appoint a director until the following General Meeting is held. Should the vacancy be for the position of Chairman or Executive Director, 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 in the Board structure non-executive directors represent the majority over executive directors, that among independent 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. However, this last condition may be relaxed by recognising more significance to proprietary directors, upon existence of a plurality of shareholders represented in the Board with no links between them. Additionally, 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 Nomination and Remuneration Committee, in the case of Independent Directors and by the Board for the rest of the cases. The proposal shall be accompanied with an explanatory report issued by the Board of Directors, assessing the competence, experience and merits of the proposed candidate, to be attached to the General Meeting or Board of Directors' Meeting minutes. The proposed appointment or re-election of any non-independent director shall also be preceded by a report from the Nomination and Remuneration Committee. The abovementioned shall also apply to natural persons appointed representatives of an artificial person acting as director. The natural person proposed to be a representative shall be subject to the report from the Nomination and Remuneration Committee. Should the Board decide not to follow the proposals of the Nomination and Remuneration Committee, it shall submit and minute its reasons for such decision. 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) If they have been employed or acted as executive directors in Group companies, unless 3 or 5 years have elapsed since the termination of such a relationship, respectively. b) Individuals who are paid by the Company or the Group itself any amount or benefits other than the director compensation, unless they are not 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.

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments
The Board of Directors' annual evaluation has not shown any circumstances requiring material changes in internal organisation or procedures applicable to its activities. However, in order to improve the effective performance of the Board of Directors and comply with corporate governance rules as much as possible, action plans have been drafted to be implemented during fiscal year 2016. Those already under implementation include considering the gender diversity criterion in appointing directors or approving an annual schedule of eight meetings for fiscal year 2016. This is all in accordance with Recommendations 14 and 26, respectively, of the Code of Good Governance of listed companies.

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board of Directors with the assistance, as applicable, of an external consultant with respect to the structure and competence diversity, the performance and structure of its committees, the performance of the Board of Directors' Chairman and the Company's Managing Director, and the performance and contribution of each director.

In order to evaluate the structure and competence diversity, the performance and structure of its committees, the performance of its Chairman and Managing Director, and the performance and contribution of each director, the Board of Directors based on reports issued by the Audit Committee and, especially, the report issued by the Nomination and Remuneration Committee.

The areas subject to evaluation have been as follows:

i. The quality and efficiency of the Board of Directors' operation.
ii. The performance and structure of its committees.
iii. The structure and competence diversity of the Board of Directors.
iv. The performance of the Board of Directors' Chairman and the CEO.
v. The performance and contribution of each director, with special emphasis on those in charge of the Board of Directors' different committees.
In view of this evaluation, the Board of Directors has issued its conclusions and set an action plan to be implemented during fiscal year 2016.

C.1.20.ter Break down, as applicable, the business relationships between the consultant or any other company of your group and the company or any other group company.

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

Directors must tender their resignation to the Board of Directors and, if the latter sees fit, 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) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement 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.1.22 Section repealed.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes ☐ No ☒

If applicable, describe the differences.

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

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the 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.

Yes ☐ No ☒

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been set forth regarding the right delegating conditions beyond the limitations established by law. 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 many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	6
Number of board meetings held without the Chairman's attendance	0

Should the chairman be an executive director, state if the number of meetings held without attendance of any executive director in person or by proxy and with the chairmanship of the coordinating director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year:

Committe	Number of Meetings
AUDIT COMMITTEE	4
NOMINATION AND REMUNERATION COMMITTEE	4

C.1.30 State the number of meetings held by the Board of Directors during the financial year, with the attendance of all members. Attendance will also include proxies appointed with specific instructions:

Number of meeting with the attendance of all directors	6
% of attendances of the total votes cast during the year	100.00%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes [X] No [ ]

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

Name	Position
ANDRES ARIZKORRETA GARCIA	CEO
LUIS TERRADILLOS ANDRES	Financial General Manager

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit 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 2015 and previous years were approved without qualifications.

C.1.33 Is the Secretary of the board also a director?

Yes [ ] No [X]

Complete the following table if the secretary is not a director:

Name or corporate name of secretary	Representative
ALFREDO BAYANO SARRATE	

C.1.34 Section repealed.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and 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 ensuring there will be no qualifications by the auditor. 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 gathering information on matters that may call the auditor's independence into question, for the analysis by the Committee, as well as any other matters related to the auditing process and any further notifications foreseen in the audit laws and in the audit technical standards. In any case, every year it will be required to receive from external auditors their statement of independence regarding the entity or entities related directly or indirectly thereto, as well as the information on any additional service rendered and the relevant fees paid by these entities to the external auditor or to the persons or entities related thereto, as established by legislation on auditing. Similarly, according to by-laws, every year the Audit Committee is required to issue, prior to the issuance of the audit report, a report containing an opinion on the auditor's independence. This report shall contain, as applicable, the assessment of the services provided, both individually and as a whole, other than those related to the statutory audit and pursuant to the independence regime or auditing regulations. 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 or entities 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 in the paragraph above. 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 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes ☐ No ☒

Explain any disagreements with the outgoing auditor and the reasons for the same:

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes ☒ No ☐

	Company	Group	Total
Amount paid for non-audit work (in thousands Euros)	0	178	178
Amount paid for non-audit work as a % of the total amount billed by the audit firm	0.00%	24.02%	24.02%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate 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 consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	14	14
Number of years audited by current firm/number of years the company has been audited (as a %)	36.84%	93.33%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes ☒ No ☐

Details of the procedure
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 21 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 are procedures for directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

Yes ☒ No ☐

Details of the 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 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. Ordinary Board meetings shall be convened at least 5 days in advance, although in practice the notice period is longer, and shall include the meeting's agenda, acknowledging the Directors' right to request all the information they may reasonably need regarding the Company and its group in furtherance of their duties. Such right to information should be channelled via the Chairman of the Board, who shall facilitate the information, identify the Company's appropriate interlocutors or decide on the suitable measures for the requested inspection or examination.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the company's name or reputation, tendering their resignation as the case may be:

Yes [X] No [ ]

Details of 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 of the crimes stated in Article 213 of the Companies Law, 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 reasonably report all of the aforementioned in the Annual Corporate Governance Report. In any case, directors shall inform and, if applicable, resign in those events that may be detrimental to the Company's name and reputation.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC.

Yes [ ] No [X]

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

There are no such agreements.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries: 1

Type of beneficiary:

Chief Executive Officer

Description of resolution:

Indemnification benefit due to termination ordered by the Company for reasons not related with the director

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

	Board of Directors	Annual General Meeting
Body approving clauses	**Yes**	**No**

	Yes	No
Is the General Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and Other External directors:

AUDIT COMMITTEE

Name	Position	Category
MR. JAVIER MARTINEZ OJINAGA	CHAIRMAN	Independent
MR. JUAN JOSE ARRIETA SUDUPE	MEMBER	Independent
MR. ALEJANDRO LEGARDA ZARAGÜETA	MEMBER	Other External

% of proprietary directors	0.00%
% of independent directors	66.67%
% of other external directors	33.33%

Explain the roles attributed to this committee, describe the procedures and its rules of organisation and operation, and summarise the most important actions taken during the fiscal year.

Name: AUDIT COMMITTEE. Brief description of its functions, organisation, operation and most important actions taken during the fiscal year. The Audit Committee shall be made up of at least three directors to be appointed by the Company's Board of Directors among non-executive directors. At least two of them shall be independent directors and one of them shall be appointed considering their knowledge and experience on accounting, auditing or both. The Board of Directors shall also appoint the Chairman among members acting as independent directors of the Committee. The Chairman shall be replaced every four years and may be re-elected after stepping down for one year. The Audit Committee shall be adopted by majority vote of the Directors attending the meeting in person or by proxy.
Its main functions are: i) advising the General Shareholders' Meeting on any matter within its competence. ii) supervising the process for preparation and filing of mandatory financial information and its sufficiency, reviewing the compliance with accounting regulations and the proper delimitation of the scope of consolidation. iii) bring before the Board of Directors proposals for selection and appointment of the external auditor, as well as the terms for such hiring, and receive regular information from the external auditor on the audit plan and its execution. iv) safeguarding the external auditor's independence in exercising its functions. v) establishing due relations with the external auditor to receive information on the audit development process, as well as any other communication established by auditing legislation and technical auditing regulations. In any case, every year it shall receive from external auditors their statement of independence with respect to the entity or entities related directly or indirectly thereto, as well as the information on any additional service rendered and the relevant fees paid by these entities to the external auditor or to the persons or entities related thereto, as established by legislation on auditing. vi) issuing, prior to the issuance of the audit report, an annual report containing an opinion on the auditor's independence. vii) enabling the communication between the Board of Directors and external auditors, ensuring that they file, at least once a year, the conclusions from their work to the Board of Directors. viii) supervising the efficacy of the Company's internal control, the internal audit function as an independent function, and risk management systems, including tax risks. ix) bringing before the Board of Directors proposals for selection and appointment of the internal auditor, as well as the terms for such hiring, and receiving regular information from the internal auditor on its activities, and verifying whether the Company's high management takes its recommendations into account. x) enabling and supervising a confidential communication channel that is open to employees, so as to notify the Company about any irregularities (particularly of a financial and/or accounting nature) that, in its opinion, could represent undue behaviour; and xi) advising the Board of Directors on an early basis about all the matters established by law, the by-laws, the Board of Directors' regulations and, particularly, with respect to: 1) the financial information to be published by the Company from time to time; 2) the creation or acquisition of equity interests from special-purpose vehicles or entities domiciled at jurisdictions considered tax havens; and 3) transactions with related parties.

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 five 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 cited agenda. The Committee shall be duly convened when half of the

members attend the meeting in person or by proxy.

During 2015, the Audit Committee held four meetings. The most important actions taken during this fiscal year include: the Audit Committee proposed to the Board of Directors the public and periodic approval of the Company's quarterly, semi-annual and annual reports. The Committee also proposed appointing a new internal auditor due to the resignation of the former internal auditor, as well as the renewal of the external auditor.

Identify the director appointed member of the Audit Committee, considering his/her knowledge and experience on accounting, auditing or both, and report on the number of years of the Chairman's term of office in this committee.

Name of the experienced director	JAVIER MARTINEZ OJINAGA
Number of years of chairman in office	0

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Category
JUAN JOSE ARRIETA SUDUPE	CHAIRMAN	Independent
JOSE IGNACIO BERROETA ECHEVARRIA	MEMBER	Independent
LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other External

% of proprietary directors	0.00%
% of independent directors	66.67%
% of other external directors	33.33%

Explain the roles attributed to this committee, describe the procedures and its rules of organisation and operation, and summarise the most important actions taken during the fiscal year.

Name of the Committee NOMINATION AND REMUNERATION COMMITTEE Brief description of its functions, organisation, operation and most important actions taken during the fiscal year: 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, who will be non-executive directors only, two of which shall be independent. 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. Committee members shall be appointed for a four-year term, and shall be re-elected for equal periods while their appointments as Company Directors are effective. The Committee shall meet periodically as required and in particular when asked by the Board of Directors. The call notice shall be issued at least three 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. 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 the 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. At the Committee's request, its meetings may be attended by any executive or worker, the Executive Director, the Board of Director's Chairman or any other director. The Board of Director's Chairman or the Executive Director may indistinctly request the Committee to hold special informative meetings. Resolutions shall be adopted by majority vote of the Directors attending the meeting 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 Secretary and approved during such meeting or at the beginning of the next one immediately after. FUNCTIONS ATTRIBUTED TO THE COMMITTEE: The Nomination and Remuneration Committee has the following basic responsibilities: a) Evaluate the balance of skills, knowledge and experience on the Board. For this purpose, it shall define the functions and skills required for candidates to cover each vacancy and shall evaluate the time and dedication required to attain goals effectively. b) Set a representation goal for the gender with less representation at the Board of Directors and preparing recommendations on how to achieve that goal. c) Bring to the Board of Directors the proposals for the appointment of independent directors by cooption or to be submitted to the General Shareholders' Meeting, as well as the proposed re-election or removal of those directors by the General Shareholders' Meeting.

d) Report the proposal for appointment of the remaining directors by cooption or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. e) Report the proposal for appointment and removal of high executives and the basic conditions of their contracts. f) Examine and organise, as applicable, the plan for the succession of the Board of Directors' chairman and the Company's Managing Director, so that such succession is performed in an orderly and planned manner. g) Propose to the Board of Directors the compensation policy based, among others, on internal equity criteria and external competitiveness, and safeguard its observance. Therefore, the Committee assumes the function and commitment to submit to the Board of Directors its compensation policy proposal, to be kept or, as applicable, amended in future fiscal years. f) Ensure that information on directors' and high executives' compensation contained in corporate documentation is complete and updated. g) Request independent external advice, as required for the correct performance of its functions.

During fiscal year 2015, the Nomination and Remuneration Committee held four meetings.

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:

	Number of female directors							
	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013		Fiscal year 2012	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section repealed

C.2.4 Section repealed.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

AUDIT COMMITTEE: On 25 February 2015 the company amended the resolution of the Audit Committee. The up to date version of the resolution is available in the CAF web site (www.caf.net), under section Information for Shareholders and Investors.

NOMINATION AND REMUNERATION COMMITTEE: On 25 February 2015, the Board of Directors agreed to create the Nomination and Remuneration Committee and approve its Regulations, which are also available in the abovementioned section of the corporate website.

Both committees have prepared an annual report on their related activities, dated 29 December 2015.

C.2.6 Section repealed.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain and indentify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedure to notify the approval of related-party transactions

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. In addition, the Board of Directors has been attributed, and cannot delegate, the duty to approve –subject to the previous report from the Audit Committee– the transactions performed by the Company or group companies with the directors under the terms of Companies Law, or with shareholders –holding a significant equity interest– either individually or jointly, including shareholders represented at the Board of Directors of the Company or other companies forming part of the same group or with persons related thereto. This approval shall not be applied to the transactions meeting all of the three following conditions: 1) performed by virtue of contract with standardised terms and conditions and applied to a high number of clients;

2) performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and 3) containing amounts not exceeding one percent of the Company's annual revenues.
General authorisation of the operations line and its implementation conditions shall suffice for transactions that form part of the Company's ongoing concern deemed regular or recurring in nature.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

D.5 Indicate the amount from related-party transactions.

25,644 (in thousands of Euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Section 229 of the Capital Companies Law requires directors to communicate to the Board of Directors any conflict, either direct 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 discussion and voting of the decisions and resolutions causing such conflict. Any conflict of interest should be mentioned in the Annual Report. In turn, the Board Regulations closely regulate the non-compete obligations and the duty to avoid the conflicts of interest, and state a series of prohibited behaviour for directors, as well as the consequences for breaching such rules. The Board Regulations expressly establishes that 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 group company listed in Spain?

Yes ☐ No ☒

Identify the listed subsidiaries in Spain:

Listed Subsidiary

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve possible conflicts of interest

E RISK CONTROL SYSTEMS

E.1. Describe the risk management system in place at the company, including the tax risks.

The purpose of the risk management and control system implemented by the Company is to identify, at least: 1) The different types of risk (operational, technological, financial, legal, fiscal and reputational) the Company is exposed to, including contingent liabilities and other off-balance-sheet risks under financial or economic risks. 2) The establishment of level of risk considered to be acceptable by de 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.

The Company's general control and management system includes an internal risk analysis and management procedure (including financial, business, regulatory, operating, technological, legal and tax risks, among others) that is proper to the different business stages, where all of the Company's departments affected by the required information are involved. Such procedure, which is implicit in the Group's quality system, begins with the preparation of offers and contracts for the manufacture and maintenance of railway vehicles and extends until project closing. The results obtained from the assessment of risks obtained through the tool called "SGOF application", during the offer preparation stage, are included in a report that is eventually analysed by the Company's Executive Committee. The Commercial General Director, along with the rest of CAF's Executive Committee, analyse the risks identified in the relevant dossier, as well as in the additional reports expressly prepared, as applicable, and eventually decide whether each individual offer is submitted or not.

In addition, the Company's risk management system establishes that the Project Team, coordinated by the Manager, is in charge of monitoring the risks detected during the project, in a periodic and permanent manner.

Additionally, the Audit Committee periodically reviews the internal control and risk management systems, ensuring they work properly.

E.2. Identify the bodies responsible for preparing and implementing the risk management system, including the fiscal system.

As established in article 5 of the Company's Board of Directors' Regulations, on the general supervision role, the determination of the risk control and management policy, including tax risks, as well as the supervision over information and control internal systems, are one of the exclusive matters subject to the consideration of the full Board.

In addition, the Audit Committee, through its information and internal control system, is in charge of supervising the preparation and control of financial information in general and all the procedures implemented for this purpose in particular, as well as supervising the internal audit function and the relationships with the external auditor in order to safeguard its independence and obtain an unqualified report, among other functions. This Committee shall also be responsible for reviewing internal control and risk management systems on a regular basis, so that main risks are properly identified, managed and disclosed.

In addition, the goals of the Company's Internal Audit include, among others, the assurance and control of risks faced by the Company and, for that purpose, it participates in the examination and evaluation of control systems and procedures and risk mitigation.

Finally, it is worth noting the direct and permanent involvement of the Company's different departments,
as well as the participation of its Managements and, eventually, CAF's Executive Committee, in the performance of procedures and tools for the analysis and management of the specific risks associated with the Company's activities, both in the execution of each project and in previous stages.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

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 mainly from civil liabilities due to deficiencies or delays in service provision. (iv) Labour risks or damages to plant goods or assets. (v) Legal and tax risks.

E.4 Identify if the company has a risk tolerance level, including the tax risk.

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.

In order to address the difficulties related to project management, the CAF Group has a risk management system embedded into the Group's quality system, which starts with the drafting of the bid and allows identifying and managing the various risks faced by the Group in its ordinary course of business. The risk assessment results during offer preparation (including the relevant action and mitigation plans detected) are escalated to the Executive Committee, which is in charge of the final analysis and valuation in order to decide whether to submit the offer or to end the process. The Company's risk management system also establishes how the liability related to the management of detected risks should be transferred once the project stage has started. The Project Team, coordinated by the manager, shall be in charge of defining the actions to be taken regarding each risk identified and shall estimate the resulting exposure to each risk once all those actions had been taken (residual risk), controlling their progress periodically until project termination.

E.5 Identify any risks, including tax risks, which have occurred during the year.

