Construcciones y Auxiliar de Ferrocarriles, S.A.

Financial Statements for the year ended 31 December 2018 and 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 financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2 to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

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

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

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

Key Audit Matters

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

Recognition of revenue and margins by reference to stage of completion

Description

The Company engages mainly in the manufacture of rolling stock material and, in relation to long-term construction contracts, as indicated in Notes 11 and 12 to the accompanying financial statements, it generally recognises the revenue and profit or loss on each contract by reference to the estimated stage of completion thereof, obtained on the basis of the hours incurred in the contract as a percentage of the total budgeted hours. The revenue recognised in 2018 on train contracts by reference to the stage of completion amounted to EUR 1,234 million.

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

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

Procedures applied in the audit

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

Also, we performed a detailed and case-by-case analysis of the main projects, based on qualitative and quantitative factors, in order to evaluate the reasonableness of the assumptions and hypotheses used by the Company, for which purpose we held meetings with Company personnel. In addition, we reviewed the consistency of the estimates made by the Company in 2017 with the actual data for 2018 and conducted other substantive procedures such as: detailed perusal of the most significant contracts and analysis thereof with management in order to obtain an appropriate understanding of the terms and conditions agreed upon; analysis of whether the revenue is properly recognised, taking into account the contractual terms and obligations vis-à-vis the customers; tests of details on a selective basis aimed at assessing the reasonableness of the estimates made by management, and the review of the most sensitive assumptions; and the performance of combined manual and technology and systems expert-assisted tests in order to obtain and verify the entries recorded in the revenue accounts.

Notes 11, 12 and 19 to the accompanying financial statements contain the disclosures and information relating to the Company's revenue by reference to the stage of completion.

Contingent liabilities arising from commercial agreements

Description	Procedures applied in the audit
It is standard practice in the industry in which the Company operates for long-term construction contracts to provide for obligations that require the recognition of liabilities in the event of any delays in the delivery of units pursuant to the production schedule or other breaches of contractual commitments. As described in Note 17 to the accompanying financial statements, the provisions recognised by the Company to cater for these obligations amounted to EUR 151 million at 31 December 2018. The assessment performed by management to determine, if appropriate, the recognition of those obligations is complex and involves the use of a significant level of judgement based on assumptions with respect to possible events occurring during the product construction process, including the identification of causes not attributable to the Company. Accordingly, the situation described was considered to be a key matter in our audit.	Our audit procedures included, among others, the analysis of the estimates made by management in relation to the provisions recognised and, for a sample of contracts obtained on a selective basis, we assessed the reasonableness of the estimates made by management by comparing those estimates with the terms and conditions included in the aforementioned contracts and with the obligations arising therefrom, the circumstances prevailing in those contracts and historical experience. We also carried out substantive tests relating to the obtainment of confirmations from third parties, correspondence between the Company and its customers and, where appropriate, the opinion of its legal advisers. Lastly, we also assessed the adequacy of the disclosures provided in the financial statements (see Notes 17 and 22).

Other Information: Directors' Report

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

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

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

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

Based on the work performed, as described above, we have checked that the directors' report includes a reference to the fact that the non-financial information described in section a) above is presented in the consolidated directors' report of the CAF Group to which the Company belongs, that the information in the ACGR mentioned in that section is included in the directors' report, and that the other information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

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

Engagement Period

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

Previously, we were designated pursuant to a resolution/resolutions of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 1990, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

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

Pablo Mugica
Registered in ROAC under no. 18694

27 February 2019

Appendix to our auditor's report

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

2018 DIRECTORS' REPORT
OF
THE PARENT

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

CAF GROUP BUSINESS MODEL AND OUTLOOK

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

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

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

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

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

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

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

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

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

- Also, to make further progress in the process to integrate operations with Orbital Sistemas Aerospaciales, S.L. (Noain, Navarre), a leader in the development of critical systems in the aeronautical, space and railway industries, of which the CAF Group purchased a 30% ownership interest in 2018, which can be increased based on the performance of certain business parameters. As a result of this ownership interest, the

CAF Group expects to contribute to strengthening Orbital's current activities and to benefit from a state-of-the-art development base in critical systems with high security standards (hardware, software and integration, and validation services) in order to develop its own solutions in the railway industry.

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

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

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

    - Gradual expansion of the Industrial Operations Transformation Plan.

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

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

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

BUSINESS PERFORMANCE AND RESULTS

Main indicators (*)

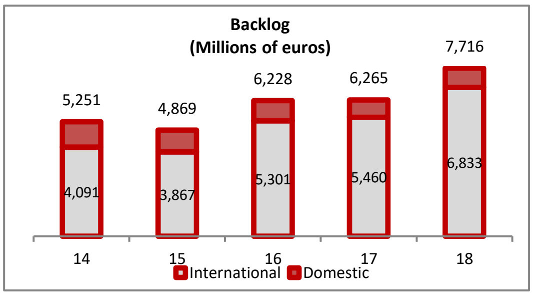
Figures in millions of euros	2018	2017	Change (%)
Contracts-(**)			
Backlog	7,716	6,265	23%
Contracts in the year	2,902	1,514	92%
Profit and Cash-Flow			
Revenue	1,430	1,013	41%
EBITDA	79.8	31.8	151%
Profit for the year	4.3	10.3	-58%
Cash-Flow	25.6	30.8	-17%
Equity	688	680	1%
Proposed dividend per share	0.765	0.66	16%

- The high level of new contracts and Solaris's inclusion in the CAF Group means that the Group's backlog is at record highs and continues to guarantee the continuation of the Group's normal business activities.

- The proposed distribution of profit consists of paying dividends of EUR 26.2 million.

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

Commercial activity



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

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

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

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

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

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

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

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

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

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

Staying in the UK, in order to operate the Northern franchise, Arriva UK and the finance company Eversholt Rail Group increased their initial order to 290 cars to form 43 electric and 58 diesel units.
Both agreements will increase the workload of our new factory in Newport (Wales), which started up in the second half of the year.

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

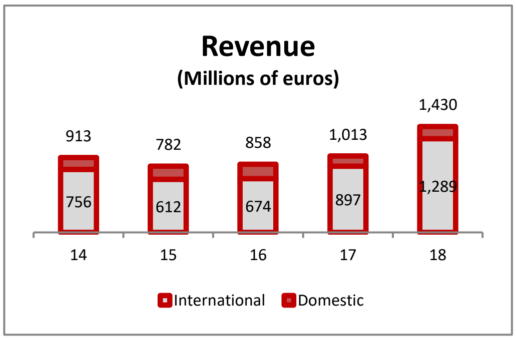
In December The Netherlands operator NS arranged the supply of 302 additional cars to make up 50 three-car units and 38 four-car units. The additional supply arranged relates in full to electric Civity units.

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

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

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

Industrial activity - Railway segment



CAF's various factories manufactured 750 cars in 2018.

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

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

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

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

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

The most important products manufactured in 2018 were as follows:

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

Trams for Newcastle 25

TOTAL 750

BOGIES

With mechanic-welded chassis 1,326

WHEEL SETS AND COMPONENTS UNITS – (MiiRA)-

Assembled axles (power car + push-pull car) 4,934
Loose axle bodies.. 8,212
Monoblock wheels 60,328
Elastic wheels 1,637
Couplers 816
Gear units 2,163
Bandages...576

R&D+i activity - Railway segment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following projects entered into service in 2018:

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

Solaris

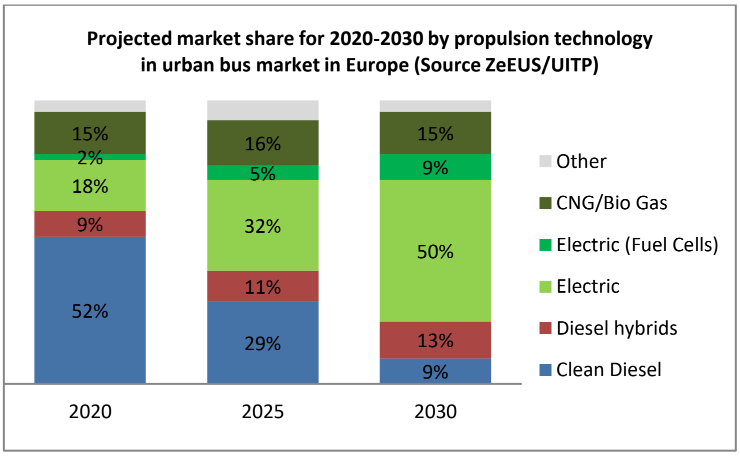
On 4 September 2018, CAF completed the acquisition of the Polish bus manufacturer Solaris. Solaris was founded in 1996 and is a global supplier of conventional and electric buses and coaches that operate in over 700 cities in 32 countries. Its consolidated revenue in 2018 amounted to approximately EUR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

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

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

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

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



[1] Source: CME Solutions/Solaris

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

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

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

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

Investments

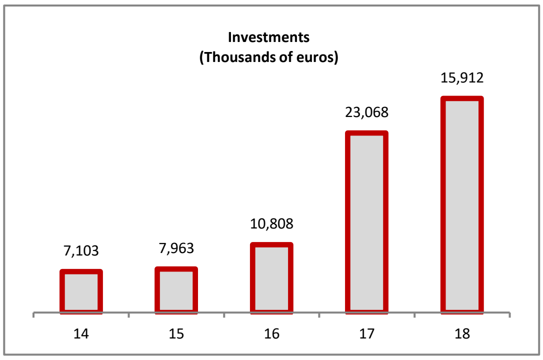
Capital expenditure by CAF in 2018 amounted to EUR 15,912 thousand. The most salient investments in 2018 are as follows:

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

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

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

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



Main risks and uncertainties

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

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

- achieving the strategic objectives set by the Company with a controlled volatility;

- providing the utmost level of guarantees to shareholders;

- protecting the Company's results and reputation;

- defending the interests of shareholders, customers and other stakeholder groups with an interest in the progress of the Company and of the community in general; and

- ensuring business stability and financial strength in a sustained way over time.

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

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

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

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

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

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

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

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

- Market risk, which includes the following risks:

    - Interest rate risk: risk of fluctuations in interest rates that might give rise to changes in the Company's profit or loss and the value of its assets and liabilities.
    - Foreign currency risk: risk arising from fluctuations in exchange rates that have an effect on future transactions and the valuation of assets and liabilities denominated in foreign currency.
    - Commodity price risk: risk arising from changes in prices and market variables relating to commodities required in the businesses' supply chain.

- Credit risk: this risk relates to doubtful debts, insolvency proceedings or bankruptcy or possible default on payment of quantifiable monetary obligations by counterparties to which the Company has actually granted net credit that is yet to be settled or collected.

- Liquidity and financing risk: in relation to liabilities, it is the risk tied to the impossibility of performing transactions or breach of obligations arising from operating or financing activities due to a lack of funds or access to financial markets, either because of a drop in the Parent's credit rating or other reasons. In relation to assets, it is the risk of being unable to find at any given time parties to purchase an asset at the arm's length price or to obtain an arm's length price.

The Company's exposure to market risk and credit risk is detailed in Note 5, "Management of financial risks", and the use of derivative financial instruments to hedge the risks to which its activities are exposed is detailed in Note 15, "Derivative financial instruments", to the financial statements.

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

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

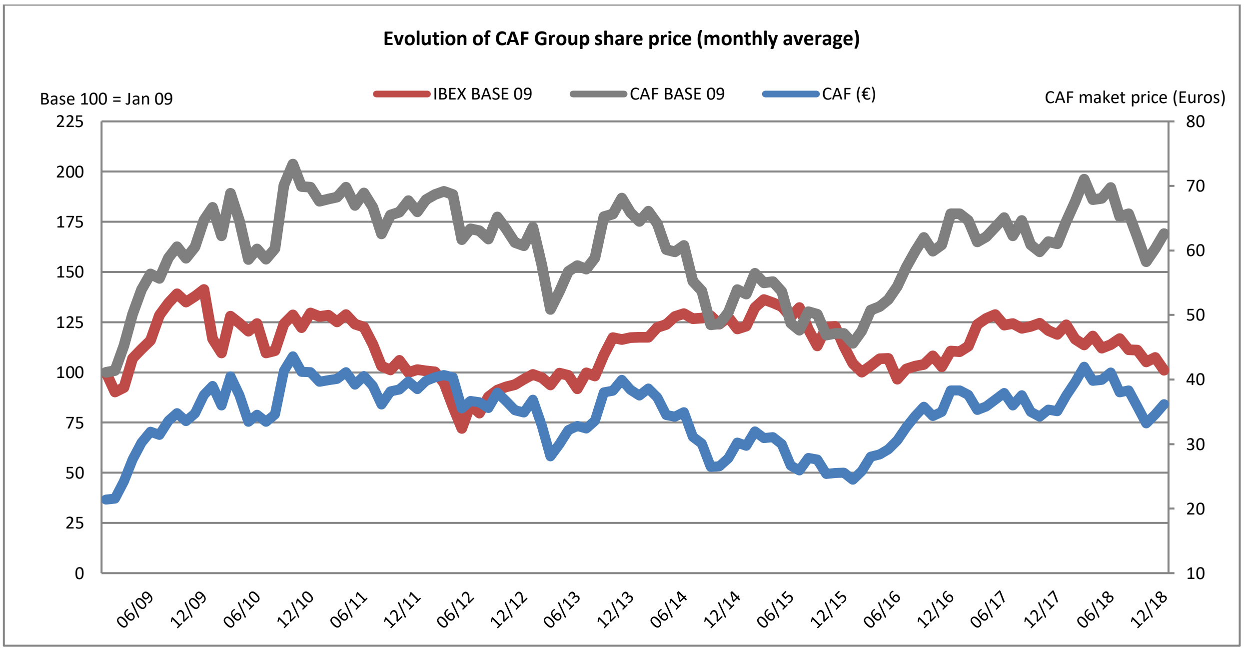
• Compliance and regulatory risks (including tax risks and contractual requirements): these risks arise from the Company's litigation, contractual requirements, the securities market law, the data protection law, environmental legislation, applicable employment law, the Spanish Criminal Code, local,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

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

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

STOCK MARKET INFORMATION

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



EVENTS AFTER THE REPORTING PERIOD

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

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

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

ACQUISITION AND DISPOSAL OF TREASURY SHARES

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

PAYMENTS TO SUPPLIERS

The average period of payment to suppliers in 2018 was 80.45 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Company is going to make an effort to align events giving rise to payments with those giving rise to collection in order to reduce the payment time without losing the necessary liquidity.

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

Market capitalisation at year-end: the value of the shares at the close of the last trading day of the year multiplied by the number of outstanding shares traded on the stock market (see Note 13 to the financial statements).

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

NON-FINANCIAL INFORMATION STATEMENT

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. is the Parent of the CAF Group and has prepared the Non-Financial Information Statement in accordance with Spanish Law 11/2018 on non-financial information and diversity. This Non-Financial Information Statement is included in the Consolidated Directors' Report, which will be deposited, together with the Consolidated Financial Statements, at the Guipúzcoa Mercantile Registry where the Parent of the CAF Group is registered.

ANNUAL

CORPORATE GOVERNANCE

REPORT FOR

2018

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER IDENTIFICATION

Year-end date: [31/12/2018]

Tax Identification No. [C.I.F.]: [A20001020]

Company Name:

[**CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.**]

Registered Office:

[JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA]

A. CAPITAL STRUCTURE

A.1. Complete the table below with details of the share capital of the company:

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
04/08/1999	10,318,505.75	34,280,750	34,280,750

Please state whether there are different classes of shares with different associated rights:

[ ] Yes
[√] No

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
CARTERA SOCIAL, S.A.	25.16	0.00	0.00	0.00	25.16
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0.00	14.06	0.00	0.00	14.06
INDUMENTA PUERI, S.L.	0.00	5.02	0.00	0.00	5.02
EDM GESTIÓN, S.A. S.G.I.I.C.	0.00	3.02	0.00	0.00	3.02
TEMPLETON INVESTMENT COUNSEL, LLC	0.00	3.01	0.00	0.00	3.01
INVESCO LIMITED	0.00	1.02	0.00	0.00	1.02

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	14.06	0.00	14.06
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	5.02	0.00	5.02
EDM GESTIÓN, S.A. S.G.I.I.C.	EDM INVERSIÓN FI	3.00	0.00	3.00
TEMPLETON INVESTMENT COUNSEL, LLC	GROUP'S COMPANIES	3.01	0.00	3.01
INVESCO LIMITED	GROUP'S COMPANIES	1.02	0.00	1.02

State the most significant shareholder structure changes during the year:

A.3. In the following tables, list the members of the Board of Directors (hereinafter "directors") with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
JUAN JOSÉ ARRIETA SUDUPE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ANE AGIRRE ROMARATE	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
No data					

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A-6:

Name of related Party	Nature of relationship	Brief description
No data		

A.5. If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Name of related Party	Nature of relationship	Brief description
CARTERA SOCIAL, S.A	Contractual	Workers' share instrument in CAF's share capital
KUTXABANK, S.A.	Corporate	Creation of an Economic Interest Grouping for projects with Metro Barcelona

A.6. Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders:

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
JOSE ANTONIO MUTILOA IZAGUIRRE	KUTXABANK, S.A.	KUTXABANK, S.A.	--

Mr. Jose Antonio Mutiloa Izaguirre had been appointed director by co-option, by proposal of the significant shareholder KUTXABANK, S.A., on 28 October 2015, and his appointment was ratified by the General Meeting on 11 June 2016.

Prior to his appointment, Mr. Jose Antonio Mutiloa was the natural person representative of the board member KUTXABANK, S.A. and, previously, of KUTXA (one of the three entities comprising the current KUTXABANK, S.A.), where he has filled the role of Director, Secretary and Vice-Chairman of the Board.

A.7. State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

[ ] Yes
[√] No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

[ ] Yes
[√] No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

A.8. State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

[ ] Yes
[√] No

A.9. Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
		0.00

(*) through:

Name of direct shareholder	Number of direct shares
No data	

A.10. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares:

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.11. Estimated working capital:

	%
Estimated working capital	48.71

A.12. State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

[ ] Yes
[√] No

A.13. State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

[ ] Yes
[√] No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14. State if the company has issued shares that are not traded on a regulated EU market.

[ ] Yes
[√] No

If so, please list each type of share and the rights and obligations conferred on each:

B. GENERAL SHAREHOLDERS' MEETING

B.1. State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

[ ] Yes
[√] No

B.2. State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

[ ] Yes
[√] No

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The General Shareholders' Meeting shall be competent to agree on the amendments to the bylaws. In accordance with Articles 13 and 20 of the By-Laws, when adopting agreements on the issuance of convertible bonds or bonds conferring a stake in corporate earnings for bondholders, the increase or reduction of capital, 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 registered office 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 on second call 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. Pursuant to Article 21 of the by-laws, shareholders with one thousand 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 number of shares may group together and give their share to another shareholder who can then total one thousand or more shares. All shareholders eligible to attend the Meeting may be represented at the General Meeting by another person, even if he or she does not have the status of shareholder.

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

	Attendance data				
Date of General Meeting	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Other	
11/06/2016	45.10	27.92	0.00	0.00	73.02
Of which, free float:	0.23	24.69	0.00	0.00	24.92
10/06/2017	27.60	43.52	0.00	0.00	71.12
Of which, free float:	0.09	23.08	0.00	0.00	23.17
02/06/2018	25.53	49.17	0.00	0.00	74.70
Of which, free float:	0.23	28.82	0.00	0.00	29.05

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason:

[ ] Yes
[√] No

B.6. State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

[√] Yes
[ ] No

Number of shares required to attend General Meetings	1,000
Number of shares required for distance voting	1

The Bylaws contain no restrictions on the minimum number of shares needed to exercise the remote vote.

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting:

[ ] Yes
[√] No

B.8. State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website:

The corporate information is available under "Shareholders and investors" of the corporate web site (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 Legislative Decree 1/2010, of 2 July, which approved the Consolidated Spanish Capital Companies Act, the Consolidated Securities Market Act, approved by Royal Decree-Law 4/2015, of 23 October, the Circular 3/2015, of 23 June, from the National Securities Market Commission, on technical and legal specifications and information to be contained in the web sites 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 Code of Conduct within the sphere of Securities Markets; the membership of the Board of Directors and its committees; Annual Corporate Governance Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, other Regulations and Codes, Reports on the operation of the committees, Report on the Auditor's Independence, Report on the "Modern Slavery Act 2015" and the Corporate Responsibility Report).