No material or extraordinary risks were recorded during fiscal year 2015, including tax risks, other than those mentioned in the Directors' Report and the financial statements, without compromising results, strategic goals or equity. It is worth noting that the slowdown in the growth of emerging countries has caused high volatility for the foreign currency with which the Group operates. The impact and sensitivity regarding CAF's equity for foreign exchange purposes are broken down in CAF Group's financial statements.

The main risks that may affect the achievement of business goals are managed actively by the organisation, pursuing the mitigation of adverse risks for the Group. On an overall basis, the group's business and geographical diversification prevents the risks to which the Company is exposed from having a material impact on its equity.

In any case, mitigation and control systems at the different areas have worked properly, and inherent risks have not generated any material impact on the organisation during the last fiscal year.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax 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 certain risk mitigation proposals and even vetoes of certain types of transactions. The Company has response plans aimed at reducing the impact and potential occurrence of the critical risks detailed in point E.3. or improving the risk preparation level.
Below are the main response plans for the Company's most important risk categories:
1.- Financial risks

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

The Group's Financial Department is responsible for identifying, assessing and hedging financial risks by establishing policies to manage overall risk and specific risk areas such as currency risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives, investment of cash surpluses, and project budget variances.

a) Market risk

The CAF Group companies does business internationally and, therefore, they are exposed to exchange rate risk in transactions involving foreign currency. The Group companies use forward insurance contracts to hedge the currency risk derived from future commercial transactions and recognised assets and liabilities.

It is usual practice for CAF to hedge, provided that cost is reasonable, the market risk associated with contracts denominated in currencies other than the Group's functional currency. Such hedging is intended to prevent the impact of currency fluctuations on the different contracts signed, so that the Group's results present fairly its industrial and service activity.

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

Most of accounts receivable and work in progress correspond to different clients in different countries. Contracts generally include progress billings.

The Company's standard practice is to hedge against certain risks of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the OECD Consensus rules applicable to instruments of this nature. The decision of whether to hedge is based on type of customer and the country in which it operates.

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to meet all Group's financial obligations broadly and effectively.

CAF Group manages liquidity risk by:

? The search and selection of business opportunities with the highest possible level of self-financing, under current market conditions, for each of the contracts. Regarding the vehicle manufacturing projects, whose medium performance period is approximately three years, the billing milestones and the performance of the works need not be aligned in time, which implies the use of financial resources.

? The implementation and maintenance of an active working capital management through a permanent follow-up on the fulfilment of the billing milestones in each project arranged.

? Maintaining a strong short-term liquidity position.

? Maintaining undrawn credit balances.

d) Cash flow and fair value interest rate risk

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

e) Risks arising from variances with respect to project budgets

Variances from project budgets that served as the basis for drawing up the various bids are analysed and verified through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for that item with the actual situation regarding the costs of each project. Thus, during the life of projects, these data are continuously followed-up through a complex internal process created for that purpose, with the participation of each department involved in each project.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting risk control and management system (ICFR) at the company.

F. 1 Company's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

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. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.

The Managing Director and the Human Resources Manager are in charge of designing and reviewing the organisational structure and defining the lines of responsibility and authority for each business unit and subsidiary.

Regarding the area of the ICFR, 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, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

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 ensuring compliance with the Code of Conduct to the Board of Directors. Its duties include analysing possible breaches and proposing corrective actions and penalties.

The Code of Conduct is an essential and integral part of the Crime Prevention Manual, a document approved by the Board of Directors during its meeting held on 29 April 2015, identifying (i) a policy and procedure system to prevent the commission of material crimes as much as possible, (ii) the consequences that may arise from any behaviour failing to observe those policies and procedures, and (iii) the business areas with a risk of commission of material crimes.

- Whistle-blowing channel', for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

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 and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, 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 2015, the main reference indicators of this activity have been as follows:

• Number of persons in the department involved in the training plans: 40
• Number of training hours: 373 hours
• Main training activities:
o Technical training in the financial and economic area
o Management training
o Languages training

F. 2 Financial information risk assessment

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

The identification of risks within the financial information sphere is a continuous and documented process carried out by the Company's Management as part of the risk analysis and management system, which is included in the Group's quality system, which begins with the offer preparation and allows identifying and managing the different risks faced by the Group during its normal course of business.

- Whether the process covers all financial information objectives (existence and occurrence, completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

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.) insofar as they may affect 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

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Certification of financial statements: The financial statements are certified by the Managing Director and the Financial Manager. 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
• Accounting closing
• Employee compensation
• Treasury management
• Income and expense recognition (for every business unit)
• Invoicing and trade receivables
• Inventories and Supplies (for every 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 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 policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding 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 the 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 backup and recover critical data and to protect personal equipment units and servers.
  o Physical and environmental security of data processing centres
  o Contingency plans
• Operating and monitoring: 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 for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these 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

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

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. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

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 charge of control supervise the process used to harmonise the information of each subsidiary with the Group standards.

F.5 System operation supervision

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Furthermore, information will be reported on the scope of the ICFR 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. The content of the Annual Work Plan is reviewed and updated on an ongoing basis.

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 2015 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 judgements 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. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. 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 2015 reporting period, 4 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 2015 with external auditors where information about the new legislation, the progress and the results of the external audit related to every semester were received.

F.6 Other disclosures

There is no other relevant information regarding the ICFR not included in this report.

F.7 External auditor report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

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

Indicate the degree of the company's compliance with Corporate Governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

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.

Complies [X] 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.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

3. While the General Annual Meeting is held, and to supplement the written publication of the corporate governance annual report, the Board of Directors' chairman must orally advise shareholders, with sufficient details, on the most significant aspects of the Company's corporate governance and, particularly:

   a) The changes occurred from the last general annual meeting.

b) The specific reasons why the Company failed to observe any of the recommendations contained in the Code of Corporate Governance and, if any, the alternative rules applied on such matter.

Complies ☐ Partly complies ☒ Explain ☐

During the Company's General Annual Meeting, the Board of Directors' Chairman orally advises shareholders on the most significant aspects of the corporate governance and the changes occurred since the last General Annual Meeting.

4. The Company must define and promote a policy for communication and contact with shareholders, institutional investors and proxy advisors, in full compliance with regulations against market abuse, and must provide a similar treatment for the shareholders in the same situation.

The Company must publish such policy through its website, including information on how it has been implemented and identifying the contact individuals or people in charge of its performance.

Complies ☒ Partly complies ☐ Explain ☐

5. The Board of Directors is not required to submit a power delegation proposal to the General Meeting to issue convertible shares or securities, except for the pre-emptive right, for an amount exceeding 20% of capital upon delegation.

When the Board of Directors approved any issuance of convertible shares or securities, except for the pre-emptive right, the Company shall immediately publish in its website the reports on such exclusion, as established by commercial legislation.

Complies ☐ Partly complies ☒ Explain ☐

In fiscal year 2014, CAF's Board of Directors brought a proposal to the General Meeting to delegate the powers to issue securities convertible into shares of the Company or other Group companies, with the power to exclude the pre-emptive right, for the maximum statutory amount and for a term of five years.
The Board of Directors issued this proposal within the limits and conditions established in applicable regulations. At the time the proposal was brought to the General Meeting, there were no specific prospects for the Board of Directors to exercise such authorisation. In fact, to date, the Board of Directors has not adopted any agreement to execute such power.

6. Listed companies must prepare the reports mentioned below, either in a mandatory or voluntary manner, publish them in their websites sufficiently in advance with respect to the general annual meeting, even though their publication was not mandatory:

a) Report on the auditor's independence.

b) Reports on the performance of the Audit Committee and the Nomination and Remuneration Committee.

c) Report from the Audit Committee on related transactions.

b) Report on corporate social responsibility policy.

Complies ☐ Partly complies ☒ Explain ☐

Some of the reports mentioned in this recommendation have an internal nature. However, other reports are published by the Company sufficiently in advance with respect to the General Annual Meeting, such as the report on corporate social responsibility policy, published as part of the Directors' Report.

7. The Company is required to broadcast general shareholders' meetings live through their websites.

Complies ☐ Explain ☒

The Company provides detailed information on the development of the General Annual Meeting under "Shareholders and investors" of the corporate website (www.caf.net). To date, the Company has not broadcasted its general meetings live through its website; however, this issue will be analysed for future fiscal years.

8. The Audit Committee ensures that the board of Directors presents the annual accounts to the General Shareholders' Meeting without qualifications in the audit report. Should such qualifications exist, both the chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

Complies [X] Partly complies [ ] Explain [ ]

9. The Company must publish in their websites, on a permanent basis, the requirements and procedures to prove the ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of voting rights.

   Such requirements and procedures must favour shareholders' attendance and exercise of rights and they shall be applied in a non-discriminatory manner.

Complies [X] Partly complies [ ] Explain [ ]

10. Whenever a legitimate shareholder had exercised, prior to holding a general shareholders' meeting, the right to complete the agenda or to submit new agreement proposals, the Company shall:

    a) Spread those supplementary items and new agreement proposals immediately.

    b) Publish the attendance card model or voting delegation or remote delegation form with the specific amendments to vote on the new items of the agenda and alternative proposals, under the same conditions as those proposed by the Board of Directors.

    c) Submit those items or alternative proposals to voting and apply the same voting rules as those proposed by the Board of Directors, including, in particular, the presumptions or deductions on the sense of voting.

    d) After the general shareholders' meeting, notify the particulars of voting with respect to those supplementary items or proposed alternatives.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

11. Should the Company intend to pay attendance premiums to the general shareholders' meeting, set a general policy on those premiums in advance and make such policy stable.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

12. The Board of Directors must perform its functions with a single purpose and an independent criterion, provide the same treatment to all shareholders under the same circumstances and follow social interest, which is understood to imply seeking a profitable and sustainable business in the long term, promoting its continuity and maximising the Company's economic value.

    In seeking the observance of the social interest, apart from laws and regulations and a good faith behaviour, ethics and respect for customs and commonly accepted good practice, it must seek to adapt its own social interest, as applicable, to the legitimate interests of its employees, providers, clients and the remaining groups of interest that may be affected, as well as the impact of the Company's activities on the community as a whole and the environment.

Complies [X] Partly complies [ ] Explain [ ]

13. The Board of Directors must have a sufficient structure to operate effectively and attain participation; thus, it is suggested to include from five to fifteen members.

Complies ☒	Explain ☐

14. The Board of Directors must approve a directors' selection policy that:

    a) Is specific and verifiable;

    b) Ensures that appointment or re-election proposals are based on a previous analysis of the Board of Directors' needs; and

    c) Favours the diversity of knowledge, experience and gender.

    The result of the previous analysis of the Board of Directors' needs must appear in the explanatory report of the Nomination Committee published upon calling the general shareholders' meeting to which ratification, appointment or re-election of each director is submitted.

    The directors' selection policy must promote the goal whereby the number of female directors should reach at least 30% of the Board of Directors' total members by 2020.

    Every year, the Nomination Committee shall verify the compliance with the directors' selection policy and inform on the matter in the corporate governance annual report.

Complies ☒	Partly complies ☐	Explain ☐

15. Proprietary and independent directors should occupy an ample 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.

Complies ☒	Partly complies ☐	Explain ☐

16. The number of proprietary directors with respect to total non-executive directors shall not exceed the proportion between the Company's capital represented by those directors and the remaining capital.

    This criterion may be reduced:

    a) In companies with high capitalisation where there are few shareholdings deemed material from the legal point of view.

    b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Complies ☒	Explain ☐

17. The number of independent directors should represent at least one half of all board members.

    However, when the Company did not have high capitalisation or when –even though having high capitalisation– it had one or several shareholders acting jointly and controlling over 30% of capital stock, the number of independent directors shall represent at least one third of total directors.

Complies ☒	Explain ☐

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

   a) Professional experience and background.

   b) Other Board of Directors to which they belonged, regardless of whether listed companies were involved, as well as the other compensated activities, regardless of their nature.

   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.

   e) Shares held in the Company and any options on the same.

Complies [X] Partly complies [ ] Explain [ ]

19. The Annual Corporate Governance Report, upon verification by the Nomination Committee, should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% 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.

Complies [ ] Partly complies [ ] Explain [ ] Not applicable [X]

20. 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.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

21. 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 Nomination Committee. Particularly, it shall be understood that there is just cause, whenever the director occupied new positions or assumed new obligations preventing him/her from performing the functions applicable to directors, failed to comply with the duties inherent to his/her position or proceeded in a way that caused him/her to be no longer independent, as established by applicable legislation.

    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 16.

Complies [X] Explain [ ]

22. 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 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.

Complies [X] Partly complies [ ] Explain [ ]

23. 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 [X] Partly complies [ ] Explain [ ] Not applicable [ ]

24. 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.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

25. The Nomination Committee should ensure that the non-executive directors have enough free time for the right performance of their duties.

The Boar Regulation should lay down rules about the maximum number of directorships their board members can hold.

Complies [ ] Partly complies [X] Explain [ ]

The Nomination and Remuneration Committee should ensure that the non-executive directors have enough free time for the right performance of their duties. In addition, the Company's Board of Directors has always included in its Regulations rules on the maximum number of companies' boards to which its directors may belong. These rules were not included in the amendment to the Board of Directors' Regulations approved in fiscal year 2015, which was aimed at adapting them to the amended Companies Law. However, the Board of Directors intends to approve in its meeting of 25 February 2016, along with this report, the proposed amendment to its Regulations in order to incorporate the provision whereby no director shall belong simultaneously to more than four boards of directors in companies other than the Company or not belonging to its group.

26. The board should meet with the necessary frequency to properly perform its functions, and at least 8 times a year, 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.

Complies [ ] Partly complies [X] Explain [ ]

CAF'S Board of Directors 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.
In 2015 the Board of Directors have met 6 times. However, a meeting schedule for year 2016 has been approved, with a minimum of 8 meetings.

27. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. And that, when they should occur, a representation with instructions must be provided.

Complies [X] Partly complies [ ] Explain [ ]

28. 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 meeting, the person expressing them can request that they be recorded in the minute book.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

29. The Company must establish the appropriate channels for directors to obtain proper advice to comply with their functions, including, depending on the circumstances, external advice to be borne by the Company.

Complies [X] Partly complies [ ] Explain [ ]

30. Notwithstanding the knowledge required from directors in exercising their functions, the companies must also provide directors with programs to improve their knowledge whenever circumstances required so.

Complies [X] Explain [ ] Not applicable [ ]

31. Meetings agenda must clearly indicate the items as to which the Board of Directors shall make a decision or reach an agreement, so that the directors may be able to analyse or to collect, in advance, the information required for such decision or agreement.

Whenever, exceptionally and due to urgent reasons, the Chairman intended to submit to the Board of Directors' approval decisions or agreements not included in the agenda, the previous and express consent of the majority of present directors shall be required, which shall be duly stated for the record in the minutes.

Complies [X] Partly complies [ ] Explain [ ]

32. The directors must be informed from time to time about any variations in shareholders and the opinion of material shareholders, investors and rating agencies on the Company and its group.

Complies [X] Partly complies [ ] Explain [ ]

33. The Chairman, in charge of the effective performance of the Board of Directors, apart from his/her functions established by law and the by-laws, must prepare and submit to the Board of Directors a schedule of dates and items to be treated, organise and coordinate the periodic evaluation of the Board of Directors and, as applicable that of the Company's Managing Director, be responsible for Board management and the efficacy of its performance, ensure that sufficient time is devoted to discuss strategic matters, and accept and review the knowledge training programs for each director, whenever circumstances required so.

Complies [X] Partly complies [ ] Explain [ ]

34. Upon the existence of a coordinating director, apart from the powers established by law, the by-laws of the Board of Directors' regulations shall establish the following powers: presiding over the Board of Directors upon the absence of the chairman and vice-chairmen, if any, hearing the concerns of non-executive directors, keeping in contact with investors and shareholders in order to know their points of view and have an opinion on their concerns, particularly with respect to the Company's corporate governance, and coordinating the Chairman's succession plan.

Complies ☐ Partly complies ☒ Explain ☐ Not applicable ☐

The Board of Directors' Regulations attributes to the coordinating director all the functions established by law. In addition, the Board of Directors intends to approve in its meeting of 25 February 2016, along with this report, the proposed amendment to its Regulations in order to incorporate the other powers previously mentioned for the coordinating director.

35. The Board of Directors' secretary must especially ensure that the Board of Directors' actions and decisions contain the good governance recommendations set out in this good governance code, as applicable to the Company.

Complies ☒ Explain ☐

36. Once a year, the Board of Directors in full must evaluate and adopt, as applicable, an action plan to amend the deficiencies found regarding:

a) The quality and effective performance of the Board of Directors.

b) The performance and structure of its committees.

c) The structure and competence diversity of the Board of Directors.

d) The performance of the Company's Board of Directors' Chairman and Managing Director.

e) The performance and contributions of each director, paying special attention to those in charge of the different Board committees.

In order to evaluate the different committees, the report submitted by the latter to the Board of Directors shall be taken into account and, in order to evaluate, the Board of Directors, the report submitted by the Nomination Committee shall be considered.

Every three years, the Board of Directors shall be assisted in evaluating an external consultant, whose independence shall be verified by the Nomination Committee.

The business relationships between the consultant or any group company and the Company or any other group company shall be broken down in the corporate governance annual report.

The evaluated process and areas shall be described in the corporate governance annual report.

Complies ☒ Partly complies ☐ Explain ☐

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.

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 Executive Committee's minutes.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

39. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management and the majority of those members should be independent directors.

Complies ☒ Partly complies ☐ Explain ☐

40. A committee reporting to the Audit Committee shall be created to assume the internal audit function and to safeguard the proper performance of information and internal control systems, reporting functionally to the Board's non-executive chairman or the Audit Committee.

Complies ☒ Partly complies ☐ Explain ☐

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

Complies ☒ Partly complies ☐ Explain ☐ Not applicable ☐

42. Apart from the functions established by law, the Audit Committee shall have the following functions:

1. With regard to internal control and reporting systems:

   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 consolidation perimeter, and the correct application of accounting principles.

   b) Monitor the independence and efficacy of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic financial information on its activities; and verify that senior management are acting on the findings and recommendations of its 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) In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation.

   b) Ensuring that the external auditor's compensation does not compromise his/her quality or independence.

   c) Ensuring that the Company notifies 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 the reasons for the same.

d) Ensuring that the external auditor holds an annual meeting with the Board of Directors in full to advise them on the work done and the variations in the company's risk and accounting situation.

e) Ensure that the Company and the external 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 designed to safeguard auditors' independence.

Complies [X] Partly complies [ ] Explain [ ]

43. 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 [X] Partly complies [ ] Explain [ ]

44. The Audit Committee must be informed about the structural and corporate modifications intended to be performed by the company so that the Board of Directors may previously analyse them and issue a report on the economic conditions and their accounting impact, especially, as applicable, the proposed exchange ratio.

Complies [X] Partly complies [ ] Explain [ ] Not applicable [ ]

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

a) The different types of financial and non financial risks affecting the Company (operational, technology, social, legal, environmental, reputational, political, fiscal 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.

Complies [X] Partly complies [ ] Explain [ ]

46. Under the direct supervision of the Audit Committee or, as applicable, a specialised committee of the Board of Directors, there must be a risk management and control internal function exercised by a Company's internal department or unit with the following expressly attributed functions:

a) Ensure the good performance of risk management and control systems and, particularly, that all material risks affecting the Company are properly identified, managed and quantified.

b) Participate actively in the risk strategy preparation and in the important decisions regarding its management.

c) Ensure that risk management and control systems mitigate risks properly as part of the policy defined by the Board of Directors.

Complies [ ] Partly complies [X] Explain [ ]

The goals of the Company's Internal Audit include, among others, the assurance and control of risks faced by the Company in general and, for that purpose, it participates in the examination and evaluation of control systems and procedures. In addition, the Internal Audit area has been particularly entrusted by the Audit Committee, under its surveillance, to effectively supervise the Financial Information Internal Control System.

Furthermore, different Company departments and managements and, ultimately, CAF's Executive Committee also participate directly and permanently in the performance of risk management and control systems related to the Company's activities and the decisions on its management, both during the previous stages of each project and during their execution. Thus, they participate in risk identification and the measures taken to mitigate them.

47. The members of the Nomination and Remuneration Committee –or of the Nomination Committee and the Remuneration Committee, if separately created– must be appointed considering their proper knowledge, skills and experience according to their functions and most of those members must be independent directors.

Complies [X] Partly complies [ ] Explain [ ]

48. High-capitalisation companies must have separate Nomination and Remuneration Committees.

Compliant [ ] Explain [ ] Not applicable [X]

49. The Nomination Committee should consult with the Board's Chairman and company's chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies [X] Partly complies [ ] Explain [ ]

50. The Remuneration Committee must perform its functions independently and, apart from the functions established by law, it shall have the following functions:

a) Proposing to the Board of Directors the basic conditions governing high-executive contracts.

b) Verifying the compliance with the remuneration policy established by the Company.

c) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives.

d) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee.

e) Verifying the information on the compensation provided to directors and high executives, as contained in the different corporate documents, including the annual report on directors' compensation.

Complies [X] Partly complies [ ] Explain [ ]

51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies [X] Partly complies [ ] Explain [ ]

52. The rules on supervision and control committee structure and performance must appear in the Board of Directors' regulations and must be consistent with those applicable to mandatory committees, pursuant to previous recommendations, including:

a) They must be exclusively made up of non-executive directors, with a majority of independent directors.

b) Committees should be chaired by an independent director.

c) 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, and it should discuss their proposals and reports and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting.

d) The Committees 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 made available to all Board members.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

53. The supervision of the compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy must be attributed to one or various committees of the Board of Directors, such as the Audit Committee, the Nomination Committee, the Corporate Social Responsibility Committee, if any, or a specialised committee established by the Board of Directors as part of its self-organisation powers, having at least the following functions:

a) Supervising the compliance with the Company's internal codes of conduct and corporate governance rules.

b) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluating the adequacy of the Company's corporate governance system in order to ensure compliance with the goal of promoting social interest and, as applicable, the legitimate interests of the other groups of interest.

d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value.

e) Following-up the corporate social responsibility strategy and practice and evaluating the level of compliance.

f) Supervising and evaluating the processes to create relationships with the different groups of interest.

g) Evaluating the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks.

h) Coordinating the non-financial reporting process and the report on diversity, pursuant to applicable regulations and reference international standards.

Complies ☐ Partly complies ☒ Explain ☐

Committee regulations do not establish some of the functions previously mentioned expressly. However, most of them are distributed naturally among each one of the existing committees in view of the nature and profile of the directors forming part of each committee.

54. The corporate social responsibility policy must include the principles or commitments assumed voluntarily by the Company with respect to the different groups of interest and identifying, at least:

a) The goals of the corporate social responsibility policy and the development of support instruments.

b) The corporate strategy related to sustainability, the environment and social issues.

c) The specific practices related to shareholders, employees, clients, providers, social issues, the environment, diversity, tax responsibility, respect for human rights and prevention of unlawful behaviour.

d) The methods or systems for the follow-up of results from the application of the specific practices mentioned in the previous item, related risks and their management.

e) Mechanisms for the supervision of non-financial risks, ethics and business conduct.

f) Channels for communication, participation and dialogue with groups of interest.

g) Responsible communication practices preventing the manipulation of information and protecting integrity and honour.

Complies [X] Partly complies [ ] Explain [ ]

55. The Company must inform, in a separate document or in the directors' report, the matters related to corporate social responsibility, using any of the internationally accepted methodologies.

Complies [ ] Partly complies [X] Explain [ ]

The Company has informed in the directors' report about the matters related to corporate social responsibility. However, considering that the corporate social responsibility was approved on 29 December 2015, it has not been possible to use any of the internationally accepted methodologies. Nevertheless, the Company intends to progress in this regard in fiscal year 2016.

56. Directors' compensation must be sufficient to attract and retain the directors with the intended profile and to compensate for the dedication, qualification and responsibility required by the position, but not so high as to compromise the independent criterion of non-executive directors.

Complies [X] Explain [ ]

57. Variable compensation must be established for executive directors in accordance with the Company's and personal performance, as well as compensation through the delivery of shares, options or rights over shares or instruments subject to the value of the share and long-term savings systems, such as pension plans, retirement plans or other social security systems.

It may be possible to establish the delivery of shares as a compensation method for non-executive directors, subject to the condition of keeping them until they cease acting as directors. The abovementioned shall not apply to the shares that the director had to sell, as the case may be, to settle the costs related to their acquisition.

Complies [X] Partly complies [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not only the general progress of the markets or the company’s sector, atypical or exceptional transactions or circumstances of this kind.

Particularly, compensation variable components must:

a) Be related to return criteria that can be determined or measured and that consider the risk assumed to earn income.

b) Promote the Company's sustainability and include non-financial criteria that are proper for the long-term creation of value, such as the compliance with the Company's rules and internal procedures and its risk management and control policies.

c) Be configured by balancing the compliance with short-, medium- and long-term goals, allowing to compensate for the continuous performance over a sufficient period of time that shows contribution to the sustainable creation of value, so that the measurement elements of such return do not refer only to specific, occasional or extraordinary events.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

59. The payment of a material portion of compensation variable components must be deferred for a minimum period of time that is sufficient to prove that the return conditions previously established have been fulfilled.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor’s report.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

61. A material percentage of executive directors' variable compensation must be related to the delivery of shares of financial instruments disclosed at their value.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

62. Once the shares or options or the rights to shares related to the compensation systems have been allocated, directors shall not transfer the ownership of a number of shares equivalent to twice their annual fixed compensation or exercise the options or rights until a term of, at least, three years from allocation have elapsed.

The abovementioned shall not apply to the shares that the director had to sell, as the case may be, to settle the costs related to their acquisition.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

63. Contractual agreements must include a clause allowing the Company to claim reimbursement of compensation variable components whenever the payment had not been subject to return conditions or when they had been paid based on data whose inaccuracy was subsequently proved.

Complies ☐ Partly complies ☐ Explain ☐ Not applicable ☒

64. Contract cancellation payments shall not exceed an amount equal to two years the annual total compensation and they shall not be paid until the Company has been able to prove that the director has met the return criteria previously established.

Complies ☒ Partly complies ☐ Explain ☐ Not applicable ☐

H OTHER INFORMATION OF INTEREST

1. If it is considered that there is any material aspect or principle relating to the Corporate Governance practices followed by the company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. It may be included in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, industry or other ethical principles or standard practices. If so, 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%; 72,564,821M JUAN JOSE ARRIETA SUDUPE 0.003% y 15,116,224A XABIER GARAIALDE MAIZTEGUI 0.002%, TOTAL 0.008%.

Due to the limitation in the number of characters, the text continues as follows:
C1.19
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) Individuals who may be significant shareholders, executive directors or senior executives of an entity who receives or may have received any major donations from the Company or its Group over the past 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 whose appointment or re-election has not been proposed by the Nomination Committee. i) Individuals who had been directors during a continuous term exceeding 12 years. j) Individuals falling under any of the assumptions mentioned in subsections a), e), f) or g) above with respect to any significant shareholder or any shareholder represented on the Board. 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. 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 Nomination 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 Nomination 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) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director’s obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates 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 reasonably report all of the aforementioned in the Annual Corporate Governance Report. In any case, directors shall inform and, if applicable, resign in those events that may be detrimental to the Company's name and reputation. The Directors' Selection Policy, approved by CAF's Board of Directors during this fiscal year, repeats the functions applicable to the Nomination and Remuneration Committee in selecting directors, as well as the conditions of its participation in such process, as previously described, and the conditions to be met by candidates, putting special emphasis on the essential purpose of favouring gender diversity in appointing members of the Board of Directors, pursuant to recommendation 14 c) under the Code of Listed Companies’ Good Governance and sections 529 bis and 529 quindecies of Companies Law.

C2.1 The Committee has participated in appointing directors during 2015, exercising the functions that it has been entrusted. Particularly, the Committee has provided the Board of Directors with the relevant proposed appointment or re-election of independent directors and has prepared mandatory reports in the case of appointing of re-electing directors with another qualification. During the current fiscal year, the Committee has prepared, when required, the mandatory report on the proposed appointment of directors and the basic conditions of their contracts. It has also prepared and submitted to the Board of Directors the proposed amendment to the compensation paid to the Company's Board of Directors' members, in their capacity as such, and as done every year, it has submitted to the Board of Directors, for approval of the Compensation Report for the fiscal year and its submission to the General Meeting, the Board of Directors' proposed compensation. The Committee has also issued a report and proposal for the Board regarding compensation and further contractual conditions governing the contract to be entered into between the Company and its Executive Director. Note that in 2015 the Committee prepared a report on the “directors' selection policy” approved by the first time by the Board, making reference to the goal to achieve the representation of the gender with less representation at the Board of Directors and instructions on how to reach such goal, in compliance with good governance recommendations and legal provisions on the matter.

D.5
The transactions performed with other related parties amount to EUR 25,644 thousand.
The abovementioned transactions are broken down in Note 10 to the Group's consolidated financial statements.

E.6
2.- Risks derived from environmental damage

CAF is strongly committed to the protection of the environment. To that end, it has implemented the principles of the European Union’s environmental action programme, based on precautionary and preventive actions and correction at source. In this respect, the Company has an action plan on various environmental issues relating to the atmosphere, dumping, waste, use of raw materials, energy, water and noise, obtaining ISO 14001 certificate.

3.- Legal and contractual risks mainly arising from harm caused to third parties as a result of deficiencies or delays in the provision of services.
The bidding terms and conditions and contracts for the manufacture of railway vehicles include numerous requirements on technical aspects and quality levels (with the introduction of new products with high technological level), requirements regarding the compliance with delivery terms, required approvals, required manufacture localisation, and other operational risks, which usually give rise to penalties and cancellation or suspension clauses. In this regard, discrepancies may arise as to such requirements between the CAF Group and its clients, which may lead to claims for delays or incorrect performance of the works, or the performance of additional works.

In order to address the difficulties related to project management, the CAF Group has a risk management system embedded into the Group’s quality system, which starts with the drafting of the bid and allows identifying and managing the various risks faced by the CAF Group in its ordinary course of business. Different Company's departments are directly and permanently involved in the performance of risk analysis and management procedures and tools, as well as their managements and, ultimately, CAF's Executive Committee, both during the previous stages of each project and during their execution.

In addition, CAF implements a demanding insurance arrangement policy, which helps to provide adequate protection for the Company against economic consequences resulting from materialisation of some of these risks.

Lastly, CAF’s plants use the most advanced technologies available and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 standard and/or IRIS.

4.- Labour risks or damages to plant goods or assets

CAF has an Occupational Hazard Prevention System in place which is audited by an external firm. The Prevention System Manual created to that end contains, without limitation, a detail of risk assessment activities, accident investigation, safety inspections, health inspections, and training. There is also an annual Prevention Plan in place for proper preventive action planning. CAF also has a Training Plan in place for employees in this field.
As to supervision, the main governance bodies accountable for risk control are the Board of Directors and the Audit Committee. In addition, the Company's Internal Audit participates in the examination and assessment of systems and procedures for risk control and mitigation. Finally, it is worth noting the direct and permanent involvement of the Company's different departments, as well as the participation of its Managements and, eventually, CAF's Executive Committee, in the performance of procedures and tools for the analysis and management of the specific risks associated with the Company's activities, both in the execution of each project and in previous stages, as described in item E.2 above.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on 25/02/2016.

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 composing the CAF Group (Consolidated)

Auditors' report on the "Information Relating to the System of Internal Control over Financial Reporting (ICFR)" for the year ended 31 December 2015

Deloitte.

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

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

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

AUDITORS' REPORT ON THE "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND SUBSIDIARIES ("THE GROUP") FOR THE YEAR ENDED 31 DECEMBER 2015

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 ("the Group") and in accordance with our proposal-letter of 7 September 2015, we have applied certain procedures to the accompanying "Information relating to the ICFR system" in the Annual Corporate Governance Report of Construcciones y Auxiliar de Ferrocarriles, S.A. for 2015, which summarises the internal control procedures of the Group in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the information relating to the ICFR system.

It should be noted in this regard, irrespective of the quality of the design and operating effectiveness of the internal control system adopted by the Group in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the consolidated financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Group was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Group's consolidated financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of consolidated financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the "*Guidelines on the Auditor's Report on the information relating to the System of Internal Control over Financial Reporting of Listed Companies*", published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Group's annual financial reporting for 2015 described in the accompanying Information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July, we do not express an audit opinion in the terms provided for in that Law.

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

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Group in relation to the ICFR system - disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report established in CNMV Circular no. 5/2013, of 12 June 2013.

2. Inquiries to personnel in charge of preparing the information detailed in point 1 above for the purpose of: (i) obtaining an understanding of the process that goes into drawing up the information; (ii) obtaining information that permits an evaluation of whether the terminology used complies with the framework definitions; and (iii) obtaining information on whether the control procedures described are in place and functioning at the Group.

3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.

4. Comparison of the information detailed in point 1 above with the knowledge on the Group's ICFR system obtained through the procedures applied during the consolidated financial statement audit work.

5. Perusal of minutes of meetings of the Board of Directors, the Audit Committee and of other Group committees in order to assess the consistency between the ICFR issues addressed therein and the information detailed in point 1 above.

6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of Spanish Securities Market Law 24/1988, of 28 July, amended by Sustainable Economy Law 2/2011, of 4 March, and by CNMV Circular 5/2013 of 12 June 2013, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

Deloitte, S.L.

Javier Giral Gracia
25 February 2016

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

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

Consolidated Balance Sheets as at 31 December 2015 and 2014 (Notes 1, 2 and 3)
(Thousands of Euros)

Assets	31.12.15	31.12.14 (*)
Non-current assets:		
Intangible assets (Note 7)-		
Goodwill	15	15
Other intangible assets	34.719	37.673
	34.734	**37.688**
Property, plant and equipment, net (Note 6 and 8)	**240.787**	**271.839**
Investments accounted for using the equity method (Note 9)	**14.308**	**12.257**
Non-current financial assets (Note 9)	**612.897**	**669.549**
Deferred tax assets (Note 18)	**161.108**	**163.842**
Total non-current assets	**1.063.834**	**1.155.175**
Current assets:		
Inventories (Note 11)	**86.253**	**180.504**
Trade and other receivables-		
Trade receivables for sales and services (Notes 10, 11 and 12)	1.120.483	1.107.006
Other receivables (Notes 9, 10 and 19)	169.306	188.410
Current tax assets (Note 19)	8.451	6.493
	1.298.240	**1.301.909**
Other current financial assets (Note 13)	**122.423**	**123.945**
Other current assets	**5.939**	**4.591**
Cash and cash equivalents	**297.440**	**197.111**
Total current assets	**1.810.295**	**1.808.060**
Total assets	**2.874.129**	**2.963.235**

Equity and liabilities	31.12.15	31.12.14 (*)
Equity (Note 14):		
Shareholders' equity-		
Registered share capital	10.319	10.319
Share premium	11.863	11.863
Revaluation reserve	39.119	39.119
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	734.288	691.777
Profit for the year attributable to the Parent	41.041	59.679
	836.630	**812.757**
Valuation adjustments-		
Hedges	(5.142)	(6.212)
Translation differences	(127.748)	(70.336)
	(132.890)	**(76.548)**
Equity attributable to the Parent	**703.740**	**736.209**
Non-controlling interests	**11.187**	**12.704**
Total equity	**714.927**	**748.913**
Non-current liabilities:		
Long-term provisions (Note 20)	**4.526**	**5.075**
Non-current financial liabilities (Notes 15 and 16)-		
Bank borrowings	662.168	683.062
Other financial liabilities	74.924	76.405
	737.092	**759.467**
Deferred tax liabilities (Note 18)	**156.817**	**152.426**
Other non-current liabilities (Note 3-m)	**63.996**	**66.880**
Total non-current liabilities	**962.431**	**983.848**
Current liabilities:		
Short-term provisions (Note 20)	**228.766**	**265.329**
Current financial liabilities (Notes 15 and 16)-		
Bank borrowings	203.722	158.039
Other financial liabilities	53.700	46.733
	257.422	**204.772**
Trade and other payables-		
Payable to suppliers (Note 25)	352.153	463.067
Other payables (Notes 10, 11, 15, 19 and 20)	355.596	293.197
Current tax liabilities (Note 19)	647	3.513
	708.396	**759.777**
Other current liabilities	**2.187**	**596**
Total current liabilities	**1.196.771**	**1.230.474**
Total equity and liabilities	**2.874.129**	**2.963.235**

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

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet as at 31 December 2015.