In addition, the subsection on "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 resolutions adopted after it was held.

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

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	15
Minimum number of directors	7
Number of directors set by the general meeting	10

C.1.2 Please complete the following table on directors:

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
ANDRÉS ARIZKORRETA GARCÍA		Executive	CHAIRMAN AND CEO	26/12/1991	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JUAN JOSÉ ARRIETA SUDUPE		Independent	COORDINATING DIRECTOR	07/06/2008	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JAVIER MARTÍNEZ OJINAGA		Independent	DIRECTOR	13/06/2015	13/06/2015	AGREEMENT GENERAL SHAREHOLDERS' MEETING
LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
CARMEN ALLO PÉREZ		Independent	DIRECTOR	11/06/2016	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
ANE AGIRRE ROMARATE		Independent	DIRECTOR	19/12/2017	02/06/2018	AGREEMENT GENERAL SHAREHOLDERS' MEETING
ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	AGREEMENT GENERAL SHAREHOLDERS' MEETING
JULIÁN GRACIA PALACÍN		Independent	DIRECTOR	10/06/2017	10/06/2017	AGREEMENT GENERAL SHAREHOLDERS' MEETING
MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR – SECRETARY OF THE BOARD	22/01/2016	11/06/2016	AGREEMENT GENERAL SHAREHOLDERS' MEETING

Total number of directors	10

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
No data					

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisational chart of the company	Profile
ANDRÉS ARIZKORRETA GARCÍA	Chairman and CEO	Holds a degree in Economics and Business Administration from the University of Deusto and has spent his entire professional life at CAF, where he was appointed General Manager of the company in 1992. He has been a Director of CAF since 1991. On 26 July 2006, he was appointed Chief Executive Officer, a post he has held ever since. Since 29 December 2015, he has been Chairman of the Board of Directors of CAF.

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisational chart of the company	Profile
MARTA BAZTARRICA LIZARBE	Director – Secretary of the Board	Holds a Degree in Law and in Economic and Business Sciences from Comillas Pontifical University (ICADE E-3) and an Executive Master Degree in Business Management from ICADE. She has developed her professional career at CAF and holds the position of Director of the Group's Legal Department. She is Secretary of the Board of Directors of CAF and its Committees.

Total number of executive directors	2
Percentage of Board	20.00

EXTERNAL PROPRIETARY DIRECTORS		
Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
JOSE ANTONIO MUTILOA IZAGUIRRE	KUTXABANK, S.A.	Industrial engineer. He has spent his professional career within the industrial and financial sectors, mostly at Caja de Ahorros de Gipuzkoa y San Sebastián (KUTXA), one of the three entities that make up the current KUTXABANK, S.A., where he has filled the role of Director, Secretary and Vice-Chairman of the Board. Since 2015, he has been a Proprietary Director, by proposal of the significant shareholder KUTXABANK, S.A.

Total number of proprietary directors	1
Percentage of the Board	10.00

INDEPENDENT EXTERNAL DIRECTORS	
Name of director	Profile
JUAN JOSÉ ARRIETA SUDUPE	PhD in Economic and Business Sciences from the University of Deusto. He has extensive experience in the management of financial entities and currently holds the position of Deputy General Manager of the Deusto Business School.
JAVIER MARTÍNEZ OJINAGA	Lawyer and Economist from the University of Deusto, holds an MBA from the University of Glasgow. He has developed his professional career in companies within the electric sector as well as in project management and interim management.

INDEPENDENT EXTERNAL DIRECTORS	
Name of director	Profile
CARMEN ALLO PÉREZ	Degree in Exact Sciences and Master in Business Administration from the "Instituto de Empresa". She has spent most of her professional career within the financial sector. She is also a member of the Board of Directors of NATRA, S.A. and Chairwoman of its Audit Committee.
JULIÁN GRACIA PALACÍN	Industrial engineer and MBA from ICADE. He has spent his professional career in the telecommunications, logistics and consulting sectors. He is also the sole director of Samuelson Consulting, S.A. and Samuelson Logistics, S.A. and a board member of CITYNET, S.A.
ANE AGIRRE ROMARATE	Degree in Business and Economics and Master in Advanced Management from Deusto University. She has vast experience in the area of analysis and strategic assessment of human resources. She is also a partner of the consulting firm Vesper Solutions.

Total number of independent directors	5
Percentage of the Board	50.00

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of the director	Description of the relationship	Statement of the Board
No data		

No Independent Director has received any amount or benefit other than the director's remuneration, nor have they established a business relationship with the Company or with any Group company.

OTHER EXTERNAL DIRECTORS			
Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:			
Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
ALEJANDRO LEGARDA ZARAGÜETA	Director Alejandro Legarda Zaragüeta has been CAF General Manager until fiscal year 2014.	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.	Industrial Engineer, MBA from IESE and PhD in Innovation Economics. He was General Manager of CAF for more than

OTHER EXTERNAL DIRECTORS			
Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:			
Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
			twenty years. Since 2017, he has been Chairman of Nortegas Energía y Distribución. He is also a member of the Board of Directors of DURO FELGUERA, S.A.
LUIS MIGUEL ARCONADA ECHARRI	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.	LUIS MIGUEL ARCONADA ECHARRI	Mr. Luis Arconada has broad experience and knowledge in the corporate and business sectors. He is also well renowned in various social and economic circles, due to his success in the sports world.

Total number of other external directors	2
Percentage of the Board	20.00

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
No data			

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive	1	1	1		50.00	50.00	50.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	2	1		40.00	40.00	33.33	0.00
Other external					0.00	0.00	0.00	0.00
Total	3	3	2		30.00	30.00	22.22	0.00

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

Since 2015, CAF has 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 a and 529 n of the Companies Law.

In light of the most recent regulations on diversity with regard to the selection criteria of directors, the Board of Directors of the Company, by proposal of the Appointments and Remuneration Committee, has agreed to update the Directors Selection Policy, with the approval of the latest Director Diversity and Selection Policy at a meeting held on 12 November 2018, which has replaced the previous version.

The Director Diversity and Selection Policy of CAF (the "Policy"), which is specific and verifiable in nature, is intended to ensure that any proposals for the appointment and re-election of directors are based on a prior needs assessment of the Board of Directors, as well as to enrich the diversity of knowledge, experiences and gender from among the Board membership, by following criteria that ensures the existence of adequate diversity among its members as well as the absence of any implicit biases that may lead to discrimination based on age, gender, disability or any other personal circumstance or situation.

This Policy is essentially applicable to the selection criteria of candidates to become CAF board members that are natural persons. Also, for board member candidates that are legal persons, this policy is applicable to the natural persons who are to represent them.

The diversity criteria serve as an important aspect in the needs assessment of the Board of Directors and of the Company, which must be paramount during the selection of any board member.

Specifically, diversity criteria may restrict the selection of board members when the assurance of a diverse membership is required so as to benefit the Company by offering a broad range of experiences and perspectives that add value in the decision-making processes of the Board of Directors.

Specifically, diversity criteria have been adopted with regard to the following categories:

Training and professional experience:
Efforts will be made to ensure that the candidates have the necessary skills and proficiencies that either complementary those of the other members of the Board of Directors or that substitute those of any directors that have been replaced.

In this respect, the professional expertise of a candidate will be assessed, either because of his or her academic background or professional experience, or based on a combination of both, allowing for a diversity of profiles to be present on the Board of Directors so as to offer differing perspectives to assist with multidisciplinary and constructive discussions required to make a decision and, ultimately, to enhance the performance of the Board as a whole.

Age:
Directors of differing ages will also be valued, so that this difference can help to provide a healthy range of perspectives and approach when discussing any issues that must be addressed and agreed upon by the Board of Directors.

Disability:
Disability cannot constitute any bias that may imply a reason for discrimination during the Board Member selection process.

Gender:
During the director selection process, the criterion on gender diversity will be taken into account to ensure that there is a balanced presence of women on the Board of Directors.

Accordingly, the Policy promotes the aim of having a number of female directors that makes up at least thirty percent of all Board Members.

The Board of Directors of CAF has a balanced membership, with a diversity of knowledge, ages and gender, education and broad professional experiences that is coherent with the business needs and the independent directors make up 50% of its membership.

In particular, with regard to the promotion of diversity, progress made during this fiscal year regarding the presence of women on the Board of Directors is noteworthy, since the 2020 objective of having at least 30% women directors has already been achieved.

The Board's gender diversity objectives have also been strengthened during 2018, with the incorporation of women on both Committees, due to the rotation of its members that was agreed to in February.

C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of means

CAF's Appointments and Remuneration Committee ensures that when covering new vacancies, the selection processes being utilised are not implicitly impartial and do not hinder the selection of female directors, thus it includes women with the expected profile among potential candidates and under the same conditions to balance the men and women representation. This objective is stipulated in point 4 of the Company's Director Diversity and Selection Policy, approved by the Board of Directors on 12 November 2018.

During fiscal year 2018, the Appointments and Remuneration Committee was responsible for selecting and issuing favourable opinions for the appointment of the board members referred to in section C.1.7 below.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of means

--

C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

On 17 December 2018, the Appointments and Remuneration Committee issued its Annual Report on the compliance with the Director Diversity and Selection Policy.

During fiscal year 2018, the General Shareholders Meeting ratified the re-election of three board members, as well as the ratification of the appointment of a new board member, whose appointment by co-option had been approved by the Board of Directors at the end of the previous year.

In accordance with the drawn conclusions contained in its Report, the Appointments and Remuneration Committee of CAF deemed that the provisions of the Director Diversity and Selection Policy of CAF had been appropriately complied with for all cases, as per the first approved version in 2015 and effective at the time of these appointments. Specifically, this Policy is explicit in that the Company is committed to eliminate any implicit biases that could hamper the selection process for female directors, which currently represent 30% of the Board membership, having surpassed the 2020 target.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason
No data	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

[ ] Yes
[√] No

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director	Brief description
ANDRÉS ARIZKORRETA GARCÍA	Delegation of all Board powers, pursuant to law and the Company Bylaws save for those which the law stipulates that cannot be delegated.