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

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

Consolidated Statements of Profit or Loss for the years ended 31 December 2015 and 2014 (Notes 1, 2 and 3)

(Thousands of Euros)

	(Debit) Credit	
	2015	**2014 (*)**
Continuing operations:		
Revenue (Notes 6, 9 and 10)	1.283.591	1.447.141
+/- Changes in inventories of finished goods and work in progress	(126.137)	7.690
In-house work on non-current assets	6.490	9.840
Procurements (Note 21)	(435.014)	(743.140)
Other operating income (Note 21)	4.245	5.289
Staff costs (Note 22)	(402.164)	(406.236)
Other operating expenses (Note 21)	(164.996)	(174.159)
Depreciation and amortisation charge (Notes 7 and 8)	(38.399)	(42.398)
Impairment and gains or losses on disposals of non-current assets (Notes 2.f, 7, 8 and 9)	(833)	10.958
Profit from operations	**126.783**	**114.985**
Finance income (Notes 9, 10 and 13)	10.476	10.187
Finance costs (Notes 9 and 16)	(56.632)	(47.252)
Exchange differences	(19.632)	(2.394)
Impairment and gains or losses on disposals of financial instruments (Note 9)	(589)	4.357
Change in fair value of financial instruments	3	373
Financial loss	**(66.374)**	**(34.729)**
Result of companies accounted for using the equity method (Note 9)	-	200
Profit before tax	**60.409**	**80.456**
Income tax (Note 18)	(17.795)	(18.327)
Profit for the year from continuing operations	**42.614**	**62.129**
Consolidated profit for the year	**42.614**	**62.129**
Attributable to:		
The Parent	41.041	59.679
Non-controlling interests	1.573	2.450
Earnings per share (in euros)		
Basic	11,97	17,41
Diluted	11,97	17,41

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of profit or loss for the year ended 31 December 2015.

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

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

Consolidated Statements of Comprehensive Income for 2015 and 2014 (Notes 1, 2 and 3)
(Thousands of Euros)

	2015	2014 (*)
A) Consolidated profit for the year	**42.614**	**62.129**
B) Income and expense recognised directly in equity	**(56.502)**	**(2.877)**
Arising from revaluation of financial instruments (Note 3.j)	1.151	-
Arising from cash flow hedges (Note 17)	191	(3.501)
Translation differences (Note 14)	(61.758)	454
Tax effect (Note 18)	3.914	170
C) Transfers to consolidated profit or loss	**983**	**(3.703)**
Arising from revaluation of financial instruments (Note 9.b)	-	(3.838)
Arising from cash flow hedges (Note 17)	1.114	-
Translation differences	-	-
Tax effect (Note 18)	(131)	135
Total comprehensive income (A+B+C)	**(12.905)**	**55.549**
Attributable to:		
The Parent	(14.472)	53.098
Non-controlling interests	1.567	2.451

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2015.

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

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

Consolidated Statements of Changes in Equity
for 2015 and 2014 (Notes 1, 2 and 3)
(Thousands of Euros)

	Equity attributable to the Parent								
	Shareholders' equity								
	Share capital	Share premium	Unrealised asset and liability revaluation reserve	Other reserves	Net profit for the year	Valuation adjustments	Translation differences	Non-controlling interests	Total equity
Balances as at 31 December 2013 (*)	**10.319**	**11.863**	**58.452**	**618.264**	**90.181**	**822**	**-70.789**	**10.249**	**729.361**
Total comprehensive income	**-**	**-**	**-**	**-**	**59.679**	**-7.034**	**453**	**2.451**	**55.549**
Transactions with shareholders or owners	**-**	**-**	**-**	-	**-35.995**	**-**	**-**	**4**	**-35.991**
Dividends paid	-	-	-	-	-35.995	-	**-**	-895	-36.890
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	899	899
Other changes in equity	**-**	**-**	**-19.333**	**73.513**	**-54.186**	**-**	**-**	**-**	**-6**
Transfers between equity items	-	-	-19.333	73.513	-54.186	-	-	-	-6
Balances as at 31 December 2014 (*)	**10.319**	**11.863**	**39.119**	**691.777**	**59.679**	**-6.212**	**-70.336**	**12.704**	**748.913**
Total comprehensive income				**829**	**41.041**	**1.070**	**-57.412**	**1.567**	**-12.905**
Transactions with shareholders or owners	**-**	**-**	**-**	**-**	**-17.997**	**-**	**-**	**-3.084**	**-21.081**
Dividends paid	-	-	-	-	-17.997	-	-	-3.224	-21.221
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	140	140
Other changes in equity	**-**	**-**	**-**	**41.682**	**-41.682**	**-**	**-**	**-**	**-**
Transfers between equity items (Note 14)	-	-	-	41.682	-41.682	-	-	-	-
Balances as at 31 December 2015	**10.319**	**11.863**	**39.119**	**734.288**	**41.041**	**-5.142**	**-127.748**	**11.187**	**714.927**

(*) Presented for comparison purposes only (see Note 2-e).
The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2015.

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

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

Consolidated Statements of Cash Flows
for 2015 and 2014 (Notes 1, 2 and 3)
(Thousands of Euros)

	2015	2014 (*)
Cash flows from operating activities:		
Profit before tax	60.409	80.456
Adjustments for-		
Depreciation and amortisation charge (Notes 7 and 8)	38.399	42.398
Impairment losses (Notes 7, 8 and 9)	2.293	(10.754)
Changes in provisions (Notes 3 and 20)	(30.581)	(68.868)
Other income and expenses	19.881	1.757
Gains and losses on disposals of non-current assets (Note 2.f and 8)	(836)	(4.336)
Investments accounted for using the equity method (Note 9)	-	(200)
Finance income	(10.476)	(10.187)
Finance costs	56.632	47.252
Changes in working capital-		
Trade receivables and other current assets (Notes 3-d and 12)	(68.735)	(66.236)
Inventories (Note 11)	80.418	(20.256)
Trade payables	(32.778)	37.066
Other current liabilities	1.688	4.476
Other non-current assets and liabilities	(1.805)	35.662
Other cash flows from operating activities-		
Income tax recovered (paid) (Note 19)	(16.986)	(4.064)
Other amounts received/(paid) relating to operating activities	(2.009)	(1.735)
Net cash flows from operating activities (I)	**95.514**	**62.431**
Cash flows from investing activities:		
Payments due to investment-		
Group companies and associates (Note 9 and 10)	(2.670)	-
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	(19.210)	(24.306)
Other financial assets (Notes 9 and 13)	(7.195)	(46.992)
Proceeds from disposal-		
Group companies and associates (Note 2.f)	3.963	-
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	137	475
Other financial assets (Notes 9 and 13)	22.324	52.979
Interest received (Notes 9 and13)	7.989	5.963
Net cash flows from investing activities (II)	**5.338**	**(11.881)**
Cash flows from financing activities:		
Issue of shares by non-controlling interests	140	899
Proceeds/(Payments) relating to financial liability instruments-		
Issue (Notes 15 and 16)	217.842	421.162
Repayment (Notes 15 and 16)	(139.083)	(329.743)
Dividends and returns on other equity instruments paid	(21.221)	(38.990)
Other cash flows from financing activities-		
Interest paid (Note 16)	(53.894)	(38.471)
Net cash flows from financing activities (III)	**3.784**	**14.857**
Net increase in cash and cash equivalents (I+II+III)	**104.636**	**65.407**
Cash and cash equivalents at beginning of year	197.111	127.150
Effect on cash of foreign exchange rate changes	(4.307)	4.554
Cash and cash equivalents at end of year	**297.440**	**197.111**

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of cash flows for the year ended 31 December 2015

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2015

1. Description and activities of the Parent

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

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

The Parent currently engages mainly in the manufacture of railway materials.

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2015 of the CAF Group were formally prepared by the directors:

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

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

- So that they present fairly the CAF Group's consolidated equity and consolidated financial position at 31 December 2015 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

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

The CAF Group's consolidated financial statements for 2014 were approved by the shareholders at the Annual General Meeting of CAF on 13 June 2015. The 2015 consolidated financial statements of the Group and the 2015 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of new standards and interpretations issued

In 2015 new accounting standards came into force and were therefore taken into account when preparing the accompanying consolidated financial statements.

Since their entry into force on 1 January 2015, the Group has applied the following standards and interpretations which gave rise to a change in the Group’s accounting policies:

IFRIC 21, Levies

This interpretation addressees when to recognise a liability to pay a levy imposed by a government and concludes that the liability must be recognised when the obligating event giving rise to its recognition occurs, which is normally the activity and point in time identified by legislation as being those which trigger the payment of the levy, i.e. the taxable event and tax obligation. This standard must be applied retrospectively on adoption.

The application of IFRIC 21 changed the Group's previous practice regarding the recognition of various levies, noteworthy among which was the Spanish property tax, which was previously accrued throughout the year, and which must now be recognised on 1 January each year, according to the IFRIC 21 guidelines. However, given the nature of this change in accounting policy, it will not have any impact on the consolidated statement of profit or loss for the year, and for the same reasons it was not necessary to make any changes retrospectively.

Standards and interpretations issued but not yet in force

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

Standard or amendment	Effective date - IASB	Effective date - European Union
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions	1 July 2014	1 February 2015
Amendments to IASs 16 and 38, Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 January 2016
Amendments to IFRS 11, Acquisitions of Interests in Joint Operations	1 January 2016	1 January 2016
Amendments to IASs 16 and 41, Bearer Plants	1 January 2016	1 January 2016
Amendments to IAS 27, Equity Method in Separate Financial Statements	1 January 2016	1 January 2016
Amendments to IAS 1, Disclosure Initiative	1 January 2016	1 January 2016
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	Pending
IFRS 15, Revenue from Contracts with Customers	1 January 2018	Pending
IFRS 9, Financial Instruments	1 January 2018	Pending
IFRS 16, Leases	1 January 2019	Pending

IFRS 15, Revenue recognition

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

At the date of authorisation for issue of these consolidated financial statements the Group was analysing the impacts of adopting this standard and it will not possible to make a reasonable estimate of its effects until this analysis has been completed.

IFRS 9, Financial Instruments

IFRS 9 will in the future replace IAS 39. There are very significant differences with respect to the current standard, the most relevant of which is the new approach and the classification and measurement categories for financial assets; a new impairment model based on expected credit losses instead of losses incurred; and a new hedge accounting model which attempts to more closely align accounting rules with risk management.

At the date these consolidated financial statements were authorised for issue the Group was analysing all the future impacts of adopting this standard and it will not be possible to make a reasonable estimate of its effects until this analysis has been completed.

IFRS 16, Leases

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

Note 3-m to the consolidated financial statements includes a breakdown of the payments relating to the operating leases currently held.

c) *Functional currency*

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

d) *Use of estimates*

In the consolidated financial statements of the CAF Group for 2015 estimates were occasionally made. These estimates, which were made on the basis of the best information available, relate basically to the following:

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

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

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

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

- The calculation of provisions (see Note 20);

- The assessment of the probability of having future taxable profits against which to utilise unused recognised tax assets (see Note 18);

- Changes in estimated costs in the budgets for construction projects performed (see Notes 3-f and 3-n);

Although these estimates were made on the basis of the best information available at 31 December 2015 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statements of profit or loss.

There have not been any changes in accounting estimates with respect to 2014 that might have had a material impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2015 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2014.

The 2014 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2015.

f) Consolidated Group and basis of consolidation

Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2015 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - see Note 1) at that date and of the subsidiaries and associates listed below:

	% of control or influence	Location	Line of business	Auditor
Fully consolidated companies -				
Industrial Subgroup				
CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of railway equipment and components	Deloitte
CAF USA, Inc.	100%	Delaware	Manufacturing	G. Thornton
CAF México, S.A. de C.V.	100%	Mexico City	Manufacturing and maintenance	Deloitte
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Manufacturing and maintenance	Deloitte
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance	G. Thornton
CAF Rail UK, Ltda.	100%	Belfast	Repairs and maintenance	Deloitte
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance	Deloitte
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance	Deloitte
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance	Deloitte
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance	CACF Audit
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance	Deloitte
CAF Rail Australia Pty. Ltd.	100%	Sydney	Manufacturing and maintenance	Pitcher Partners
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance	Deloitte
CAF France, SAS	100%	Paris	Manufacturing and maintenance	Deloitte
Trenes de Navarra, S.A.U.	100%	Navarre	Manufacturing	Deloitte
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing	G. Thornton
Construcciones Ferroviarias - CAF Santana, S.A.	83.73%	Jaén	Manufacturing	Bsk
Tradinsa Industrial, S.A.	100%	Lleida	Repairs and maintenance	Deloitte
CAF New Zealand Ltd	100%	Auckland	Manufacturing and maintenance	Staples Rodway
CAF Sisteme Feroviare SRL	100%	Bucharest	Manufacturing and maintenance	Deloitte
CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance	Deloitte
CAF Arabia, Co.	100%	Riyadh	Manufacturing and maintenance	Deloitte
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance	-
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance	Deloitte
CAF Hungria, K.F.T.	100%	Budapest	Manufacturing and maintenance	Deloitte
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D	Deloitte
CAF Power & Automation, S.L.U.	100%	Guipúzcoa	Electronic and power equipment	Deloitte
Nuevas Estrategias de Mantenimiento, S.L.	85%	Guipúzcoa	Technology solutions	Bsk
Vectia Mobility Research &Development A.I.E.	60%	Guipúzcoa	R&D	Deloitte
Vectia Mobility, S.L.	60%	Guipúzcoa	Solutions for urban transport	-
CAF Transport Engineering, S.L.U.	100%	Vizcaya	Engineering	Bsk
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests	Bsk
Lander Simulation and Training Solutions, S.A.	57%	Guipúzcoa	Simulators	Bsk
Geminys, S.L.	100%	Guipúzcoa	Operating manuals	Bsk
CAF Signalling, S.L.U.	100%	Guipúzcoa	Signalling	Deloitte
CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi	90%	Istanbul	Signalling	Deloitte
Services Subgroup				
Actren, S.A.	51%	Madrid	Maintenance	Deloitte
Sermanfer, S.A.	100%	Madrid	Maintenance	Audyge
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services	Almaguer
Inversiones en Concesiones Ferroviarias, S.A.	100%	Guipúzcoa	Business development	Deloitte
Urbanización Parque Romareda, S.A.	100%	Zaragoza	Holding company	-
UPR Argentina, S.A.	100%	Buenos Aires	Holding company	-
Ctrens Companhia de Manutençao, S.A.	100%	Sao Paulo	Lease services	Deloitte
Provetren, S.A. de C.V.	100%	Mexico City	Lease services	Deloitte
Regiotren, S.A. de C.V.	100%	Mexico City	Lease services	-
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Ennera Energy and Mobility, S.L.	100%	Guipúzcoa	Power generation	Bsk
Rail Line Components, S.L.U	100%	Guipúzcoa	Marketing	Bsk
Construction Subgroup				
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	Mexico City	Equipment	Deloitte
Companies accounted for using the equity method (Note 9) -				
Industrial Subgroup				
Compañía de Vagones del Sur, S.A.	29.3%	Jaén	Manufacturing	-
Urban Transport Solutions B.V. (*)	49%	Amsterdam	Manufacturing and maintenance	-
Ferrocarril Interurbano, S.A. de C.V.	49.63%	Mexico City	Manufacturing and equipment	-
Basa TMB, S.L.	33.33%	Vizcaya	Repairs and maintenance	-
Technology Subgroup				
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automated production	-
Zhejiang Sunking Trainelec Traintic Electric Co, Ltd.	30%	Zhejiang	Electronic and power equipment	-
Tumaker, S.L.	24.9%	Guipúzcoa	Printing equipment	-
Services Subgroup				
Ferrocarriles Suburbanos, S.A. de C.V.	43.35%	Mexico City	Transport services	Deloitte
Plan Metro, S.A.	40%	Guipúzcoa	Lease services	-
Consorcio Traza, S.A. (**)	25%	Zaragoza	Holding company	-
Arabia One for Clean Energy Investments PSC	40%	Ma'an	Power generation	-

(*) The Company owns all the shares of Urban Transport Solutions, LLC, with registered office in Russia.
(**) The Company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Changes in the scope of consolidation

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

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

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

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

In 2014 Beasain Energía Solar, S.L., El Yelmo Energía Solar, S.L., CAF Hungria, K.F.T., UPR Argentina, S.A. and Ferrocarril Interurbano, S.A. de C.V. were incorporated, while CAF Francia, S.A.S. and Houston LRV 100, LLC, both of which were dormant, were liquidated. Also, an ownership interest of 24.9% in Tumaker, S.L. was acquired by means of a capital increase amounting to EUR 200,000.

In July 2014 a corporate reorganisation transaction was carried out within the Group involving the merger by absorption of Microgeneración, S.L.U. into Ennera Energy and Mobility, S.L.

Consolidation method

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

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

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

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

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

Translation of foreign currency financial statements

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

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

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2014.

3. Accounting principles and policies and measurement bases applied

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements at 31 December 2015 and 2014 were as follows:

a) Intangible assets

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

b) Property, plant and equipment

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

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

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

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

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

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

c) Impairment of assets

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

d) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at fair value in the consolidated balance sheet and are subsequently measured at amortised cost using the effective interest method.

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

Also, the Group derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the risks and rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred. At 31 December 2015, the Group derecognised receivables amounting to EUR 31,364 thousand (31 December 2014: EUR 0).

Financial assets

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

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

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

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

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

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

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

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

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

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.

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

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

The detail of the CAF Group's assets and liabilities measured at fair value according to the levels indicated above at 31 December 2015 and 2014 is as follows (thousands of euros):

2015

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

2014

	Level 1	Level 2	Total
<u>Assets</u>			
Derivatives (Note 17)	-	44,943	44,943
Held-for-trading financial assets (Note 13)	52,018	-	52,018
Total assets	**52,018**	**44,943**	**96,961**
<u>Liabilities</u>			
Derivatives (Note 17)	-	46,256	46,256
Total liabilities	**-**	**46,256**	**46,256**

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

Cash and cash equivalents

"Cash and Cash Equivalents" in the accompanying consolidated balance sheet includes cash and demand deposits.

Derivative financial instruments

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

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

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

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

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

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

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

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

e) Inventory measurement bases

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

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

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

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

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

f) Recognition of contract revenue and profit

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

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

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

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

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

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

Revenue from the sales of products, basically spare parts, is recognised when the goods and title thereto are transferred.

g) Customer advances and completed contract work

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

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

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

h) Current/Non-current classification

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

i) Government grants

The Group companies recognise government grants received as follows:

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

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

j) Post-employment benefits

The consolidated companies' legal and contractual obligations to certain of their employees in relation to retirement and death are met through premiums under defined contribution and defined benefit plans to external funds deposited or in the process of being externalised at independent insurance companies. The contributions made in 2015 and 2014 for various groups of employees amounted to EUR 1,734 thousand and EUR 4,360 thousand, respectively, and were recognised under “Staff Costs” in the accompanying consolidated statements of profit or loss. At 31 December 2015, the Group did not have any payables in this connection (at 31 December 2014 it had a short-term provision of EUR 2,000 thousand). In accordance with the applicable collective agreement, the Parent contributes an additional 2.3% of the annual base salary of all its employees to a pension plan (EPSV) (see Note 22, 23 and 24).