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of group member	Position	Does the director have executive powers?
ANDRÉS ARIZKORRETA GARCÍA	CAF ARGELIA EURL	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF CHILE S.A.	Chairman	NO
ANDRÉS ARIZKORRETA GARCÍA	CAF DEUTSCHLAND GmbH	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF FRANCE SAS	Chairman	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF INDIA PRIVATE LTD	Managing Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF NEW ZEALAND LIMITED	Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF SISTEME FEROVIARE, S.R.L.	Sole Director	YES

Name of director	Name of group member	Position	Does the director have executive powers?
ANDRÉS ARIZKORRETA GARCÍA	CAF TURNKEY & ENGINEERING, S.L.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Natural person who represents the Sole Director of CAF, S.A.	YES
ANDRÉS ARIZKORRETA GARCÍA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF INVESTMENT PROJECTS, S.A.U.	Joint Director	YES
ANDRÉS ARIZKORRETA GARCÍA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF HUNGARY Korlátolt Felelösségu Társaság	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF NETHERLANDS B.V.	Sole Director	YES
ANDRÉS ARIZKORRETA GARCÍA	CAF BELGIUM, S.P.R.L.	Sole Director	YES
ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS, S.A.P.I. DE C.V.	Chairman Non-executive	NO
MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇAO, S.A.	Director	NO
MARTA BAZTARRICA LIZARBE	PROVETREN, S.A. de C.V.	Director	NO

C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
ALEJANDRO LEGARDA ZARAGÜETA	DURO FELGUERA, S.A.	INDEPENDENT COORDINATING DIRECTOR

Name of director	Name of listed company	Position
CARMEN ALLO PÉREZ	NATRA, S.A.	DIRECTOR

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

[√] Yes
[ ] No

Explanation of the rules and identification of the document where this is regulated
Article 23.2.b) of the Regulations of the Board of Directors states that no director shall belong simultaneously to more than four boards of directors in listed companies other than the Company or its group.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	1,902
Amount of vested pension interests for current members (thousand euros)	1,230
Amount of vested pension interests for former members (thousand euros)	

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position
JESUS ESNAOLA ALTUNA	GENERAL CHIEF SALES OFFICER
AITOR GALARZA RODRÍGUEZ	CHIEF FINANCIAL, CONTROLLING AND STRATEGY OFFICER
JOSU VILLAR ELORZA	CHIEF OPERATING OFFICER
JUAN GASTESI IRIARTE	CHIEF HUMAN RESOURCES OFFICER
JOSU IMAZ MURGUIONDO	CHIEF CORPORATE OFFICER, BUSINESS AND TECHNOLOGY
IÑIGO ONA LARUMBE	CHIEF CORPORATE DIGITAL OFFICER
IBON GARCÍA NEILL	CHIEF RAIL SERVICES OFFICER
FÉLIX FERNÁNDEZ LOPETEGUI	CHIEF PROJECT OFFICER
EDUARDO GÁLVEZ LISON	CHIEF QUALITY, SAFETY AND HOMOLOGATION OFFICER
IRUNE LÓPEZ FERNÁNDEZ	INTERNAL AUDITOR

Total senior management remuneration (thousand euros)	2,613

C.1.15 State whether the Board rules were amended during the year:

[√] Yes
[ ] No

Description of amendment

On 18 December 2018, the Board of Directors unanimously agreed to amend articles 3, 4, 5, 7, 8, 11, 12, 13, 15, 16, 18, 25, 29, 30, 31 and 34 of its Regulations, which had the following key objectives: (i) Incorporate the recommendations issued by the independent expert responsible for evaluating the Board's performance during fiscal year 2017, with regard to the possibility of proposing other items of the agenda that were not initially envisaged, (ii) Adapt its wording to the actual text of certain articles under the Spanish Capital Companies Act, as well as expressly reflect the terms of certain Recommendations of the Good Governance Code for Listed Companies, which had been complied with by the Company but were not expressly included under the Regulations, (iii) Standardise its content with the remainder of the Company's internal regulations, including the current version of the By-Laws after it had been amended and then ratified at the last General Shareholders Meeting, (iv) Incorporate the more substantial guidelines under the Technical Guide on Audit Committees and the Proposed Technical Guide on Appointments and Remuneration Committees, published by CNMV, which had not been expressly set out in the internal regulations, and (v) Incorporate other technical improvements.

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

Selection and 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 co-option. The director does not need to be a shareholder. Disqualification according to legal grounds shall apply (Article 29 of the bylaws). 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 Chief Executive Officer, the Board of Directors may cover the vacancies and temporarily appoint a Chairman. The Board may also appoint a Chief Executive Officer with the favourable vote of two thirds of its members. Such appointments shall be fully effective until the first General Shareholders' Meeting (Article 33 of the bylaws). Additionally, in exercising its powers to submit proposals at the General Meeting and of co-option in case of vacancies, the Board shall ensure the balance of the Board membership, with a broad majority of non-executive directors and an adequate proportion between proprietary and independent directors, these last being at least one third of the total Board membership (Art.7 of the Board Regulations).

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 co-option shall be preceded by the corresponding proposal by the Appointments 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 proposal for the appointment or re-election of any non-independent director shall also be preceded by a report from Appointments and Remunerations 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 Appointments and Remuneration Committee. Should the Board decide not to follow the proposals of the Appointments and Remuneration Committee, it shall submit and minute its reasons for such decision. 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 scheme. Likewise, Directors should also be offered refresher programmes when circumstances so advise (Article15 of the Board Regulations).

With regard to the appointment of Non-executive Directors, the Board of Directors shall ensure that the elected candidates are people of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. Independent directors will be considered to be those that are appointed on the basis of their personal and professional qualities and who can perform their duties without being conditioned by any relations with the Company or its group, its significant shareholders or its executives. Under no circumstances it will be deemed as Independent Directors those who: a) Have previously been Group company employees or Executive Directors, except after 3 or 5 years since their resignation, respectively.
b) Are receiving any amount or benefit from the Company or its Group other than the remuneration as Director, except when such amount is not considered significant. Dividends or supplementary pension payments received by a Director for his/her former professional or labour relationship will not be taken into account for the purposes of the foregoing paragraph, insofar as such supplements are unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company. c) Are or have been partners of the external auditor over the last 3 years or the person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company. d) Are Executive Directors or senior executives of a company other than one in which an Executive Director or senior executive of the Company is also a Non-Executive Director. e) Maintain or have maintained an important business relation with the Company or Group companies over the last year, whether on his/her behalf or as a 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.

C.1.17 Explain how the annual evaluation of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes

The Board of Directors, on the basis of previous reports issued by Committees on their respective reviews and on the previous report raised by the Appointments and Remuneration Committee on the performance of the Board, has positively evaluated the performance of the Board and its Committees in 2018 and has verified that all Action Plans scheduled for that year had been fulfilled.

Furthermore, within the scope of this evaluation process, the Board of Directors has established various Action Plans for the 2019 fiscal year, however, they do not led to any significant changes to the internal organisation or in the procedures concerning its activities.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

In accordance with the provisions of Article 5.5 of the Regulations of the Board of Directors, the Board of Directors must conduct an annual evaluation of its own performance and that of its Committees and propose an action plan that redress any detected shortcomings on the basis of this outcome. For this purpose, the Board relies on reports submitted to it by the Committees with regard to its own evaluation and for the case of the Appointments and Remuneration Committee, it is based on the Board's evaluation.

In this regard, and with respect to the year 2018, the following main areas have been assessed:

a) The quality and efficiency of the Board's operation.
b) The operation and structure of its committees.
c) The structure and competence diversity of the Board of Directors.
d) The performance of the Chairman and CEO of the Board of Directors.
e) The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

Following this process, the Board of Directors has positively evaluated its performance and that of its members and Committees for fiscal year 2018, being in line with the favourable opinions of the previous reports issued by the Committees on their respective evaluations and on the evaluation of the Board, which was approved by the Board of Directors at the meeting held on 30 January 2019. Specifically, the Board has verified that the action plans earmarked for the evaluated year have been satisfactorily fulfilled.

Notwithstanding the foregoing, the Board has identified areas for improvement and determined the corresponding action plans for fiscal year 2019.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

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C.1.19 State the situations in which directors are required to 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 a reduction of the number of proprietary directors. b) If they are found to be in a situation of incompatibility due to a conflict of interest or any other legal reason.
c) Should they be processed for any alleged crime or when subject to disciplinary measures for a serious or very serious breach as determined by the supervising authorities. d) When seriously reprimanded by the Appointments and Remuneration Committee when not upholding director obligations. e) When involved in a situation that creates a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement.

In any case, directors are to inform and, if applicable, resign during any such events that may be detrimental to the Company's name and reputation (article 18 of the Regulations of the Board of Directors).

C.1.20 Are qualified majorities other than those established by law required for any specific decision?

[ ] Yes
[√] No

If so, please describe any differences.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors:

[ ] Yes
[√] No

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

[ ] Yes
[√] No

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

[ ] Yes
[√] No

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

Article 31 of the Company's Bylaws and article 14 of the Board of Directors' Regulations determine that Directors shall make every effort to attend Board sessions and, when they cannot do so personally, may confer their representation to another Director in writing to the Board Chair, without limiting the number of representations that each can bear for Board assistance. Proxy may be granted in writing through any means and shall include the corresponding direction of the vote for each of the matters mentioned in the agenda.

Additionally, these same rules require that non-executive Directors may only confer their representation on a non-executive Director.

C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	9
Number of Board meetings without the chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Audit Committee	11
Number of Meetings held by the Appointments and Remuneration Committee	5

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance:

Number of meetings when all directors attended	9
% of attendance over total votes during the year	100.00
Number of meetings in situ or representations made with specific instructions of all directors	9
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

[√] Yes
[ ] No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

Name	Position
ANDRÉS ARIZKORRETA GARCÍA	CEO
AITOR GALARZA RODRÍGUEZ	Financial and Strategy Manager

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

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 2017 as well as previous years were approved without qualifications.

C.1.29 Is the secretary of the Board also a director?

[√] Yes
[ ] No

If the secretary is not a director, please complete the following table:

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

Mechanisms to preserve the independence of financial analysts:
In addition, according to the Company's Bylaws, the Audit and Compliance Committee is responsible for managing the relationships with the external auditors in other to gather information on matters that may call the auditor's independence into question, to be analysed by the Committee, as well as any other matters related to the auditing process, and any other disclosures set forth in accounting and auditing legislation and auditing standards. In any case, they must receive, on an annual basis from the external auditor, a statement affirming its independence in relation to the Company or companies directly or indirectly connected to such, as well as the information of any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. Similarly, according to by-laws, every year the Audit Committee is required to issue, prior to the issuance of the audit report, an annual report containing an opinion on the auditor's independence (Article 37 a of the by-laws).

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. Pursuant to such Regulations, the Audit Committee is responsible for the following functions linked to the external auditor and to preserve its independency (i) Submit to the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, pursuant to article 16, sections 2, 3, 5 and 17.5 of the Regulations (EU) 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. The Committee must carry out the final evaluation of the auditor's performance and its contribution to the quality of the audit and the integrity of the financial information. (ii) Establish the appropriate relations with the external auditor in order to gather information on issues that may prejudice the independence of the auditor, to be assessed by the Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established under article 5, sections 4 and article 6.2.b) of Regulation (EU) 537/2014 of 16 April and under paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July on statutory audit, regarding the principles of independence, as well as establishing, with the external auditor, any other notifications pursuant to the legislation and audit requirements. In any case, they must receive, on an annual basis from the external auditor, a statement affirming its independence in relation to the Company or companies directly or indirectly connected to such, as well as detailed information and a breakdown for any type of additional services rendered and corresponding fees received from these entities by the auditor, or by persons or entities associated to the latter, pursuant to the governing regulations concerning the undertaking of account auditing. (iii) Issue, prior to the issuance of the audit report, an annual report stating its opinion on the auditors' or audit companies' independence is issued. Such report must contain, in any case, an assessment on the provision of each and every additional service referred to in the foregoing section, reviewed individually and as a whole, apart from the various legal auditing and in relation to the regime of independence and governing regulations on audit activities. (iv) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. Ensure that the Company notifies any change of auditor to the National Securities Market Commission (CNMV) as a significant event, accompanied by a statement of any discrepancies arising between the outgoing auditor and the reasons behind it. iv. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. 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 (Article 3 of the Audit Committee Bylaws and Regulations). As for relations with the auditors, the same Regulation of the Audit Committee in article 13 determines that (i) any communications between the Committee and the auditors will be fluent, ongoing and in accordance with the obligations under the governing regulations regarding the activity of the audit of accounts, without compromising the independence of the auditor or the effectiveness of the audit process and procedures, (ii) any communication with the auditor must be planned for in a schedule of annual meetings, where most of these are not to be attended by the entity's senior management; and (iii) the Audit Committee will regularly receive information on the audit process from the auditors and specifically on any discrepancies that may arise between the auditors and the entity's senior management. When the audit has been

finalised, the Committee will review, along with the external auditor, any significant findings brought to light from these tasks, as well as the content of its mandatory reports.
With regard to the fiscal year 2018:
- The auditor reported before the Audit Committee on three separate occasions, and once before the Board of Directors, to report on various matters concerning the auditing process.
- On 27 February 2018, the external auditor submitted before the Audit Committee a written statement confirming its independence with regard to the audit of the consolidated financial statements of the CAF Group for the year ended 31 December 2017.
- On the same date, the Committee issued its own report on the independence of the auditor for the Board of Directors, in which it concluded that no aspect had been identified, at the time, that could jeopardise regulatory compliance of the audit process regarding matters of the independence of the auditor.
- At its December meeting, the Committee approved the budget for non-audit services for the fiscal year 2019.
- At the Committee meeting held in December 2018, the auditors provided detailed information on matters relating to: (i) the reappointment of the auditors, (ii) the internal quality control system of the audit firm on matters regarding the independence of the auditor; and (iii) the prevailing practices among the listed companies regarding communications with the auditor.

Mechanisms to preserve the independence of financial analysts:
CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for the following duties regarding the relationships with the Markets (Article33): (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.
The guiding principles governing relationships between the Company and financial analysts, investment banks and rating agencies are included under the Communication and Agreements Policy with Shareholders, Institutional Investors and Proxy Advisors and foster transparency, non-discrimination, veracity and symmetry during the exchange of information, so as to adhere strictly to the regulations on market abuse. The Company's Code of Good Conduct explicitly states its commitment to make available any information relating to the company in a complete and accurate manner, in a way that can allow analysts and other stakeholders to form an objective opinion on CAF. The Economic-Financial and Strategy Department, by means of the Investor Relations Area, manages the requests for further information.

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

[ ] Yes
[√] No

If there were any disagreements with the outgoing auditor, please provide an explanation:

[ ] Yes
[√] No

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

[√] Yes
[ ] No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	0	230	230
Amount invoiced for non-audit services/Amount for audit work (in %)	0.00	32.00	32.00

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

[ ] Yes
[√] No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	29	18

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	71.00	100.00

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

[√] Yes
[ ] No

Explanation of procedure

The Board approves, at its December meetings, the Board calendar for next year, so that the Directors know the dates of meetings early enough to prepare some of the subjects to be dealt with on them as a guiding plan is established on the subjects to be addressed in every Board Meeting. A schedule is approved containing eight sessions per year, spread out with sufficient time in between them to study and prepare the necessary information. On the other hand, ordinary Board meetings shall be convened at least 5 days in advance, although in practice this is done earlier. The call also includes the meeting's agenda, and the documents that must be previously and early enough reviewed by the Directors. In any case the Directors have the 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, with the assistance of the Secretary to this end, shall facilitate the information, identify the Company's appropriate interlocutors or decide on the suitable measures for the requested inspection or examination.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

[√] Yes
[ ] No

Explain the rules

As established in Article 18 of the Board Regulations, Directors must place their position at the Board's disposal in certain cases, and particularly when they are prosecuted for an alleged criminal offense or subject to breach determined by supervising authorities.

In turn, 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 also disclose all such determinations in the Annual Corporate Governance Report. In any case, 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.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

[ ] Yes
[√] No

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

There are no such agreements.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	1
Type of beneficiary	Description of agreement
Executive Director	Termination benefit due to termination ordered by the Company for reasons not related with the Director

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders' Meeting?	√	

The content of these clauses are shown in the Annual Report on Director Remuneration, which is subjet to consultive voting at the General Shareholders' Meeting.

C.2. Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

AUDIT COMMITTEE		
Name	Position	Category
JAVIER MARTÍNEZ OJINAGA	CHAIRMAN	Independent
JUAN JOSÉ ARRIETA SUDUPE	MEMBER	Independent
CARMEN ALLO PÉREZ	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

Organisation:
The Audit Committee shall be made up of three (3) non-executive directors, appointed by the Company's Board of Directors. At least the majority 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 Board of Directors shall appoint its Secretary, who shall not necessarily hold the office of Director. (Article 2 of the Audit Committee Bylaws and Regulations).
Functions:
Its main functions are: a) Advising the General Shareholders’ Meeting on any matter within the Committee's competence, namely on the audit's result, and explaining its contribution to the financial information's integrity and the function performed by the Committee within that process. b) Supervising the efficiency of the Company's internal control, the internal audit and the risk management systems, discussing with the auditor any significant shortcomings detected in the internal control system during performance of the audit without committing its autonomy. To this end, it may submit recommendations or proposals to the Board of Directors and the corresponding period for its monitoring. c) Supervising the process for preparation and filing of mandatory related financial and non-financial information and submitting proposals to the Board of Directors, in order to preserve its integrity. d) With regard to internal control and reporting systems: i. Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, verifying the fulfilment of legal requirements, the accurate demarcation of the consolidation scope, and the correct application of accounting principles.
ii. Review that the financial information published on the Company's web site is constantly updated and reflects the one prepared by the Board of Directors, which has been published, when appropriate, in the CNMV's web site. If after the review the Committee is not satisfied with any aspect, it will then submit its opinion before the Board of Directors. iii. Monitor the independence 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 information on its activities; and check that senior management is considering its recommendations and conclusions. As a part of the supervisory review, the Committee must assess the function of the internal audit and the performance of the senior person in charge. iv. 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. After the information has been made available through this mechanism and reviewed, and should it be deemed necessary, the Committee must propose any appropriate actions to improve its performance and reduce the risk of any irregularities in the future.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	JAVIER MARTÍNEZ OJINAGA / JUAN JOSÉ ARRIETA SUDUPE / CARMEN ALLO PÉREZ
Date of appointment of the chairperson	28/10/2015

APPOINTMENTS AND REMUNERATION COMMITTEE		
Name	Position	Category
JUAN JOSÉ ARRIETA SUDUPE	CHAIRMAN	Independent
LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other external
ANE AGIRRE ROMARATE	MEMBER	Independent

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

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

Organisation:
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 Board shall appoint its Secretary, who shall not necessarily hold the office of Director (Articles4 and 5 of the Appointments and Remuneration Committee Regulations). 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. (Article 7 of the Appointments and Remuneration Committee Regulations).

Functions:
The Appointments 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 co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. d) Report the proposal for appointment of the remaining directors by co-option 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, for such succession to occur in an orderly and planned manner. g) Propose to the Board of Directors the remuneration policy for directors and general managers or those who carry out their senior management functions under direct control of the Board, Executive Committees or Managing Directors, as well as the individual remuneration and other contractual conditions of Executive, ensuring compliance. (Article 3 of the Appointments and Remuneration Committee Regulations).

In addition, the Committee is responsible for the following tasks: i) Review 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. ii) Ensure that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee and (iii) Verify 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.

Furthermore, the Commission is entrusted with the following responsibilities regarding the supervision of the compliance of corporate governance rules, the internal codes of conduct and the corporate social responsibility policy: i) Supervising compliance with internal codes of conduct and the corporate governance rules of the Company. ii) Evaluating, on a regular basis, the adequacy of the Company's corporate governance rules and procedures, so it can accomplish its mission of promoting social interest, considering, accordingly, the legitimate interests of the remaining stakeholders, (iii)) Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value, (iv) Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance, (v) Supervising and evaluating the relations with the different stakeholders and (vi) Coordinating the process of reporting non-financial and diversity information, according to the applicable regulations and the international standards of reference.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	1	33.33	0	0.00	0	0.00	0	0.00
APPOINTMENTS AND REMUNERATION COMMITTEE	1	33.33	1	33.33	1	33.33	0	0,00

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

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. The Regulations of the Audit Committee were amended on 18 December 2018, so as to include: (i) the measures proposed by the external consultant for the 2017 Assessment Report of the Board of Directors of CAF, (ii) the more important aspects covered by the CNMV Technical Guide that were not expressly established in the internal regulations, (iii) the powers conferred by the Board of Directors under the scope of Recommendation 53 of the Code of Good Governance of Listed Companies, (iv) changes required for the standardisation of the Regulations of the Board and its Committees and, (v) other technical improvements. An annual report on the activities carried out during the fiscal year 2018 by this Committee has been prepared, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV.