Also, the Parent's directors, based on the conclusions of a study conducted by their legal advisers, considered in 2006 that a historical right of certain of its employees had vested. In accordance with the accrual basis of accounting, at 31 December 2015, the Group recognised an asset of EUR 268 thousand (31 December 2014: an asset of EUR 210 thousand), calculated by an independent valuer, under “Current Assets” in the consolidated balance sheet at 31 December 2015. This amount is the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as plan assets. The future modifications to the obligations assumed will be recognised in profit or loss for the related year. In 2015 and 2014 the Group received a return amounting to EUR 423 thousand and settled a premium of EUR 528 thousand, respectively. Also, charges of EUR 672 thousand and EUR 352 thousand, respectively, were made to “Staff Costs” in the accompanying consolidated statements of profit or loss (see Notes 15, 18 and 22). In addition, actuarial gains for 2015 amounting to EUR 1,151 thousand were recognised with a credit to equity.

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

Lastly, certain subsidiaries have other obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2015 were recognised under “Long-Term Provisions" and "Short-Term Provisions" for EUR 2,089 thousand and EUR 1,999 thousand, respectively (31 December 2014: EUR 1,815 thousand and EUR 2,320 thousand, respectively) (see Note 20).

k) Early retirements and termination benefits

At 31 December 2015, “Non-Current Financial Liabilities - Other Financial Liabilities” and “Trade and Other Payables - Other Payables” in the accompanying consolidated balance sheet included EUR 3,005 thousand and EUR 2,298 thousand, respectively (31 December 2014: EUR 5,259 thousand and EUR 4,185 thousand), relating to the present value estimated by the Parent’s directors of the future payments to be made to employees who in December 2015 were included in the pre-retirement plan approved in 2013, or with whom hand-over contracts had been entered into. This provision was recognised with a charge of EUR 11 thousand (2014: EUR 1,567 thousand) to "Staff Costs" in the consolidated statement of profit or loss (see Note 22).

l) Income tax

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

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

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

m) Leases

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

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

At 31 December 2015 and 2014, the Group had various outstanding operating leases for which it had recognised EUR 7,901 thousand and 7,342 thousand, respectively with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Company expects to continue to lease these assets (principally computer hardware and real estate), the costs of which are tied to the CPI.

The payment commitments for future years in relation to outstanding operating leases at 31 December 2015 amounted to EUR 17,759 thousand over the next few years, of which EUR 5,749 thousand are due in 2016 (31 December 2014: EUR 18,594 thousand and EUR 6,309 thousand to be paid in 2015).

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

n) Revenue and expense recognition

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

Maintenance revenue is recognised on an accrual basis. The Group has certain maintenance contracts billed on a straight-line basis which envisage the performance of in-depth inspections on a periodic basis. In these cases, the difference between the billings and the amounts accrued, determined on the basis of the costs incurred as a percentage of total contract costs, is recognised with a charge to "Revenue" and a credit to "Other Non-Current Liabilities" in the accompanying consolidated balance sheet. In 2015 the net amount recognised with a credit to "Revenue" in the accompanying consolidated statement of profit or loss totalled EUR 1,805 thousand. Also, translation differences reduced this amount by EUR 1,079 thousand, due mainly to changes in the value of the Brazilian real.

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

ñ) Administrative concessions

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

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

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

An intangible asset is recognised when the demand risk is borne by the concession operator and a financial asset is recognised when the demand risk is borne by the concession grantor since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. The concessions recognised by the Group (see Note 9) are classified as financial assets.

4. Distribution of the profit of the Parent

The distribution of the Parent's profit for 2015 proposed by its directors is as follows:

Distribution	Thousands of euros
To voluntary reserves	12,091
Dividends	17,997
Total	**30,088**

5. Financial and other risk management policy

The CAF Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, cash flow interest rate risk and the risk of variances in relation to projects.

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

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

a) *Market risk*

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

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

The Group's standard practice is to hedge, provided that the cost is reasonable, the market risk associated with contracts denominated in currencies other than its functional currency, which is the euro. The hedges are intended to avoid the impact of currency fluctuations on the various agreements entered into, so that the Group's results present fairly its industrial and service activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2015 of a 10% depreciation of the Brazilian real against the euro at 31 December 2015 would be a loss of EUR 4,841 thousand (31 December 2014: EUR 7,148 thousand). The sensitivity of the statement of profit or loss to the other foreign currencies was not material.

At 31 December 2015 and 2014, the Group was exposed to the foreign currency risk on the net investment in those subsidiaries whose functional currency is not the euro, except in the case of the US dollar, the exposure to which is hedged.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2015 and 2014 is as follows:

Currency	Equivalent value in thousands of euros					
	31/12/15			31/12/14		
	Assets	Liabilities	Net exposure	Assets	Liabilities	Net exposure
Chilean peso	14,607	14,024	583	15,532	14,023	1,509
Mexican peso	33,973	20,347	13,626	31,279	17,306	13,973
Argentine peso	3,580	2,180	1,400	4,781	2,841	1,940
Brazilian real	578,238	352,299	225,939	746,292	553,286	193,006
US dollar (Note 3-d) (*)	521,753	370,962	208	506,947	389,829	(711)
Pound sterling	10,706	9,969	737	7,567	6,391	1,176
Algerian dinar	4,698	2,355	2,343	4,050	2,841	1,209
Turkish lira	8,043	6,565	1,478	13,248	11,423	1,825
Venezuelan bolivar	72	53	19	272	265	7
Indian rupee	9,483	126	9,357	9,827	174	9,653
Australian dollar	1,278	1,024	254	1,841	1,472	369
Colombian peso	1,047	623	424	1,427	974	453
Saudi riyal	13,705	12,943	762	8,792	8,041	751
New Zealand dollar	3,339	2,906	433	3,312	3,118	194
Romanian leu	231	148	83	456	392	64
New Taiwan dollar	24,147	23,175	972	22,917	21,886	1,031
Hungarian forint	551	397	154	345	338	7
Total	**1,229,451**	**820,096**	**258,772**	**1,378,885**	**1,034,600**	**226,456**

(*) At 31 December 2015, there were hedges of net investments in foreign operations (see Note 17) amounting to EUR 150,583 thousand, applying the year-end exchange rate (31 December 2014: EUR 117,829 thousand).

In the event of a 10% appreciation or depreciation of all the foreign currencies, the impact on the Group's equity would amount to EUR 25,877 thousand at 31 December 2015 (31 December 2014: EUR 22,646 thousand).

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

Nature of the balances	Equivalent value in thousands of euros			
	31/12/15		31/12/14	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	85	-	221	-
Property, plant and equipment	56,372	-	66,890	-
Non-current financial assets and deferred tax assets	607,524	-	674,787	-
Inventories	66,542	-	124,230	-
Trade and other receivables	435,107	-	405,736	-
Other current financial assets	23,900	-	25,122	-
Cash and cash equivalents	39,921	-	81,899	-
Non-current liabilities	-	465,204	-	541,787
Current liabilities	-	354,892	-	492,813
Total	**1,229,451**	**820,096**	**1,378,885**	**1,034,600**

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

b) *Credit risk*

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

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

At 31 December 2015 and 2014, the Group had insured a portion of its accounts receivable from customers in certain countries abroad through credit insurance policies (see Note 12).

c) *Liquidity risk*

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

The CAF Group manages liquidity risk using the following mechanisms:

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

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

- Maintaining a strong short-term liquidity position.

- Maintaining surplus undrawn credit balances.

d) Cash flow and fair value interest rate risk

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

In this regard, a significant portion of the financial debt at 31 December 2015 related, on the one hand, to the concessions obtained in Brazil and Mexico (see Notes 9 and 16), and, on the other, to the Parent's debt for the financing of its activity and that of the other Group companies.

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

With regard to the Parent's debt at 31 December 2015, EUR 138 million were drawn down at market interest rates (at 31 December 2014: EUR 145 million) and EUR 244 million at fixed interest rates (at 31 December 2014: EUR 200 million), of which EUR 20 million at fixed rates as a result of interest rate derivatives (see Notes 16 and 17). The borrowings of the subsidiaries CAF USA and CAF Brasil are tied to the market interest rates of their respective countries.

Taking into consideration the balance at 31 December 2015 and 2014, if the average of the market-tied interest rates of third-party borrowings had been 100 basis points higher or lower, with all other variables remaining constant, and considering the hedging policies described above, the finance costs arising from the financial debt would have risen/decreased by approximately EUR 4,418 thousand and EUR 5,024 thousand, respectively.

e) Risks arising from variances with respect to project budgets

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

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

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

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

All CAF's plants use the most advanced technology available and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 standard.

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

6. Segment reporting

a) Basis of segmentation

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

- By business unit, distinguishing between the “Rolling Stock” and the “Components and spare parts” operating activities.

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

b) Basis and methodology for segment reporting

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

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

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

- Rolling Stock

- Components and spare parts

Segment information on the businesses is as follows:

Segmentation by business unit	2015 (Thousands of Euros)				
	Rolling stock	Components and spare parts	General	Inter-segments	Total
REVENUE:					
External sales	1,205,111	78,480	-	-	1,283,591
Inter-segment sales	-	33,402	-	(33,402)	-
Total sales	**1,205,111**	**111.882**	**-**	**(33,402)**	**1,283,591**
PROFIT OR LOSS:					
Profit from operations	121,020	4,365	1,398	-	126,783
Financial profit (loss) (*)	(25,930)	124	(40,568)	-	(66,374)
Share of net results of associates	-	-	-	-	-
Profit before tax	**95,090**	**4,489**	**(39,170)**	**-**	**60,409**
Income tax (*)	-	-	(17,795)	-	(17,795)
Profit (Loss) for the year from continuing operations	**95,090**	**4,489**	**(56,965)**	**-**	**42,614**
Profit (Loss) attributable to non-controlling interests	(1,573)	-	-	-	(1,573)
Profit (Loss) attributable to the Parent	**93,517**	**4,489**	**(56,965)**	**-**	**41,041**
Depreciation and amortisation charge (Notes 7 and 8)	29,418	8,775	206	-	38,399
ASSETS	**2,082,545**	**82,401**	**712,075**	**(2,892)**	**2,874,129**
LIABILITIES	**1,303,150**	**20,477**	**835,801**	**(226)**	**2,159,202**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	12,856	7,568	-	-	20,424
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment – Income (Expense) (Notes 2-f, 7, 8 and 9)	(612)	-	(221)	-	(833)

Segmentation by business unit	2014 (Thousands of euros)				
	Rolling Stock	Components and spare parts	General	Inter-segment	Total
REVENUE:					
External sales	1,364,873	82,268	-	-	1,447,141
Inter-segment sales	-	38,423	-	(38,423)	-
Total sales	**1,364,873**	**120,691**	**-**	**(38,423)**	**1,447,141**
PROFIT OR LOSS:					
Profit from operations	99,579	4,846	10,560	-	114,985
Financial profit (loss) (*)	(27,909)	78	(6,898)	-	(34,729)
Share of net results of associates	200	-	-	-	200
Profit before tax	**71,870**	**4,924**	**3,662**	**-**	**80,456**
Income tax (*)	-	-	(18,327)	-	(18,327)
Profit (Loss) for the year from continuing operations	**71,870**	**4,924**	**(14,665)**	**-**	**62,129**
Profit (Loss) attributable to non-controlling interests	(2,450)	-	-	-	(2,450)
Profit (Loss) attributable to the Parent	**69,420**	**4,924**	**(14,665)**	**-**	**59,679**
Depreciation and amortisation charge (Notes 7 and 8)	30,964	10,966	468	-	42,398
ASSETS	2,237,084	92,584	633,567	-	2,963,235
LIABILITIES	1,451,747	27,676	734,899	-	2,214,322
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	21,225	3,175	-	-	24,400
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment – Income (Expense) (Notes 7, 8 and 9)	(46)	-	11,004	-	10,958

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

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

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

	2015	2014
High-speed	-	5,938
Regional and commuter	372,304	388,078
Metropolitan railway	195,085	280,318
Tram and light rail	202,565	249,267
Bogies, refitting and other	53,299	73,911
Trains	**823.253**	**997,512**
Services	**326,782**	**318,458**
Rolling stock and spare parts	**78,480**	**82,268**
Other	**55,076**	**48,903**
Total	**1.283.591**	**1,447,141**

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2015 and 2014 is as follows (thousands of euros), including the significant countries (those which suppose more than 5% of the total of the sales during 2015):

	2015	2014
National	**257,213**	**28,430**
Italy	52,488	165,814
Hungary	80,262	16,745
Finland	69,399	35,963
Others	165,214	152,807
European Union	**367,363**	**371,329**
United States	108,291	110,582
New Zealand	19,437	110,689
Others	164,051	130,587
OECD	**291,779**	**351,858**
Brazil	234,382	264,719
Saudi Arabia	88,583	100,500
Others	44,271	130,305
Rest of the world	**367,236**	**495,524**
TOTAL	**1,283,591**	**1,447,141**

In 2015 one customer represented 17% of the Group's revenue. In 2014 no client represented more than 10% of the Group's sales.

b) The distribution of net investments in property, plant and equipment by geographical area at 31 December 2015 and 2014 is as follows (in thousands of euros):

Geographical area	**2015**	**2014**
Spain	182,335	203,125
Rest of the world	58,452	68,714
Total	**240,787**	**271,839**

7. Other intangible assets

The changes in the years ended 31 December 2015 and 2014 in “Other Intangible Assets” and in the related accumulated amortisation were as follows:

	Thousands of euros			
	Development expenditure	Computer software and other	Goodwill	Total
Cost at 31/12/13	**93,162**	**15,995**	**15**	**109,172**
Cost-				
Translation differences	-	1	-	1
Additions or charge for the year	12,932	1,383	-	14,315
Transfers to inventories	(1,201)	-	-	(1,201)
Disposals or reductions	(694)	-	-	(694)
Cost at 31/12/14	**104,199**	**17,379**	**15**	**121,593**
Translation differences	1	(111)	-	(110)
Additions or charge for the year	7,910	1,817	-	9,727
Transfers to inventories	(2,514)	-	-	(2,514)
Disposals or reductions	(2,617)	(104)	-	(2,721)
Cost at 31/12/15	**106,979**	**18.981**	**15**	**125,975**
Accumulated amortisation-				
Accumulated amortisation at 31/12/13	**(44,222)**	**(12,862)**	**-**	(57,084)
Translation differences	-	1	-	1
Additions or charge for the year	(9,487)	(1,126)	-	(10,613)
Disposals or reductions	412	-	-	412
Accumulated amortisation at 31/12/14	**(53,297)**	**(13,987)**	**-**	**(67,284)**
Translation differences	(1)	66	-	65
Additions or charge for the year	(9,016)	(1,106)	-	(10,122)
Disposals or reductions	2,617	104	-	2,721
Accumulated amortisation at 31/12/15	**(59,697)**	**(14.923)**	**-**	**(74,620)**
Impairment-				
Impairment at 31/12/13	**(16,901)**	**-**	**-**	**(16,901)**
Recognised in 2014	280	-	-	280
Impairment at 31/12/14	**(16,621)**	**-**	**-**	**(16,621)**
Impairment at 31/12/15	**(16,621)**	**-**	**-**	**(16,621)**
Net balance at 31/12/14	**34,281**	**3,392**	**15**	**37,688**
Net balance at 31/12/15	**30,661**	**4,058**	**15**	**34,734**

Research and development expenditure incurred in 2015 amounted to EUR 18,823 thousand (EUR 10,913 thousand were recognised in the consolidated statement of profit or loss and EUR 7,910 thousand were capitalised). Research and development expenditure incurred in 2014 amounted to EUR 28,035 thousand (EUR 15,103 thousand were recognised in the consolidated statement of profit or loss and EUR 12,932 thousand were capitalised). These amounts do not include basic engineering costs associated with contracts or costs relating to the improvement of the standardisation of products and processes.

The additions to "Development Expenditure" in 2015 and 2014 correspond to the costs incurred in new product projects and other projects, including most notably the new high-speed train project, railway signalling projectsand the development, in conjunction with a partner, of an electric bus.

As discussed in Note 3-a, in 2015 the Group transferred approximately EUR 2,514 thousand of capitalised development expenditure for projects to various contracts it had won that incorporated the technology developed (2014: EUR 1,201 thousand).

8. Property, plant and equipment

The changes in the years ended 31 December 2015 and 2014 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Thousands of euros					
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Balance at 31/12/13	**259,717**	**279,273**	**21,004**	**34,907**	**330**	**595,231**
Additions	3,005	3,568	723	672	2,117	10,085
Transferred from inventories	-	-	-	3,550	-	3,550
Transfers	1,591	567	22	110	(2,282)	8
Disposals or reductions	(1,134)	(1,263)	(168)	(948)	-	(3,513)
Translation differences	2,645	1,885	26	62	1	4,619
Balance at 31/12/14	**265,824**	**284,030**	**21,607**	**38,353**	**166**	**609,980**
Additions	1,154	4,603	734	3,906	300	10,697
Transfers	(230)	105	(93)	(76)	(168)	(462)
Disposals or reductions	(830)	(10,803)	(581)	(47)	-	(12,261)
Translation differences	(5,004)	(3,473)	(262)	(65)	10	(8,794)
Balance at 31/12/15	**260,914**	**274.462**	**21,405**	**42,071**	**308**	**599,160**
Accumulated depreciation at 31/12/13	**(84,462)**	**(185,955)**	**(12,466)**	**(18,752)**	**-**	**(301,635)**
Additions or charge for the year	(6,317)	(21,428)	(1,384)	(2,606)	-	(31,735)
Transfers	(6)	1	2	(6)	-	(9)
Disposals or reductions	929	1,155	106	948	-	3,138
Translation differences	(296)	(549)	(15)	(37)	-	(897)
Accumulated depreciation at 31/12/14	**(90,152)**	**(206,776)**	**(13,757)**	**(20,453)**	**-**	**(331,138)**
Additions or charge for the year	(6,259)	(18,262)	(1,394)	2,362	-	(28,277)
Transfers	197	15	84	103	-	399
Disposals or reductions	644	4,733	404	46	-	5,827
Translation differences	1,183	1,936	115	66	-	3,300
Accumulated depreciation at 31/12/15	**(94,387)**	**(218,354)**	**(14,548)**	**(22,600)**	**-**	**(349,889)**
Impairment at 31/12/13	**(5,661)**	**(1,329)**	**-**	**(13)**	**-**	**(7,003)**
Impairment at 31/12/14	**(5,661)**	**(1,329)**	**-**	**(13)**	**-**	**(7,003)**
Recognised in 2015	(803)	(558)	(131)	-	-	**(1,492)**
Translation differences	11	-	-	-	-	11
Saldo deterioro del valor 31.12.15	**(6,453)**	**(1,887)**	**(131)**	**(13)**	**-**	**(8,484)**
Net balance at 31/12/14	**170,011**	**75,925**	**7,850**	**17,887**	**166**	**271,839**
Net balance at 31/12/15	**160,074**	**54,221**	**6,726**	**19,458**	**308**	**240,787**

In 2015 the Group invested in its plants in order to improve their production capacity. These investments were aimed basically at the modernisation of the rolling stock business. Property, plant and equipment disposals include mainly those arising from the sale of solar PV energy generation companies (see Note 2-f).

In prior years the Group transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled (see Note 20). Following an impairment test performed on the locomotives, the Parent's directors considered that they were not impaired. At 31 December 2015, the carrying amount of the locomotives was EUR 9,727 thousand (31 December 2014: EUR 10,299 thousand).

At 31 December 2015 and 2014, the Group had firm capital expenditure commitments amounting to approximately EUR 6,023 thousand and EUR 726 thousand, respectively, mainly in Spain.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2015 and 2014, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2015 and 2014, the gross cost of fully depreciated assets in use amounted to approximately EUR 215,823 thousand and EUR 185,734 thousand, respectively.

The losses incurred on property, plant and equipment disposals in 2015 amounted to approximately EUR 56 thousand and were recognised under “Impairment and Gains or Losses on Disposals of Non-Current Assets” in the accompanying consolidated statement of profit or loss (the related loss in 2014 amounted to EUR 46 thousand).

As a result of the analysis of value in use conducted by the Group on various items of property, plant and equipment (supported by studies of selling prices for land, buildings and certain items of machinery performed by an independent valuer) in 2015, EUR 1,492 thousand were recognised with a charge to “Impairment and Gains or Losses on Disposals of Non-Current Assets” in the consolidated statement of profit or loss. No amount was recognised in this regard in 2014.

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2015, the net amount of the grants received not yet allocated to profit or loss totalled EUR 2,130 thousand (31 December 2014: EUR 3,002 thousand). EUR 915 thousand were allocated to profit or loss in this connection in 2015 (2014: EUR 1,169 thousand), and this amount was recognised under “Depreciation and Amortisation Charge” in the accompanying consolidated statement of profit or loss.

The directors consider that there were no indications of impairment of the Group’s assets at 31 December 2015 other than those described in this Note.

9. Investments accounted for using the equity method and non-current financial assets

The changes in the years ended 31 December 2015 and 2014 in “Investments Accounted for Using the Equity Method” and “Non-Current Financial Assets” were as follows:

	Thousands of euros							
	Investments in associates (Note 9-a)	Equity instruments (Note 9-b)		Other financial assets (Note 9-c)	Derivative financial instruments (Note 17)	Loans and receivables (Note 9-e)		Total
	Cost	Cost	Allowance	Cost	Market value	Cost	Allowance	
Balance at 31/12/13	**14,902**	**27,843**	**(1,225)**	**18,133**	**9,193**	**630,843**	**(27,554)**	**672,135**
Translation differences	(28)	-	-	130	202	33,948	(615)	33,637
Additions or charge for the year	200	380	(180)	960	8,198	125,126	11,803	146,487
Disposals or reductions	-	(17,058)	-	(535)	-	(2,307)	-	(19,900)
Transfers	147	(61)	-	(1,024)	-	(146,651)	-	(147,589)
Hedges (Note 17)	(2,964)	-	-	-	-	-	-	(2,964)
Balance at 31/12/14	**12,257**	**11,104**	**(1,405)**	**17,664**	**17,593**	**640,959**	**(16,366)**	**681,806**
Translation differences	88	-	-	(4,189)	(17)	(65,605)	4,175	(65,548)
Additions or charge for the year	778	380	(419)	1,722	5,078	106,824	(213)	114,150
Disposals or reductions	(78)	-	-	(888)	(721)	(948)	-	(2,635)
Transfers (Notes 3-ñ)	642	-	-	(675)	135	(101,291)	-	(101,189)
Hedges (Note 17)	621	-	-	-	-	-	-	621
Balance at 31/12/15	**14,308**	**11,484**	**(1,824)**	**13,634**	**22,068**	**579,939**	**(12,404)**	**627,205**

A detail of the Group's non-current financial assets at 31 December 2015 and 31 December 2014, by nature and category, for valuation purposes, is as follows:

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

	Thousands of euros				
	31/12/14				
Financial assets: Nature / Category	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	Total
Equity instruments	9,699	-	-	-	9,699
Hedging derivatives (Note 17)	-	-	-	17,593	17,593
Other financial assets	-	624,593	17,664	-	642,257
Long-term / non-current	**9,699**	**624,593**	**17,664**	**17,593**	**669,549**

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

2015

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

2014

	2016	2017	2018	2019 and subsequent years	Total
Loans and receivables	127,685	132,901	126,337	237,670	624,593
Held-to-maturity investments	781	933	-	15,950	17,664
Hedging derivatives	6,208	9,233	685	1,467	17,593
Total	**134,674**	**143,067**	**127,022**	**255,087**	**659,850**

a) Investments in associates

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

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	Other comprehensive income
Plan Metro, S.A. (3)	396,026	12,724	401,619	29,701	(22,570)	-	51,390	(5,579)	-
Consorcio Traza, S.A. (2)	237,933	69,291	222,696	28,199	51,989	4,340	25,931	1,235	2,484
Ferrocarriles Suburbanos, S.A. de C.V.	277,608	61,811	263,475	58,277	17,667	-	45,193	(18,845)	(793)
Arabia One for Clean Energy Invest. PSC	19,287	2,835	15,649	4,799	1,674	-	-	(497)	28

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Plan Metro, S.A. (3)	(22,570)	40%	(9,028)	-	-
Consorcio Traza, S.A. (2)	51,989	25%	12,997	12,997	309
Ferrocarriles Suburbanos, S.A. de C.V.	17,667	43.35%	7,659	-	-
Arabia One for Clean Energy Investments PSC	1,674	40%	670	670	(199)
Other investments (4)	-	-	641	641	(110)
			12,939	**14,308**	**-**

1) After adjustments and unification for consolidation purposes (in thousands of euros).
2) Consorcio Traza, S.A. holds an 80% ownership interest in the public-private entity Los Tranvías de Zaragoza, S.A.
3) This company's shares are pledged to certain banks.
4) Dormant companies or companies with no significant activity: Asyris Vision Technologies, S.A.; Urban Transport Solutions, B.V.; Zheijang Sunking Trainelec Traintic Electric Co. Ltd.; Basa TMB , S.L.; Compañía de Vagones del Sur, S.L.; Ferrocarril Interurbano, S.A. de C.V.; and Tumaker, S.L.

In consolidating the ownership interests, the Group took the necessary fair value adjustments into account and eliminated the sales margins on railway material in proportion to its ownership interest. Since the CAF Group has not incurred any legal or explicit obligations or made payments on behalf of the associates, it is not necessary to consolidate the additional losses incurred by these associates, which are valued at zero. At 31 December 2015, the fair value adjustments and sales margins reduced the ownership interests by EUR 43,700 thousand, and no losses exceeding the cost of the ownership interest, amounting to EUR 45,069 thousand, were recognised.

b) Non-current investment securities

Name	% of ownership	Cost of the investment (Thousands of euros)	
		2015	2014
Alquiler de Trenes, AIE	5%	1,202	1,202
Ferromovil 3000, S.L.	10%	3,181	3,181
Alquiler de Metros, AIE	5%	66	66
Plan Azul 07, S.L.	5.2%	1,381	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	1,908	1,908
Iniciativa FIK, A.I.E.	12.49%	1,263	1,302
FIK Advanlife, S.L.	10.29%	1	1
Albali Señalización, S.A.	3%	398	398
Other		260	260
Total		**9,660**	**9,699**

On 10 March 2014, the Group sold its ownership interest in Metro de Sevilla Sociedad Concesionaria de la Junta de Andalucía, S.A., which had been recognised under "Available-for-Sale Financial Assets", for EUR 17,058 thousand. The ownership interest was sold for EUR 17,587 thousand, which were received in full and, as a result, the Group recognised a gain of EUR 4,367 thousand under "Impairment and Gains or Losses on Disposals of Financial instruments" in the accompanying consolidated statement of profit or loss, of which EUR 3,838 (disregarding the tax effect) had been recognised under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet at 31 December 2013.

The Group owns 12.5% of Iniciativa FIK, AIE, the company object of which is research and development and the exploitation of scientific and technological knowledge. The par value of the shares amounts to EUR 3,125 thousand. At 31 December 2015, the capital payments payable amounted to EUR 418 thousand (EUR 38 thousand at long term). The ownership interest has been written down by EUR 1,824 thousand (31 December 2014: EUR 1,405 thousand) and impairment of EUR 419 thousand was recognised in 2015 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying consolidated statement of profit or loss.

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

c) Other financial assets

At 31 December 2015, the Group had recognised an amount of EUR 12,602 thousand under "Non-Current Financial Assets - Other Financial Assets" in relation to guarantees connected with the increase in the financial debt of the subsidiary Ctrens Companhia Manutençao (see Note 16). This guarantee, which bears interest at market rates and relates to the six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

d) Derivative financial instruments

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

e) Loans and receivables

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

	31/12/15	31/12/14
Loans to employees	5,126	5,091
Share ownership scheme obligations	230	432
Non-current tax receivables and payables (Note 19)	46,660	53,488
Provisions for tax payables (Note 19)	(12,404)	(16,366)
Non-current trade receivables	505,132	562,301
Loans to associates (Note 10)	22,329	19,111
Loans to third parties	462	536
Total	**567,535**	**624,593**

Loans to employees

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

Share ownership scheme (Cartera Social)

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

"Non-Current Financial Assets – Loans and Receivables" and "Other Current Financial Assets" in the accompanying consolidated balance sheet include the investment in the aforementioned rights which belong to the share ownership scheme acquired from Cartera Social, S.A. The sole purpose of acquiring these rights was to resell them after several years to the Parent's employees.

This scheme was implemented basically in three phases. The first began in 1994 with the acquisition by the Parent of 632,000 rights on CAF, S.A. shares owned by Cartera Social, S.A. for EUR 26.9 million. The second involved the acquisition of 210,150 rights in 2005 for EUR 14.3 million. At the end of 2007 the third phase was agreed upon with the acquisition of 171,747 additional rights at an acquisition cost for CAF, S.A. of EUR 50.7 million.

Since the Parent purchased the aforementioned rights at a higher price than the sum of the price at which it sold them to its employees and the contributions made to the scheme by Cartera Social, S.A., the Parent recognised the envisaged losses in the corresponding years.

As a result of the foregoing, in the accompanying consolidated balance sheet at 31 December 2015 the Parent recognised a gross amount of EUR 230 thousand (31 December 2014: EUR 432 thousand) in relation to these rights under "Non-Current Financial Assets – Loans and Receivables" and EUR 832 thousand under "Other Current Financial Assets" (31 December 2014: EUR 2,122 thousand).

In 2015 rights with a carrying amount of approximately EUR 1,323 thousand (2014: 6,768 thousand) were sold

In 2015 the Group reversed EUR 169 thousand of the impairment loss with a credit to "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying consolidated statement of profit or loss (2014: EUR 203 thousand).

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

At 31 December 2015, Cartera Social, S.A. owned 892,780 CAF, S.A. shares, equal to 26.04% of its share capital (see Note 14). At 31 December 2014, Cartera Social, S.A. owned 915,828 shares, representing 26.72% of CAF, S.A.'s share capital.

Non-current tax receivables

At 31 December 2015, the Group recognised EUR 46,660 thousand under "Non-Current Financial Assets – Loans and Receivables" in connection with the VAT refundable by foreign tax authorities (31 December 2014: EUR 53,488 thousand). In 2014 the Group took measures to claim the tax receivables from the Brazilian tax authorities and as a result reversed EUR 11,004 thousand thereof with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss based on the directors' best estimates regarding the recovery of this tax. In 2015 the directors, based on their best estimates, recognised EUR 213 thousand with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets".

Non-current trade receivables

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 7,018 thousand at long term (2014: EUR 7,949 thousand) and EUR 1,106 thousand at short term (2014: EUR 1,044 thousand) relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months. In 2015 EUR 1,501 thousand (2014: EUR 1,500 thousand) were received and an amount of EUR 632 thousand (2014: EUR 695 thousand), relating to the interest rate implicit in the transaction, was credited to "Finance Income" in the accompanying consolidated statement of profit or loss.

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

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

- The payments are guaranteed by CPTM through a monthly bank deposit of BRL 11.6 million (in 2009 real terms, amounting to BRL 16.5 million following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Guarantee Agent and can be used to pay the concession operator in the event of non-compliance with the CPTM payment obligations.

- The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.

- The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (see Note 25-a). At 31 December 2015, this guarantee amounted to BRL 33,891 thousand (EUR 7,860 thousand).

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

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

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

- The consideration payable by STC is secondarily guaranteed by a system of trusts with funds from the "Remanentes de las Participaciones Federales" (Federal Participation Surpluses). In 2015 this guarantee comfortably fulfilled STC's payment obligations for the year.

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

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

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

Consequently, at 31 December 2015 the Group recognised balances of EUR 498,114 thousand under "Non-Current Financial Assets - Loans and Receivables" (31 December 2014: EUR 554,352 thousand) and EUR 112,306 thousand under "Current Assets - Other Receivables" (31 December 2014: EUR 114,981 thousand) relating to construction activities and services performed to date, net of billings made. There was no investments in this regard in 2015 and 2014.

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

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

10. Balances and transactions with related parties

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

Company	Thousands of euros					
	2015			2014		
	Services provided or sales recognised	Services received or purchases recognised	Finance income	Services provided or sales recognised	Services received or purchases recognised	Finance income
Plan Metro, S.A.	11,425	-	1,326	7,590	-	2,788
Consorcio Traza, S.A.(*)	-	-	-	592	-	-
Ferrocarriles Suburbanos, S.A. de C.V.	12,593	36	-	10,822	38	-
Zheijiang Sunking Trainelec Traintic, JV	57	-	-	-	-	-
Arabia One for Clean Energy Investments PSC	-	-	57	-	-	-
Ferrocarril Interurbano, S.A. de C.V.	147	-	-	-	-	-
Tumaker, S.L.	-	-	3	200	-	-
Total	**24,222**	**36**	**1,386**	**19,204**	**38**	**2,788**

(*) Including transactions with the investee S.E.M. Los Tranvías de Zaragoza, S.A.

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

As a result of the transactions performed in 2015, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2015 and 2014 were as follows (see Note 2-f):

Company	Thousands of euros							
	31/12/15				31/12/14			
	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)
Plan Metro, S.A.	3,798	-	(463)	20,437	2,555	-	(7,132)	19,111
Ferrocarriles Suburbanos, S.A. de C.V.	489	74	-		516	11	-	-
Arabia One for Clean Energy Investments, PSC	14	-	-	1,747	-	-	-	-
Ferrocarril Interurbano, S.A. de C.V.	367	-	-	-	-	-	-	-
Tumaker, S.L.	1	-	-	145	42	-	-	-
Total	**4,669**	**74**	**(463)**	**22,329**	**3,113**	**11**	**(7,132)**	**19,111**

In 2011 the subsidiary Inversiones en Concesiones Ferroviarias, S.A. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently guaranteed. Due to certain delays in payment by the customer, this associate negotiated with the banks in 2013 in order to adapt the financial model to the new circumstances, and it is considered that the resulting scenario will enable the amounts advanced by the CAF Group to be recovered. Also, the Group came to an agreement with Plan Metro, S.A. to harmonise the different interpretations of the aforementioned loan agreements and recognised finance income of EUR 2,788 thousand in relation to the interest accrued on the loan with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss.

"Trade and Other Receivables - Other Receivables" in the consolidated balance sheet at 31 December 2014 includes an account receivable from Cartera Social, S.A. amounting to EUR 880 thousand.

11. Inventories and construction contracts

The detail of "Inventories" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 21)	58,298	149,513
Advances to suppliers	27,955	30,991
Total	**86,253**	**180,504**

At 31 December 2015, the Group had firm raw materials purchase commitments amounting to approximately EUR 330,906 thousand (31 December 2014: EUR 401,882 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2015 and 2014, the insurance policies taken out covered the carrying amount of the inventories at those dates.

As described in Note 3-e, the Group capitalises the borrowing costs incurred in the year related to inventories that have a production cycle of more than one year. The amount capitalised in this connection prior to the allocation to income of sales in 2015 was EUR 3,258 thousand (2014: EUR 2,817 thousand).

Construction contracts

The detail of the cumulative amount of costs incurred and of profits recognised (less the related losses recognised) and the amount of advances received at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Deferred billings (asset) (Notes 3-f and 12)	725,254	681,495
Prebillings (liability) (Note 3-f)	(261,850)	(203,196)
Net	**463,404**	**478,299**
Costs incurred plus profits and losses recognised based on stage of completion	2,426,122	2,141,343
Billings made excluding advances	(1,700,868)	(1,459,848)
Advances received	(261,850)	(203,196)
Net	**463,404**	**478,299**

12. Trade and other receivables

The detail of "Trade and Other Receivables" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Trade receivables - in euros	594,301	612,395
Trade receivables - in foreign currency	528,767	497,610
Write-downs (Note 3-d)	(2,585)	(2,999)
Total	**1,120,483**	**1,107,006**

These balances receivable arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances, (approximately 35% in 2015, 38% in 2014), was billed to customers. The remaining balance receivable relates to "Amounts to Be Billed for Work Performed" (see Note 11), the main balance of which amounting to EUR 137,790 thousand (2014: EUR 137,235 thousand) relates to an agreement with Metro de Caracas, and whose collection is covered by an insurance policy and a provision (see Note 20). The main balances are in euros.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, has arranged a supplier credit policy with credit risk coverage for the Metro de Caracas Line 1 refurbishment project. The insured under this policy are the venturers in the aforementioned unincorporated temporary joint venture, including CAF. At 31 December 2015, the maximum amount payable to CAF was EUR 59.5 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filing a claim under the aforementioned insurance policy had been met, and no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at six months.