APPOINTMENTS AND REMUNERATION 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. There have not been amendments on the Appointments and Remuneration Committee Bylaws and Regulations in 2018. Nonetheless, the Committee has been working on a proposal to amend the Regulations of the Committee. With the upcoming publication of the final text of the Technical Guide on Appointments and Remuneration Committees of the CNMV, it has been deemed appropriate to wait for the definitive publication of this text before including the finally approved principles and criteria. An annual report on the activities carried out during the fiscal year 2018 by this Committee has been prepared, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

The Board of Directors has been attributed, but without the capacity to delegate, the duty to approve, prior report from the Audit Committee, the transactions made by the Company or group companies with the Directors under the rules of the Capital Companies Law, or with shareholders holding a significant equity interest, either individually or jointly, including shareholders represented on the Board of Directors of the Company or other companies forming part of the same group or with their related persons. This approval shall not be applicable for any transaction meeting all of the three following conditions: 1.º they are governed by standard form agreements applied on an across-the board basis to a large number of clients, 2.º they are performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and 3º. they contain amounts not exceeding one percent of the Company's annual revenue. (Art. 5 of the Board Regulations).

D.2. Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:

Name of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)
No data				N.A.

D.3. Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand euros)
No data				N.A.

D.4. Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
Metro CAF Mauritius, Ltd.	Assignment of the scope of the train supply agreement	8,636

The company Metro CAF Mauritius, Ltd. has been incorporated in Mauritius, exclusively for the performance of an agreement for the supply of trams in the country. The work assigned to the subsidiary for the most part corresponds to the installation of track systems and warranty services.

D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
No data		N.A.

Note 10 of the consolidated Notes to the Financial Statements for fiscal year 2018 includes the details on balances and transactions with associated companies that have not been removed during the consolidation process.

D.6. Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

Section 229 of the Capital Companies Law and Articles 24 and 25 of the Board of Directors' Regulations require 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 Notes to the Financial Statements. In turn, the Board of Directors' 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. In its Article 18, the Board of Directors' Regulations expressly states 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 within the securities markets area, helps the Board of Directors control possible conflicts of interest with the Company.

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

[ ] Yes
[√] No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk:

CAF Group's Comprehensive Risk Management System works in a continuous manner, consolidating its management at a corporate level for all businesses and geographic areas in which it operates.

The undertaking of the Board of Directors' of CAF in establishing the mechanisms and basic principles for adequate control and risk management is reflected in the General Risk Control and Management Policy, whose essential principles rest upon the previously mentioned Comprehensive Risk Control and Management System. This policy covers part of the Group's internal regulations and can be found in the corporate policies section at www.caf.net.

The General Risk Control and Management Policy covers all the companies comprising the CAF Group in all jurisdictions where CAF operates, being applicable to all Group employees. In those non-CAF Group companies, the Company seeks to ensure that the principles, guidelines and risk limits are consistent with those established through this General Risk Control and Management Policy.

The purpose of the aforementioned Policy is to establish the basic principles and guidelines for the control and management of risks of any nature affecting the Company and the CAF Group, through the identification of the main risks and by employing appropriate internal control and information systems, while conducting periodic monitoring on the performance of these mechanisms.

In practice, the Comprehensive Risk Control and Management System is based on a range of strategic and operational actions in order to manage risks and meet the objectives set by the Board of Directors. The diversity and complexity of the activities carried out by the Group involve a variety of risks, with the Company defining the basic guidelines in order to standardize the operating criteria in each of the divisions to ensure an adequate internal control level.

The Comprehensive Risk Control and Management System of the CAF Group is an interlinked system of rules, processes, procedures, controls and information systems where the global exposure is determined after assuming all the risks that the Company is exposed to and it takes into consideration their impacts on mitigation. This system allows the consolidation of the risk exposures of the business divisions and areas of the Group and their valuation, as well as the preparation of the corresponding management information for decision making on risk and expected profitability, which is subject to a continuous improvement process allowing it to be strengthened over time.

In order to respond to the need for global and homogeneous risk management, CAF Group assumes a corporate risk control and assessment model under the following basic assumptions:

- Defining maximum risk limits that can be assumed for each business according to its characteristics and expected profitability.
- Establishing procedures for the identification, analysis, evaluation, treatment, monitoring, control and information of the various risks.
- Coordination and communication so that the procedures of the different businesses/projects are consistent with this General Risk Control and Management Policy and the Comprehensive Risk Control and Management System implemented in the Group.

Likewise, the Corporate Fiscal Policy expressly covers the basic principles regarding tax matters for the Group, including, wherever possible, the prevention and reduction of the fiscal risks during the development of its activities, while maintaining a prudent risk profile at all times. Fiscal risk management is conducted within the scope of the Comprehensive Risk Control and Management System and is overseen by the Corporate Fiscal Area, where the main corporate tax risks of all businesses and regions are controlled and monitored.

For fiscal year 2018, the Board of Directors approved the Market Risk Policy, the Liquidity and Financing Policy and the Investment Policy, all of which are at a corporate level. The management of risks connected with these policies is also carried out under the framework of the Comprehensive Risk Control and Management System.

Finally, it should be noted that through the General Risk Control and Management Policy, the Organization is committed to developing all its capabilities so that risks of all kinds are properly identified, measured, managed, prioritized and controlled. In this regard, it is the Audit Committee the one responsible for permanently ensuring compliance with the General Risk Control and Management Policy and for the Comprehensive System implemented to operate properly.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk:

As established in Article 5 of Board of Directors' Regulations on the General Supervision Area, the development of the General Risk Control and Management Policy, including those on tax risks and the supervision of internal information and control systems, is one of the matters made exclusively available to all Board members.

In this regard, the Board of Directors is the maximum responsible for the General Risk Control and Management Policy, approving the appropriate procedures for identification, measurement, management and control. Likewise, it is responsible for marking clear lines of authority and responsibility, demanding adequate methodologies to measure the different types of risk and effective internal controls over its management. Additionally, it is the body responsible for establishing and monitoring the Comprehensive Risk Control and Management System implemented in the Group, and the body that will verify that the risks relevant to the Group are consistent and within the defined risk tolerance level.

The Board of Directors is responsible for promoting an internal risk culture that engages the entire organization.

For their part, it is the Audit Committee's responsibility to independently monitor or evaluate the effectiveness of the Risk Management System implemented, which includes, both the financial and non-financial risks, and the procedures designed for its monitoring. This will be supported by the Internal Risk Management Division and the Internal Audit Function.

The Executive Committee is the company's highest executive body and as such it is responsible for ensuring the effective implementation of the General Risk Control and Management Policy and knowing the main elements of its evolution and control.

The Risk Management Function under the direct supervision of the Audit Committee is responsible for the following tasks:

a) Ensure the good performance of the comprehensive risk management and control system 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 and
c) Ensure that the comprehensive risk control and management system mitigates risks adequately in accordance with the policy framework set forth by the Board.

In addition, the task of CAF'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.

Moreover, CAF has a Corporate Fiscal Area, whose role includes: (i) apply the Fiscal Policy established and approved by the Board of Directors and (ii) ensure compliance with the principles of action regarding tax matters under the Fiscal Policy approved by the Board of Directors, which expressly includes the prevention of fiscal risks and their reduction, to the furthest extent possible.

E.3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives:

The most important risks facing the Group may be classified into the following categories:
• Strategic risks: these being risks stemming from the uncertainty of the macroeconomic and geopolitical environment, along with the inherent characteristics of the sector and markets where the Group operates, and the decisions adopted on strategic and technological plans.
• Financial risks: deriving from market fluctuations, which include the following risk subcategories:
• Market risk, considering the following typologies:
• Interest rate risk: risk to changes in interest rates that may cause variations in both the results and the value of the Group's assets and liabilities.
• Currency risk: risk arising from changes in the exchange rates of currencies with an effect on future transactions and the valuation of assets and liabilities denominated in currency.
• Risk of raw material prices: risk derived from changes in prices and market variables in relation to raw materials needed in the business supply chain.
• Credit risk: it is the risk of insolvency or bankruptcy or possible non-payment of quantifiable monetary obligations by the counterparts to which the Group has effectively granted net credit and are pending liquidation or collection.

• Liquidity and financing risk: in relation to liabilities, it is the risk linked to the impossibility of carrying out transactions or to non-compliance with obligations arising from operating or financial activities due to lack of funds or access to financial markets, whether derived from a decrease in the company's credit quality (rating) or other causes. In relation to the asset, it is the risk of not being able at any given moment to obtain asset acquirers, for the sale at market price, or the lack of market price.
For more information on the financial risks, see the section on "Financial Risk Management" of the Notes to the Financial Statements.

• Operational risks: inherent to all Group activities, products, systems and processes that lead to financial losses due to human/technological error, inadequate/defective internal processes or the intervention of external agents. These include corporate risks and risks related to the performance of projects. Others are explained in greater detail in their corresponding sections and some of which are: people/labour, human rights, social and environmental risks.
• Corporate Governance Risks: arising from the potential non-compliance of the Group's Corporate Governance System, being composed of the: (i) By-Laws and other regulatory rules for corporate governance bodies, (ii) Corporate Policies and standards approved by the Board of Directors of the Group's parent company, and (iii) all other internal policies, standards and development protocols, approved by other competent bodies of the Group, regulating the design, integration and role of the Governance Bodies and its relationship with the Company's stakeholders, which are the basis of the commitment towards ethical principles, good practices and transparency, being articulated around preserving the Company's best interest and the creation of sustainable value.
• Compliance and Regulatory Risks (including those on tax and contractual requirements): arising from litigations involving the Group, contractual requirements, Securities Market governing regulations, data protection law, applicable environmental legislation, applicable labour legislation, criminal law, including those related to corruption, regional, national and international tax regulations, among others.
As for the Statement of Non-Financial Information for the fiscal year ended in 2018, which was included in the Directors Report, the various types of aforementioned risks were assessed in detail. In particular, there was an emphasis on the risks relating to human rights, society, the environment, people and the fight against corruption and bribery.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk:

The risk tolerance level established at the corporate level is understood at CAF as the willingness to assume a certain risk level, insofar as it allows value creation and business development, achieving an adequate balance between growth, performance and risk.
The CAF Group presents an overall prudent risk profile with a low tolerance level, in which the objective of guaranteeing the continuity over time of its activity and the sustainable growth, and therefore of its value contribution to its shareholders and to the company in general, prevails.
In order to achieve this risk profile, the Group is based on:
• A prudent policy in tender submission, applying predetermined Risk-Profitability thresholds in the decision-making process.
• An adequate risk management infrastructure in terms of governance and material and human resources availability.
• Search for positioning in high growth segments, in geographies that are classified as strategic and in products for which previous capacities and experiences that allow generating value to the company are verified, maintaining in any case the desired profitability and cash generation levels.