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

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

At 31 December 2015, 61% of the billed balances receivable related to the top five customers (31 December 2014: 57%). "Trade Receivables" includes retentions at 31 December 2015 amounting to EUR 1,259 thousand (31 December 2014: EUR 1,126 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2015 and 2014 included in the non-current accounts receivable (see Note 9-e) is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Past due > 90 days	5,511	14,591
Past due > 180 days	97,572	77,868
Total	**103,083**	**92,459**

On the basis of a case-by-case analysis of past-due balances, the CAF Group considered that at 31 December 2015, EUR 2,585 thousand (31 December 2014: EUR 2,999 thousand) posed a collection risk and recognised the corresponding write-downs. In 2015 the net changes in the write-downs of trade receivables arose from a reversal of approximately EUR 1,217 thousand with a credit to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (2014: net additional write-downs of approximately EUR 894 thousand).

13. Other current financial assets

The detail of "Other Current Financial Assets" at 31 December 2015 and 2014 is as follows:

2015

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

2014

Financial assets: Nature/Category	Loans and receivables (Note 9-e)	Held-to-maturity investments	Held-for-trading financial assets (Note 3-d)	Hedging derivatives (Note 17)	Total
Financial derivatives	-	-	-	27,350	27,350
Other financial assets	3,122	41,455	52,018	-	96,595
Short-term / current	**3,122**	**41,455**	**52,018**	**27,350**	**123,945**

"Held-to-Maturity Investments" and "Held-for-Trading Financial Assets" include the cash surpluses invested in government debt securities, repos, short-term deposits, term deposits, promissory notes or fixed-income investment funds. These are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss. In 2015 the Group recognised income in this connection amounting to EUR 7,829 thousand (2014: EUR 5,205 thousand).

14. Equity

a) Share capital of the Parent

At 31 December 2015 and 2014, the Parent's share capital consisted of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities holding over 3% of the Parent's share capital at 31 December 2015 and 2014 were as follows:

	% 2015	% 2014
Cartera Social, S.A. (Note 9) (*)	26.04 %	26.72%
Kutxabank, S.A.	19.06 %	19.06%
Bestinver Gestión S.A. S.G.I.I.C.	3.09 %	-
Templeton Investment Counsel, LLC.	3.03 %	3.03%

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

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

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

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

b) Share premium

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

c) Revaluation reserve

The amount held in this reserve in 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
Total	**39,119**	**39,119**

Revaluation reserve Guipúzcoa Regulation 11/1996

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

d) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2015 and 2014 the balance of this reserve had reached the legally required minimum.

e) Restricted reserves

The separate financial statements of the consolidated companies include reserves amounting to approximately EUR 64,231 thousand at 31 December 2015 (31 December 2014: approximately EUR 61,641 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Guipúzcoa Regulation 2/2014), reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (see Note 16).

Until the balance of “Development Expenditure” has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2015 year-end EUR 31,118 thousand of the reserves were restricted as to their use (2014 year-end: EUR 34,681 thousand).

f) *Translation differences*

The breakdown, by company, of "Translation Differences" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
CAF México, S.A. de C.V.	(927)	(550)
CAF Brasil Industria e Comercio, S.A.	(44,276)	(17,787)
CAF Argentina, S.A.	(1,764)	(1,237)
CAF USA, Inc.	(209)	(89)
CAF Rail UK, Ltda.	66	(6)
CAF Chile, S.A.	(24)	30
Sefemex, S.A. de C.V.	(55)	(55)
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(977)	(571)
Corporación Trainemex, S.A. de C.V.	(25)	(15)
CAF Turquia, L.S.	(832)	(706)
CAF Argelia, E.U.R.L.	(213)	(119)
CAF India Private Limited	(67)	(749)
Ctrens Companhia de Manutençao, S.A.	(79,086)	(48,312)
Trenes CAF Venezuela, C.A.	(624)	(619)
Provetren, S.A. de C.V.	1,198	597
CAF Sinyalizasyon Sistemleri Ticaret Ltd Sirket	(124)	(76)
CAF Rail Australia Pty, Ltd.	4	4
CAF Colombia, S.A.S.	(159)	(144)
Sermantren, S.A. de C.V.	(5)	(2)
CAF Arabia, Co.	147	62
CAF New Zealand Ltd.	5	8
Zhejiang Sunking Trainelec Traintic Electric Co, Ltd.	18	14
CAF Taiwan Ltd.	133	23
Urban Transport Solutions, B.V.	28	(37)
Arabia One for Clean Energy Investments PSC	28	-
Ferrocarril Interurbano, S.A. de C.V.	(7)	-
CAF Sisteme Feroviare, SRL	(1)	-
Total	**(127,748)**	**(70,336)**

g) *Non-controlling interests*

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes therein in 2015 and 2014 is as follows:

	Thousands of euros
Balance at 31 December 2013	**10,249**
Profit attributable to non-controlling interests	2,450
Translation differences	1
Changes in the scope of consolidation	899
Dividends	(895)
Balance at 31 December 2014	**12,704**
Profit attributable to non-controlling interests	1,573
Translation differences	(6)
Changes in the scope of consolidation	140
Dividends	(3,224)
Balance at 31 December 2015	**11,187**

h) *Capital management*

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

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2015 and 2014, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (see Notes 3-ñ and 9-e). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of euros	
	31/12/15	31/12/14
Net financial debt:		
Refundable advances with interest (Note 15)	11,431	8,391
Bank borrowings - Non-current liabilities (Note 16)	662,168	683,062
Bank borrowings - Current liabilities (Note 16)	203,722	158,039
Financial assets - Non-current assets (Note 9-c)	(12,602)	(15,911)
Current financial assets (Note 13)	(88,623)	(93,473)
Cash and cash equivalents	(297,440)	(197,111)
	478,656	**542,997**
Equity:		
Attributable to the Parent	703,740	736,209
Non-controlling interests	11,187	12,704
	714,927	**748,913**

15. Other current and non-current financial liabilities and other obligations

The detail of the Group's financial liabilities at 31 December 2015 and 2014, by nature and category, for measurement purposes, is as follows:

Financial liabilities: **Nature/Category**	Thousands of euros		
	31.12.15		
	Accounts payable	Hedging derivatives	Total
Bank borrowings (Note 16)	662,168	-	662,168
Other financial liabilities (excluding hedging derivatives)	51,833	-	51,833
Hedging derivatives (Note 17)	-	23,091	23,091
Non-current liabilities / non-current financial liabilities	**714,001**	**23,091**	**737,092**
Bank borrowings (Note 16)	203,722	-	203,722
Other financial liabilities (excluding hedging derivatives)	18,202	-	18,202
Hedging derivatives (Note 17)	-	35,498	35,498
Current liabilities / current financial liabilities	**221,924**	**35,498**	**257,422**
Total	**935,925**	**58,589**	**994,514**

Financial liabilities: Nature/Category	Thousands of euros		
	31/12/14		
	Accounts payable	Hedging derivatives	Total
Bank borrowings (Note 16)	683,062	-	683,062
Other financial liabilities (excluding hedging derivatives)	57,848	-	57,848
Hedging derivatives (Note 17)	-	18,557	18,557
Non-current liabilities / non-current financial liabilities	**740,910**	**18,557**	**759,467**
Bank borrowings (Note 16)	158,039	-	158,039
Other financial liabilities (excluding hedging derivatives)	19,034	-	19,034
Hedging derivatives (Note 17)	-	27,699	27,699
Current liabilities / current financial liabilities	**177,073**	**27,699**	**204,772**
Total	**917,983**	**46,256**	**964,239**

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

	Thousands of euros	
	31/12/15	31/12/14
Refundable advances	47,172	50,866
Employee benefit obligations (Notes 3-k and 22)	3,005	5,259
Other liabilities (Note 16)	1,656	1,723
Total	**51,833**	**57,848**

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

	2015		2014
2017	11,869	2016	11,502
2018	10,973	2017	10,407
2019	5,970	2018	10,185
2020	5,743	2019	5,094
2021 and subsequent years	17,278	2020 and subsequent years	20,660
Total	**51,833**	**Total**	**57,848**

Refundable advances

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

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

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

The changes in 2015 and 2014 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/13	**52,897**
Additions	6,157
Adjustments and other	1,979
Transfers to short term	(10,167)
Balance at 31/12/14	**50,866**
Additions	4,114
Adjustments and other	1,236
Transfers to short term	(9,044)
Balance at 31/12/15	**47,172**

Also, the amount recognised in the short term relating to accounts payable for refundable advances amounted to EUR 15,021 thousand at 31 December 2015 (31 December 2014: EUR 17,136 thousand).

Employee benefit obligations

The Group has recognised the future obligations to the employees who have entered into pre-retirement plans (see Note 3-k). Short-term obligations of EUR 2,298 thousand were recognised under "Other Payables" in the accompanying consolidated balance sheet at 31 December 2015 (31 December 2014: EUR 4,185 thousand).

Also, the detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, of the plan assets allocated for the coverage thereof, at the end of 2015 and 2014, is as follows (see Note 3-j):

	Thousands of euros	
	31/12/15	31/12/14
Present value of the obligations assumed	25,679	21,414
Less – Fair value of plan assets	(25,947)	(21,624)
Trade and other payables - Other payables	**(268)**	**(210)**

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

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

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

Hipótesis Actuariales	2015	2014
Discount rate	2.10%(1)-3.05%(2)	3.20% (2)
Mortality tables	PERM/F/2000P	PERM/F/2000P
Annual pension increase rate	1-2%	2%
Retirement age	65-67	65-67

(1) At 31/12/2015 according to the Iboxx Corporate AA curve with a 18 year duration

(2) During the first 30 years. Thereafter, at 0.3% (1.15% according to the assumptions used at the end of 2014).

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

16. Bank borrowings

The detail of “Bank Borrowings” in the accompanying consolidated balance sheet is as follows:

	Thousands of euros			
	31/12/15		31/12/14	
	No corriente	Non-current	Non-current	Corriente
Loans from and credit accounts with banks	662,168	160,780	683,062	154,151
Factoring payables	-	36,755	-	-
Unmatured accrued interest	-	6,187	-	3,888
Total (Note 15)	**662,168**	**203,722**	**683,062**	**158,039**

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

In relation to the CPTM train lease transaction described in Note 9-e, on 10 May 2011, the subsidiary Ctrens-Companhia de Manutençao, S.A. (Ctrens) arranged with Banco Nacional de Desenvolvimiento Econômico e Social (BNDES) financing for a maximum amount of BRL 946,890 thousand. The loan bears interest at TJLP (Taxa de Juros de Longo Prazo) plus a spread. The loan principal will be repaid in 160 successive monthly instalments, the first of which will be paid in January 2013. At 31 December 2015, the balance drawn down was BRL 761,463 thousand (EUR 176,583 thousand, of which EUR 164,924 thousand mature at long term and EUR 11,659 thousand at short term). At 31 December 2014, the balance drawn down was BRL 805,064 thousand (EUR 249,972 thousand, of which EUR 235,232 thousand mature at long term and EUR 14,740 thousand at short term).

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

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

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

The loan principal will be repaid in 39 consecutive quarterly instalments, in line with the collection profile under the PPS, the first maturity date being October 2013. At 31 December 2015, the financial liability according to the amortised cost method amounted to USD 184,258 thousand (EUR 169,241 thousand, of which EUR 146,040 thousand mature at long term and EUR 23,201 thousand at short term). At 31 December 2014, the financial liability according to the amortised cost method amounted to USD 207,069 thousand (EUR 170,562 thousand, of which EUR 150,448 thousand mature at long term and EUR 20,114 thousand at short term).

This related agreement contains certain restrictive clauses limiting Provetren, S.A., de C.V., inter alia, in respect of the obtainment of new bank loans, the provision of guarantees, the reimbursement of capital, the distribution of dividends if certain ratios have not been achieved, and the achievement of certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15).

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

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

In 2015 the Parent drew down new loans, maturing at between one and six years, for a total of EUR 102,000 thousand, and repaid loans amounting to EUR 65,401 thousand. These loans were arranged on an arm's length basis. At 31 December 2015, the balance drawn down, using the amortised cost method, was EUR 350,053 thousand maturing at long term and EUR 30,917 thousand maturing at short term (31 December 2014: EUR 280,478 thousand maturing at long term and EUR 63,750 maturing at short term). Of the amount drawn down, EUR 243,750 thousand bear interest at a fixed interest rate (EUR 20,000 thousand as a result of an interest-rate swap, see Note 17) and EUR 137,849 thousand bear interest tied to Euribor.

In 2014 the Parent arranged nine new loans for a total of EUR 295,000 thousand and repaid eight loans for EUR 132,000 thousand. The Parent also renewed a loan for EUR 50,000 thousand. These loans were arranged on an arm's length basis. Of the amount drawn down at December 2014, EUR 200,000 thousand bore interest at a fixed interest rate (EUR 20,000 thousand as a result of an interest-rate swap, see Note 17) and EUR 145,000 thousand bore interest tied to Euribor.

The subsidiary CAF Brasil Industria e Comercio, S.A. drew down approximately BRL 290,067 thousand, equal to EUR 67,267 thousand (31 December 2014: BRL 133,800 thousand, equal to EUR 12,420 thousand maturing at long term and EUR 29,124 maturing at short term), against credit facilities in order to finance working capital needs. BRL 270,067 of these credit facilities are guaranteed by the Parent.

In 2015 the subsidiary CAF USA, Inc. drew down USD 30,000 thousand (EUR 27,586 thousand) against credit facilities maturing at short term for the purpose of financing its working capital requirements (31 December 2014: USD 30,000 thousand, equal to EUR 24,730 thousand). This credit facility is guaranteed by the Parent.

At 31 December 2015, the Parent recognised a liability of EUR 36,755 thousand for collections made as representative of the bank in factoring transactions, and the credit institution was paid in 2016.

The remaining financial debt of EUR 1,301 thousand, of which EUR 150 thousand mature at short term (31 December 2014: EUR 6,177 thousand, of which EUR 1,693 thousand mature at short term) relates to loans received by various subsidiaries, which are tied to market interest rates.

In addition to the aforementioned credit facility and to the borrowings drawn down by the Group described in the previous paragraphs, the Group companies have undrawn credit facilities amounting to EUR 273,000 thousand (31 December 2014: 299,975 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

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

	31/12/15		31/12/14
2017	83,094	2016	71,242
2018	71,209	2017	72,076
2019	296,700	2018	62,381
2020	36,492	2019	237,975
2021 and subsequent years	174,673	2020 and subsequent years	239,388
Total	**662,168**	**Total**	**683,062**

17. Derivative financial instruments

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

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

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

2015

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

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

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

Interest rate derivatives (cash flow hedges)	Loan maturity (in currency)		
	2016	2017	2018 y siguientes
Swap Euribor	-	-	20,000,000 EUR
Cross-currency-swap CDI	114,800,000 BRL	-	
Swap LIBOR	20,206,653 USD	21,238,584 USD	108,832,744 USD

	Thousands of euros			
	Fair value		Fair value	
	31/12/15	31/12/14	31/12/15	31/12/14
Hedges :				
USD currency forwards	(18,467)	(879)	-	-
GBP currency forwards	195	140	-	-
MXN currency forwards	(64)	103	-	-
BRL currency forwards	6,041	442	-	-
CHF currency forwards	(131)	(131)	-	-
EUR currency forwards	(101)	986	-	-
AUD currency forwards	-	39	-	-
SEK currency forwards	(365)	(157)	-	-
NZD currency forwards	-	(34)	-	-
SAR currency forwards	7,217	(1,316)	-	-
TWD currency forwards	739	(39)	-	-
ZAR currency forwards	(7)	-	-	-
HUF currency forwards	191	-	-	-
Interest rate forwards	(100)	(96)	1,195	(371)
Measurement at year-end (*)	**(4,852)**	**(942)**	**1,195**	**(371)**

(*) Before considering the related tax effect

2014

Currency put options at 31/12/14 (fair value hedges)	Maturity (in currency)		
	2015	2016	2017 and subsequent years
Hedges :			
USD currency forwards (*)	421,624,251	96,014,491	135,817,996
GBP currency forwards	4,903,048	89,463	-
EUR currency forwards	31,493,289	-	-
BRL currency forwards	121,244,649	-	-
SEK currency forwards	253,221,468	31,664,353	-
AUD currency forwards	16,774,529	-	-
NZD currency forwards	6,409,759	-	-
TRY currency forwards	1,034,918	-	-
TWD currency forwards	1,546,385,865	77,422,500	-
SAR currency forwards	595,270,630	9,944,560	-
MXP currency forwards	394,308,394	1,854,650,000	-

(*) Includes the hedge of a net investment in CAF USA, Inc. and in Provetren amounting to USD 143,057 thousand.

Currency call options at 31/12/14 (fair value hedges)	Maturity (in currency)		
	2015	2016	2017 and subsequent years
Hedges :			
USD currency forwards	7,913,422	1,800,000	700,000
EUR currency forwards	36,794,294	-	-
BRL currency forwards	44,983,891	-	-
MXP currency forwards	198,327,459	-	-
GBP currency forwards	600,000	-	-

	Thousands of euros			
	Fair value		Cash flow	
	31/12/14	31/12/13	31/12/14	31/12/13
Hedges :				
USD currency forwards	(879)	11,713	-	-
GBP currency forwards	140	94	-	-
MXP currency forwards	103	(368)	-	-
BRL currency forwards	442	380	-	-
CHF currency forwards	(131)	(131)	-	-
EUR currency forwards	986	3,950	-	-
AUD currency forwards	39	441	-	-
SEK currency forwards	(157)	(176)	-	-
RON currency forwards	-	(56)	-	-
NZD currency forwards	(34)	7	-	-
SAR currency forwards	(1,316)	(84)	-	-
TWD currency forwards	(39)	914	-	-
Interest rate forwards	(96)	-	(371)	-
Measurement at year-end (*)	**(942)**	**16,684**	**(371)**	**-**

(*) Before considering the related tax effect

Interest rate derivatives (cash flow hedges)	Loan maturity (in currency)		
	2015	2016	2017 and subsequent years
Euribor swap	-	-	EUR 20,000,000
CDI cross-currency-swap	BRL 63,800,000	-	-
LIBOR swap	USD 19,534,698	USD 20,206,653	USD 130,071,328

At 2015 and 2014 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (see Note 9-a) had arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 5,229 thousand at 31 December 2015, net of the related tax effect (31 December 2014: EUR 5,850 thousand). This amount was recognised under “Equity - Valuation Adjustments - Hedges” in the consolidated balance sheet as at 31 December 2015.