Risk assessment is basically performed in a qualitative way in order to establish both its importance (in terms of impact) and its occurrence probability, although a risk objective (quantitative) indicator is established to the extent possible:
• Very low and low level risks may be accepted and no Control or Action Plan may be necessary to manage them.
• Medium-level risks should be carefully analysed in order to determine whether or not they are acceptable and, if appropriate, to establish a Control or an Action Plan that mitigates the risk to a low level and, therefore, acceptable.
• High and very high level risks will require adequate administration and management as well as preparing a formal Action Plan, which will be monitored according to its criticality by the Risk Management Function or directly by the Executive Committee and the Audit Committee.

Additionally, the risk assessment considers the different types of risks that could affect the Group. In general, although fundamentally applicable to Operational Business Risks, tolerance thresholds are defined which in case of being achieved, would make it necessary to establish new or existing Controls or Actions Plans. As for Operational Business Risks, tolerance is defined on the basis of the main figures of the businesses/projects.
Regarding Financial and Strategic Risks, there is a tolerance level in terms of its economic impact at the corporate level. In the case of the other identified risks, fundamentally as regards those aspects related to reputation, environment, cyber security and regulation (including corruption), there is a zero tolerance level. With regard to fiscal risks, the Fiscal Policy expressly covers the basic principles regarding tax matters for the Group, including, wherever possible, the prevention and reduction of the fiscal risks during the development of its activities.

E.5. State which risks, including tax compliance risks, have materialised during the year:

During 2018 no material or extraordinary risks materialized, beyond those included in the Directors' Report and the Notes to the Financial Statements.
The main risks that may affect the achievement of business goals are managed actively by the organisation, while minimising any adverse risks faced by the Group. In general terms, the Group's business and regional diversification assists in reducing any impacts on the Company's equity due to risk exposure.

The exchange rate risk to which the Company is exposed due to its international operation is managed in accordance with the Market Risk Policy, approved by the Board of Directors in this fiscal year, which basically provides for the establishment of financial or natural hedges, constant monitoring of fluctuations in exchange rates and other measures to mitigate such risk. However, during this year, the depreciation of the Brazilian real has had a negative impact on the Company's equity.

Finally, to mention that mechanisms to anticipate and adequately manage the potential consequences of Brexit have been applied, both in contracts in the portfolio and in future tenders.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise:

CAF’s Comprehensive Risk Management System is based on preparing Controls and Action Plans through the appropriate corrective measures, using the META strategy.
In the case of non-manageable risks that raise the risk profile above the tolerance level, contingency plans considered appropriate to remedy the situation of the project in execution or in a previous stage are evaluated in order to decide not to submit the corresponding tender.

Based on the criteria established by the CAF Group and the META analysis methodology, 4 possible strategies for risk management have been defined:
- Mitigate: The risk is accepted but Action Plans are implemented to reduce it.
- Avoid: It is considered that the conditions are not acceptable by the CAF group, so the risk must be eliminated (Zero Tolerance).
- Transfer: It is considered that there are measures that allow transferring the risk to a third party.
- Assume: It is considered that there are no measures to help reduce the risk, so the risk is accepted in its entirety.

The Comprehensive Risk Management System adopted by CAF is aligned with international standards, ISO 31000 and COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission – Enterprise Risk Management), regarding the use of an effective methodology for integrated risk analysis and management and the Three Lines of Defence Model, on assigning responsibilities in the risk management and control area.
The responsibilities granted by CAF for each Line of Defence are as follows:
1. The First Line of Defence rests on the business's own operating units which are responsible for day-to-day risk management in CAF, identifying, measuring, monitoring, mitigating and reporting each exposure, in consideration of established policies, procedures and controls. Additionally, they are responsible for effectively maintaining internal control and implementing actions to address control deficiencies.
2. The Second Line of Defence complements the activities of the first one and is formed by the Risk Management Department, which carries out monitoring and reporting and is responsible for the risk levels assumed by CAF in the projects, independently controlling business lines.
3. The Third Line of Defence includes an independent and effective Internal Audit Function reporting to CAF's Audit Committee based on its overall reviews of the risk framework, internal control and the Internal Control System of the CAF Group's Financial Information. Additionally, it provides an independent review of the first two Lines of Defence.

Assessing and verifying the effectiveness of the Risk Control and Management Policies is carried out periodically by the second and third line of defence. The alerts, recommendations and conclusions generated are communicated to both the Executive Committee and, where appropriate, the Audit Committee.
For the development of its functions, the Internal Audit and Risk Management departments have qualified and experienced personnel that is independent of the business lines. Both departments report before the Audit Committee, which in turn reports to the Board of Directors, with regard to the degree of compliance and adequacy of the internal control and the overall situation, respectively, of the CAF Group’s risks.

F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment.

Report on at least the following, describing their principal features:

F.1.1 The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

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. These functions are described in the Regulations of the Audit Committee.

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 Financial Department is the division in charge of designing, implementing and maintaining an adequate and effective internal control system on financial information.

F.1.2 State whether the following are present, especially if they relate to the creation of financial information:

· Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity:

The Chairman and Executive 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 Financial Information Internal Control System, 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, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions:

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 web site, 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. Such Crime Prevention Manual has been updated and revised by the Board of Directors on 18 December 2018.

With regard to training activities that began in 2016, the actions aimed to raise awareness, disseminate and implement the Manual on Crime Prevention among the CAF Group staff continued during 2018.

• At the date of preparing the document, while including the head office and national subsidiaries, 93% of staff members included in the training plan had completed the training courses. In 2018, significant progress was made on an international level with training programmes being delivered to 98% of the consolidation scope. More than 3,800 people have received training on this matter, which accounts for 91% of the eligible group. At this moment, 687 people are participating in the programme. Also, a training framework for new employees is underway, which included this programme within the plans for the induction of new employees. Training materials are constantly being updated.

· Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature:

In order to channel general complaints and those relating to financial and accounting aspects, a single complaint channel is established which is supervised by the Compliance Committee or Unit. This body periodically analyses the complaints received and, if appropriate, adopts the relevant actions related to the specific circumstances of each complaint. In case the Compliance Committee or Unit understands that the complaint deserves more attention, it may send the documentation to the relevant department with the objective of jointly assessing the facts and determining the measures to be taken. Likewise, it reports relevant financial irregularities to the Audit Committee. After the information has been made available through this mechanism and reviewed, and should it be deemed necessary, the Committee must propose any appropriate actions to improve its performance and reduce the risk of any irregularities in the future.

An adequate record is kept for all complaints received which guarantees the confidentiality of both the sender and its content. Additionally, for situations such as discrimination, harassment, mobbing or safety at work, specific channels are established for the communication and treatment of any improper conduct that may occur in those areas.

· Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, 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 subjects, in order to support the different businesses in fiscal year 2018, the main reference indicators of this activity have been as follows:

• Number of participants in the training actions on this matter: 137
• Number of training hours received: 980 hours

Apart from wide training, the main training activities are focused on the technical updates within the economic and financial area, (legislation, tax scheme, risks, ...).

F.2. Assessment of financial information risks.

Report on at least the following:

F.2.1 The main characteristics of the risk identification process, including error and fraud risk, as regards:

· 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 management 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.

· If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it 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 Financial Department and the persons responsible for business areas and meetings to review the financial information reported by the subsidiaries.

· The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities:

At least on a quarterly basis, the Financial 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 Financial Department.

· If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements:

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

· The governing body within the company that supervises the process:

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

F.3. Control activities.

Report on whether the company has at least the following, describing their main characteristics:

F.3.1 Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

Financial Statements certification: The financial statements are certified by the Chairman and Managing Director and the Chief Financial Officer. 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 IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The Management of Information and Communication Technologies (ICT) is a corporate process that falls under the CAF Group's Management Model. Its mission is to provide and manage services, supporting the Group's information technology and communication needs in any of the areas of business activity, enhancing the use of these technologies and providing an efficient and effective management over the available resources, ensuring confidentiality, integrity, availability and assurances over the information.

The objectives of this process are to:

- Comply with the Corporate ICT development plan
- Ensure the availability of information systems (availability)
- Guarantee the security (confidentiality and integrity) of Information Systems.
- Promote the standardisation of the Systems
- Improve the satisfaction level of ICT systems
- Develop the ICT corporate framework

The ICFR includes control activities that monitor the proper performance of the processes of Information Systems, in relation to:

- Information technology management:

- User management
- Configuration management
- Physical safety management
- Change management
- Operational management and system control
- Continuity management
- Third-Party Management

Furthermore, since 2017, in accordance with ISO 27001, it is worth mentioning the rolling out of an Information Security Management System (ISMS), which was certified in the spring of 2018 with regard to the information systems supporting the CAF corporate processes, which are managed by the Corporate Digital Directorate. As a result of this implementation, a Security Committee has been formed along with the appointment of a Security Officer, where the affected suppliers and staff have had to read the Security Policy, whereby expressly accepting the Terms and Conditions therein, and the Good Practices Handbook.

F.3.3 Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

There is an Accounting and Financial Procedures and Policies Manual applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing the 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). Furthermore, during the fiscal year 2018, the valuation of acquired assets and liabilities was contracted to independent third parties, according to IFRS 3 of business combinations. In these cases, the Company's policy is to resort to firms of renowned background and independence.

F.4. Information and communication.