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

Following is a reconciliation of the measurement at the end of 2015 and 2014 to the balances reflected in the consolidated sheet (in thousands of euros):

	2015	2014
Non current assets (Note 9)	22,068	17,593
Current assets (Note 13)	32,864	27,350
Non current liabilities (Note 15)	(23,091)	(18,557)
Current liabilities (Note 15)	(35,498)	(27,699)
Net balance total	**(3,657)**	**(1,313)**
Fair value	(4,852)	(942)
Cash flow	1,195	(371)
Total	**(3,657)**	**(1,313)**

In 2015 the ineffective portion of the hedging transactions performed recognised in the consolidated statement of profit or loss gave rise to an expense of EUR 192 thousand (2014: expense of EUR 391 thousand).

Also, the settlement and the change in the value of the fair value derivatives resulted in an expense of EUR 35,100 thousand in 2015 (2014: expense of EUR 4,069 thousand), similar to the changes in value of the hedged items.

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

18. Current and deferred taxes

At 31 December 2015, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to their business activities.

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

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

	Thousands of euros	
	2015	2014
Accounting profit before tax	**60,409**	**80,456**
Tax rate of the Parent	28%	28%
Income tax calculated at the tax rate of the Parent	**16,915**	**22,528**
Effect of the different tax rate of subsidiaries	1,975	3,817
Effect of exempt income and non-deductible expenses for tax purposes	3,471	2,018
Effect of tax credits and other tax relief recognised in the year	(4,217)	(10,760)
Effect of tax assets and deferred taxes not recognised in previous years	(549)	390
Tax effect of the impairment of tax assets and deferred taxes	-	400
Adjustments recognised in the year relating to prior years' income tax	137	(74)
Change in tax rate	63	8
Total income tax expense (benefit) recognised in the consolidated statement of profit or loss	**17,795**	**18,327**
Current income tax expense (benefit) (*)	**12,412**	**14,175**
Deferred tax expense (benefit)	**5,383**	**4,152**

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

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

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

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

	Thousands of euros				
	31/12/13	Additions	Reductions	Translation differences	31/12/14
Deferred tax assets:					
Tax credit and tax loss carryforwards	76,648	42,653	(20,070)	5,680	104,911
Provisions temporarily not deductible	77,900	8,819	(36,825)	754	50,648
Share ownership scheme	248	-	(248)	-	-
Effect of asset revaluation- Guipuzcoa Regulation 1/2013	4,393	-	(675)	-	3,718
Elimination of profits on consolidation and other	3,094	1,525	(43)	(11)	4,565
	162,283	**52,997**	**(57,861)**	**6,423**	**163,842**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	105,581	6,930	(9,589)	9,504	112,426
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	-	-	(61)	-	(61)
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Available-for-sale financial assets	134	-	(134)	-	-
Goodwill	362	1	-	-	363
Elimination of profits on consolidation and other	4,004	415	(1,514)	(146)	2,759
	147,020	**7,346**	**(11,298)**	**9,358**	**152,426**

In 2015 the Group expects to take tax credits amounting to EUR 7,506 thousand (2014: EUR 9,057 thousand) mainly in relation to tax credits for R&D expenditure and double taxation tax credits. Unused tax credits after projected income tax for 2015 amounted to EUR 80,226 thousand (2014: EUR 72,683 thousand), of which EUR 31,275 thousand (arising mainly from the Parent's tax group) are recognised under “Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards” (2014: EUR 31,052 thousand). At 31 December 2015, recognised tax loss carryforwards amounted to EUR 85,384 thousand (31 December 2014: EUR 73,859 thousand). EUR 40,976 thousand (31 December 2014: EUR 28,948 thousand) of these amounts related to the Parent's tax group and EUR 31,299 thousand (31 December 2014: 43,183 thousand) to Provetren, S.A. de C.V., which arose from the accelerated depreciation for tax purposes of a significant portion of its assets as a result of the certificate for environmentally friendly assets obtained from the Federal Prosecutor's Office for Environmental Protection (PROFEPA). Also, Provetren, S.A. de C.V. recognised deferred tax liabilities of EUR 85,769 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation.

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

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 61,761 thousand (2014: EUR 54,477 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets, with no defined last year for deduction, amounting to EUR 12,413 thousand (2014: EUR 12,533 thousand).

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

	Miles de euros	
	31/12/15	31/12/14
Expiring in 2016	-	63
Expiring in 2017	366	401
Expiring in 2018	847	1,281
Expiring in 2019	407	380
Expiring in 2020	577	557
Expiring in 2021	168	168
Expiring in 2022	-	-
Expiring in 2023	-	-
Expiring in 2024	-	-
Expiring in 2025	3,499	2,007
Expiring in 2026	8,352	8,366
Expiring in 2027 and subsequent years	37,174	31,891
Unlimited	22,784	21,896
	74,174	**67,010**

The differences between the estimated income tax for 2015 and the tax return ultimately filed gave rise to an expense of EUR 137 thousand (2014: income of EUR 74 thousand).

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2015 year-end the Group had 2011 and subsequent years open for review by the tax authorities for income tax and 2012 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and, at the foreign companies, in accordance with local legislation. The Parent’s directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Parent of the commencement of its general audit of various taxes for the years 2009-2013. In May 2015, and as a result of the tax assessments received, a payment of EUR 266 thousand was made, EUR 235 thousand of which were covered by the provision recognised in 2014, and another payment of EUR 223 thousand was made, EUR 192 thousand of which were recognised as an addition to property, plant and equipment. The Company filed claims against these assessments.

Lastly, in relation to the notifications received from the Customs Office in 2013, these have been solved in 2015 without giving rise to losses.

19. Tax receivables and payables

The detail of the tax receivables and tax payables at 31 December 2015 and 2014 is as follows:

	Thousands of euros							
	31/12/15				31/12/14			
	Assets		Assets		Assets		Assets	
Concepto	Non-current	Non-current	Non-current	Non-current	Non-current	Non-current	Non-current	Non-current
Accrued social security taxes	-	6	-	8,134	-	6	-	8,595
Regular taxes-								
VAT (Note 9)	34,256	49,280	-	10,733	37,122	63,126	-	15,101
Other	-	1,605	-	176	-	810	-	192
Personal income tax withholdings	-	-	-	8,797	-	-	-	9,411
Income tax (Note 3-l)	-	8,451	-	647	-	6,493	-	3,513
Grants receivable	-	397	-	-	-	1,635	-	-
Total	**34,256**	**59,739**	**-**	**28,487**	**37,122**	**72,070**	**-**	**36,812**

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

20. Short- and long-term provisions

The changes in these balances in 2015 and 2014 were as follows (in thousands of euros):

	Short-term provisions					
	Contractual liability	Warranties and technical assistance	Litigation	Other provisions	Total short-term provisions	Long-term provisions
Balance at 31/12/13	**208,679**	**116,066**	**7,766**	**2,516**	**335,027**	**4,785**
Net charges	(41,902)	47,119	(72)	(137)	5,008	1,946
Charges	(18,440)	(57,446)	-	-	(75,886)	(1,736)
Translation differences	160	1,020	-	-	1,180	9
Transfers	(1,364)	1,364	-	-	-	71
Balance at 31/12/14	**147,133**	**108,123**	**7,694**	**2,379**	**265,329**	**5,075**
Net charges (Notes 3-j, 3-k and 18)	(20,737)	40,961	(3,355)	(340)	16,529	1,636
Charges	(3,513)	(44,994)	(179)	(137)	(48,823)	(2,008)
Translation differences	(706)	(594)	-	-	(1,300)	(254)
Transfers	(1,081)	(1,888)	-	-	(2,969)	77
Balance at 31/12/15	**121,096**	**101,608**	**4,160**	**1,902**	**228,766**	**4,526**

Long-term provisions -

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

Contractual liability and warranty and support services

The provisions for contractual liability relate basically to delays in delivery, in accordance with the production and delivery schedule and the agreed-upon contractual obligation, and to provisions for onerous contracts. Provisions for guarantees and technical assistance relate to the estimate of the future use thereof (based on technical and historical analyses) for which there is an obligation based on the warranty period set out in the contracts. The timetable for the settlement of provisions varies depending on the corresponding item, and the approximate average period is as follows:

- Contractual liability: 1-2 years
- Warranty: 1-4 years (variable, based on the related contractual agreement)

The consolidated companies recognised income of EUR 32,294 thousand under “Other Operating Expenses” in the accompanying consolidated statement of profit loss for 2015 (2014: EUR 70,878 thousand) in relation to the difference between the provisions required in this connection at 2015 year-end and the provisions recognised at 2014 year-end.

The expenses incurred in 2015 and 2014 in connection with the provision of contractual warranty services (approximately EUR 44,994 thousand and EUR 57,446 thousand, respectively) were recognised under “Procurements” and “Staff Costs” in the accompanying consolidated statements of profit or loss for 2015 and 2014. The term of the warranties varies depending on the contractual agreement and the average term ranges from one to four years.

In 2008 the Group entered into an agreement with Metro de Caracas for the manufacture and supply of 48 trains to be manufactured in Spain. At 31 December 2015 and 2014, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2015 the Group had recorded a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2014: EUR 66,535 thousand), which is recognised under "Contractual Liability" in the table above (see Note 12). This provision relates to a contractual liability and, therefore, cannot be offset by the asset (account receivable), unless in the future an additional agreement can be reached with the customer in this connection. There is no litigation in progress in relation to this agreement.

Litigation

At 31 December 2015, the provision for litigation related mainly to the possible disbursements which might arise as a consequence of the cancellation of an agreement with a customer for which, additionally, an amount of EUR 9,201 thousand was recognised under “Trade and Other Payables - Other Payables” in the accompanying consolidated balance sheet (see Note 8). At the date of formal preparation of these consolidated financial statements decisions had not yet been handed down in connection with the various appeals filed, and the directors' best estimates were recognised in this regard.

The Parent's directors do not expect any liabilities additional to those recognised at 31 December 2015 to arise.

21. Income and expenses

a) Procurements

	Thousands of euros	
	2015	2014
Materials used (*)	348,845	673,189
Work performed by other companies	86,169	69,951
Total	**435,014**	**743,140**

(*) 77% in euros, and the remainder mainly in US dollars and Brazilian reals (2014: 73% in euros).

b) Other operating expenses

	Thousands of euros	
	2015	2014
Outside services	198,257	237,776
Taxes other than income tax	2,320	2,395
Change in operating provisions and allowances and other (Notes 12 and 20)	(36,817)	(66,354)
Other current operating expenses	1,236	342
Total	**164,996**	**174,159**

The fees for audit services (including six-monthly reviews) relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 798 thousand in 2015 (2014: EUR 792 thousand). Of this amount, EUR 563 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2014: EUR 590 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 178 thousand were billed in 2015 (2014: 290 thousand): EUR 68 thousand for audit-related attest services, EUR 67 thousand for tax services and the remainder for other services (2014: EUR 49 thousand, EUR 206 thousand and the remainder, respectively).

c) *Information on the environment*

In 2015 no investments were made in systems, equipment and facilities designed for environmental protection and improvement (2014: EUR 95 thousand).

In 2015 the Group received environmental grants of EUR 3 thousand.

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

In 2015 the Group emitted 16,550 tonnes of CO_2 (2014: 17,765 tonnes), whereas it had been allocated allowances for the emission of 19,491 tonnes (2014: 19,846 tonnes) As a result, the Group did not recognise any liability at year-end. The Group did not sell any emission allowances in either 2015 or 2014.

At 31 December 2015 and 2014, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2015 the Group incurred environmental expenses amounting to EUR 1,154 thousand (2014: EUR 985 thousand).

d) *Grants related to income*

Most of the grants transferred to profit or loss in 2015 and 2014 related to grants from various Spanish ministerial programmes from various calls for tender, justifying the costs incurred.

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

The grants related to income recognised in 2015 under “Other Operating Income” in the accompanying consolidated statement of profit or loss amounted to EUR 3,859 thousand (2014: EUR 3,823 thousand).

22. Average headcount and staff costs

The average headcount in 2015 and 2014 was as follows:

Professional category	Average number of employees	
	2015	2014
Board of Directors	2	3
Senior executives	12	-
Employees	3,337	3,321
Manual workers	4,444	4,703
Total (*)	**7,795**	**8,027**

(*) At 31 December 2015, there were 7,581 employees (31 December 2014: 8,206 employees).

The breakdown, by gender, of the average headcount in 2015 and 2014 is as follows:

	2015		2014	
Professional category	Men	Women	Men	Women
Board of Directors	2	-	3	-
Senior executives	10	2	-	-
Employees	2,479	858	2,494	827
Manual workers	4,296	148	4,503	200
Total	**6,787**	**1,008**	**7,000**	**1,027**

At 31 December 2015 and 2014 all of directors were men.

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

	2015	2014
Wages and salaries (Notes 3-j)	297,294	299,653
Social security costs	87,919	88,001
Other costs	16,951	18,582
Total	**402,164**	**406,236**

23. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 2015 and 2014 the Parent recognised approximately EUR 1,477 thousand and EUR 1,297 thousand in connection with remuneration, attendance fees and life insurance earned by its directors, whereas the directors of the subsidiaries did not earn any amounts in this regard. At 31 December 2015 and 2014, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to their current or former directors and, the Group did not have any pension obligations to them.

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

In 2015 and 2014 neither the members of the Board of Directors nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the Board of any direct or indirect conflict of interest that they might have with the Company.

24. Remuneration of senior executives

The remuneration of senior executives of the Parent, pursuant to the binding definition of "Senior Executives" in the Corporate Governance Report, amounted to EUR 2,262 thousand in 2015. In 2014 the data were disclosed in the preceding Note since the senior executives were, simultaneously, also members of the Board of Directors.

In 2015 and 2014 there were no other transactions with senior executives outside the ordinary course of business.

25. Other disclosures

a) Guarantees and other contingent assets and liabilities

At 31 December 2015, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 1,929,828 thousand (31 December 2014: EUR 1,728,878 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 32,542 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other government agencies (31 December 2014: EUR 37,147 thousand).

In March 2014 following completion of the investigation process initiated in May 2013 into the involvement of various railway manufacturers, including the subsidiary of the CAF Group in Brazil, the Brazilian Administrative Council for Economic Defence ("CADE") initiated administrative proceedings arising from potentially anti-competitive practices. The subsidiary has submitted preliminary arguments for its defence and has been working closely with the authorities on an ongoing basis, providing the information requested. The possible penalties which may arise as a result of these proceedings may include administrative fines, reimbursement of possible additional expenses, potential disqualification from new tender processes for a predefined period of time and/or criminal charges. At the date of formal preparation of these consolidated financial statements no economic claims had been filed against this subsidiary. Also, on 31 December 2015, as a result of the aforementioned proceedings, the current account amounting to EUR 208 thousand had been blocked and a claim had been filed in this connection. In 2015 the appeal filed by CAF BRASIL was upheld; official publication of the decision is pending, as is the definitive removal of this block.

As a result of the investigations carried out by CADE, other authorities, including, inter alia, the Sao Paulo State Public Prosecutor ("MP/SP"), have initiated criminal proceedings. At the date of preparation of these consolidated financial statements, the Group had not been summoned to give evidence and had not submitted its arguments, as not all the parties involved had been summoned.

After the suspension by the Goverment of Mexico City, in March 2014, of the elevated section of Line 12 of the Public Transport System (STC Metro) due to the discovery of faults in the stations and structure, the technical measurements, studies and analyses required to define the rehabilitation actions on Line 12 were carried out. Corrective measures were taken in 2015 as a result of this technical work and, in November 2015, the STC re-opened the entire Line 12, which since then has operated normally.

b) Disclosures on the average period of payment to suppliers

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

As permitted by the Single Additional Provision of the aforementioned Resolution, since this is the first reporting period in which it is applicable, no comparative information is presented.

	2015
	Days
Average period of payment to suppliers	69.53
Ratio of transactions settled	73.91
Ratio of transactions not yet settled	53.12
	Thousands of euros
Total payments made	408,351
Total payments outstanding	108,988

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

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to “Payable to Suppliers” and “Other Payables - Sundry Accounts Payable” under “Current Liabilities” in the consolidated balance sheet.

The maximum payment period applicable to the Company in 2015 under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 60 days, unless no deadline or payment period is set, in which case it is 30 days.

26. Events after the balance sheet date

At 31 December 2015, the firm backlog, net of progress billings, amounted to approximately EUR 4,869,061 thousand (31 December 2014: EUR 5,251,114 thousand) (see Note 11). At 31 January 2016, the total was EUR 5,548,924 thousand (31 January 2015: EUR 5,496,451 thousand).

27. Explanation added for translation to English

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

APPROVAL BY THE BOARD OF DIRECTORS

D. ANDRES ARIZKORRETA GARCIA

CHAIRMAN

D. ALEJANDRO LEGARDA ZARAGÜETA

DIRECTOR

D. JOSE ANTONIO MUTILOA IZAGUIRRE

DIRECTOR

D. LUIS MIGUEL ARCONADA ECHARRI

DIRECTOR

D. JOSE IGNACIO BERROETA ECHEVERRIA

DIRECTOR

D. JUAN JOSE ARRIETA SUDUPE

DIRECTOR

D. XABIER GARAIALDE MAIZTEGUI

DIRECTOR

D. JAVIER MARTINEZ OJINAGA

DIRECTOR

DÑA. MARTA BAZTARRICA LIZARBE

SECRETARY OF THE BOARD

APPROVAL BY THE BOARD OF DIRECTORS

D. ANDRES ARIZKORRETA GARCIA

D. ALEJANDRO LEGARDA ZARAGÜETA

D.JOSE ANTONIO MUTILOA IZAGUIRRE

D. LUIS MIGUEL ARCONADA ECHARRI

D. JOSE IGNACIO BERROETA ECHEVERRIA

D. JUAN JOSE ARRIETA SUDUPE

D. XABIER GARAIALDE MAIZTEGUI

D. JAVIER MARTINEZ OJINAGA

DÑA. MARTA BAZTARRICA LIZARBE

Certificate issued by the Secretary attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (consolidated) for the year ended 31 December 2015 by the Board of Directors at its meeting on 25 February 2016, the directors have signed this document, consisting of 134 sheets numbered sequentially from 5133 to 5266, inclusive, all approved by the Secretary, who also signs them, countersigned by the Chairman and signed by each of the directors at the end of the document.

San Sebastián, 25 February 2016.

Approved by	Approved by
THE CHAIRMAN	THE SECRETARY OF THE BOARD
D. ANDRES ARIZKORRETA GARCIA	DÑA MARTA BAZTARRICA LIZARBE