State whether the company has at least the following, describing their main characteristics:

F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

CAF, S.A.'s Financial 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 Accounting and Financial Procedures and Policies Manual. During fiscal year 2018, one of the main adaptations of the Manual introduced new accounting standards (mostly in relation to the recognition of income) as well as the work involved in preparing for the new IFRS 16 on Leases.

The Manual is available on CAF's web site.

F.4.2 Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding 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 Financial 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 Financial 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. Supervision of system performance.

Describe at least the following:

F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

In accordance with the provisions of its own Regulations, the Audit Committee is responsible for supervising the preparation process and the integrity of the financial information, ensuring its compliance with the legal provisions, the accurate determination of the consolidation scope, as well as to oversee the proper internal controls risk management systems, including ICFR. Likewise, the Committee reviews that the information published on the Company's web site is constantly updated and reflects the one prepared by the Board of Directors, which has been published in the CNMV's web site.

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.

Under the scope of the external audit, the Audit Committee holds meetings with the external auditors with regard to more significant aspects concerning the review of the financial statements and the findings of the audit work (which include, where appropriate, material aspects detected in the internal control area).

The CAF Group has an Internal Audit Area whose role includes assisting the Audit Committee in its task of supervising the ICFR design and operation.

Each year, the Manager of Internal Audit presents the internal audit activities before the Audit Committee for its approval, which includes ICFR oversight tasks. The content of the Annual Work Plan is reviewed and updated on an ongoing basis.

Based on this plan, the Internal Audit Manager reviews the ICFR's design and functioning by periodically reporting to the Audit Committee its assessments, weaknesses detected, action plans to correct them and recommendations for improvement. This report can be presented either in person at the Audit Committee meetings or by sending it to the Committee.

In the 2018 reporting period the Annual Work Plan submitted and subsequently implemented by the Internal Audit Area covers the following matters related to the ICFR:
• Identification of the main risks on financial information.
• Analytical review of the financial information sent to the National Securities Market Commission (CNMV) on a quarterly basis, together with a review of the design and adequate performance of the main control activities involving fiscal year closing processes, consolidation and reporting, as well as a review of the main judgments and estimates.
• Review of financial reporting processes and of the main subsidiaries, as per a three-year turnover plan.
• Quarterly follow-up on the status of the action plans proposed to tackle identified shortfalls and improvement recommendations.

F.5.2 If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The Audit Committee meets prior to the issuance of financial information to the markets with the Internal Audit Manager and the Management responsible for preparing the financial information to comment on any relevant aspects and, if appropriate, discuss significant control weaknesses identified.

During 2018, the Head of Internal Audit attended six meetings of the Audit Committee, who reported on the Annual Work Plan's evolution and the existing action plans to implement recommendations for internal control improvement.

Likewise, in 2018, the external auditors had appeared before the Audit Committee on three occasions to:

• Report on the results of the audit of the 2017 financial statements and the limited review on the 2018 semi-annual financial statements.

• Report on the quality control system and internal practices that the external auditor had established for matters of the independence of the auditor.

• Address the impact of the acquisition of the Polish company Solaris Bus & Coach, S.A. on the Group's accounts.

Also, the external auditors had attended the meeting of the Board of Directors held on 18 December 2018 to report on:

• The audit progress report corresponding to fiscal year 2018.
• The working plan regarding the updating of significant risks.
• The audit schedule for the Solaris integration, while explaining the most significant aspects of it.
• The Statement of Responsibilities of the auditors regarding the audit for the fiscal year, in accordance with the applicable legislation.

• Significant developments and trends. In particular, it commented on the recent adoption of the Law on non-financial information and diversity and its main implications, including the obligation to verify this information by a service provider at arm's length.

During 2018, auditors have not revealed significant internal control weaknesses.

F.6. Other relevant information.

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

F.7. External auditor's report.

Report from:

F.7.1 If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

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

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMNEDATIONS

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company´s actions. General explanations are not acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

   Complies [X] Explanation [ ]

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

   a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.

   b) The mechanisms in place to resolve any conflicts of interest that may arise.

   Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

   a) Changes that have occurred since the last General Shareholders' Meeting.

   b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

   Complies [X] Complies partially [ ] Explanation [ ]

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

   And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

   Complies [X] Complies partially [ ] Explanation [ ]

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies [X]   Complies partially [ ]   Explanation [ ]

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

a) Report regarding the auditor's independence.

b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.

c) Report by the audit committee regarding related-party transactions.

d) Report on the corporate social responsibility policy.

Complies [X]   Complies partially [ ]   Explanation [ ]

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies [X]   Explanation [ ]

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies [X]   Complies partially [ ]   Explanation [ ]

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies [X]   Complies partially [ ]   Explanation [ ]

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

a) Immediately distributes the additions and new proposals.

b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies [X] Complies partially [ ] Explanation [ ]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies [X] Explanation [ ]

14. That the Board of Directors approves a selection policy for directors that:

a) Is concrete and verifiable.

b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies [X]   Complies partially [ ]   Explanation [ ]

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies [X]   Complies partially [ ]   Explanation [ ]

16. That the percentage of proprietary directors divided by the number of non- executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X]   Explanation [ ]

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X]   Explanation [ ]

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.

d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.

e) The shares and options they own.

Complies [X]   Complies partially [ ]   Explanation [ ]

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [ ]   Complies partially [ ]   Explanation [ ]   Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X]   Explanation [ ]

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X]   Complies partially [ ]   Explanation [ ]

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies [X] Complies partially [ ] Explanation [ ]

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies [X] Complies partially [ ] Explanation [ ]

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies [X] Complies partially [ ] Explanation [ ]

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies [X] Complies partially [ ] Explanation [ ]

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [X] Explanation [ ] Not applicable [ ]

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies [X] Complies partially [ ] Explanation [ ]

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X] Complies partially [ ] Explanation [ ]

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company; should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X] Complies partially [ ] Explanation [ ]

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non- executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X] Explanation [ ]

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies [X] Complies partially [ ] Explanation [ ]

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies [X] Complies partially [ ] Explanation [ ]

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies [X]   Complies partially [ ]   Explanation [ ]

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

   a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

   b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re- election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

   c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

   a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

   b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.

   c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

   d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

   e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies [X] Complies partially [ ] Explanation [ ]

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X] Complies partially [ ] Explanation [ ]

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

45. That the risk management and control policy identify, as a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimise identified risks in the event they transpire.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X] Complies partially [ ] Explanation [ ]

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

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

Complies [X] Complies partially [ ] Explanation [ ]

47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate – are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X] Complies partially [ ] Explanation [ ]

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Complies [ ] Explanation [ ] Not applicable [X]

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [X] Complies partially [ ] Explanation [ ]

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [X] Complies partially [ ] Explanation [ ]

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [X] Complies partially [ ] Explanation [ ]

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are comprised exclusively of non-executive directors, with a majority of them independent.

b) That their chairmen be independent directors.

c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.

d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

e) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

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

b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

f) Supervision and evaluation of the way relations with various stakeholders are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting non- financial information in accordance with applicable rules and international benchmarks.

Complies [X]   Complies partially [ ]   Explanation [ ]

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.

b) Corporate strategy related to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Means of supervising non-financial risk, ethics, and business conduct.

f) Communication channels, participation and dialogue with stakeholders.

g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X] Complies partially [ ] Explanation [ ]

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies [X] Complies partially [ ] Explanation [ ]

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies [X] Explanation [ ]

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies [X] Complies partially [ ] Explanation [ ]

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor’s report which would diminish said results.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies [ ] Complies partially [ ] Explanation [X] Not applicable [ ]

During the current fiscal year, for the first time the Company has used a variable remuneration system for executive directors, based on the attainment of certain predetermined performance parameters, in accordance with the Remuneration Policy approved at the General Meeting. This Policy does not include the possibility of establishing a variable remuneration system associated with the delivery of shares or any other share-based financial instrument.

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010:

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: 72,564,821M JUAN JOSE ARRIETA SUPUDE 0.003% and 30,605,037H ANE AGIRRE ROMARATE % 0.002. TOTAL 0.005%.

C1.16
f) Significant shareholders, Executive Directors or senior managers of an entity receiving significant donations from the Company or its Group currently or in the last 3 years. Mere employees of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the Appointments 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 (Article16 of the Board Regulations).

Re-election:
Directors shall hold office for four years. Directors may be re-elected once or several times for equal periods. Directors' appointments shall be effective upon acceptance thereof (Article 29 of the bylaws). The Board of Directors shall be renewed upon members' office expiration. (Article 30 of the bylaws).

Assessment:
The Appointments and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Appointments and Remuneration Committee has the following basic responsibilities: 1.- Evaluate the balance of skills, knowledge and experience on the Board of Directors. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. 2.- Set an objective for the representation of the gender that is underrepresented on the Board of Directors, drawing up guidelines on how to achieve this objective, 3.- Submit to the Board proposals for Independent Directors' appointment through co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for such Directors' re-election or removal. 4.- Report on the proposals for Directors' appointment through co-option or, if applicable, for the General Shareholders' Meeting consideration, together with the proposals made by the General Meeting for Directors' re-election or removal. 5.- Report on proposals for appointment and removal of senior managers and the basic terms of their contracts. 6.- Examine and organise the succession of the Board of Directors' Chairman and the Company's Chief Executive and, where appropriate, make proposals to the Board of Directors for such succession to occur in an orderly and planned manner. 7.- Propose to the Board of Directors the remuneration policy for directors and general managers or those who carry out their senior management functions under direct control of the Board, Executive Committees or Managing Directors, as well as the individual remuneration and other

contractual conditions of Executive Directors, ensuring compliance. (Art. 3 of the Appointments and Remuneration Committee Regulations).

Any Director shall 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 to disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Board of Directors upon Report from the Appointments and Remuneration Committee on 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 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 also disclose all such determinations in the Annual Corporate Governance Report. In any case, Directors are to inform and, if applicable, resign during any such events that may be detrimental to the Company's name and reputation. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the Board, based on a proposal from the Appointments Committee. (Article 18 of the Board Regulations).

The Directors' Selection Policy, approved by CAF's Board of Directors on 12 November 2018, repeats the functions applicable to the Appointments and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, along with the prerequisites that the candidates must meet, with a special emphasis on the fundamental objective to enrich the diversity of knowledge, experiences and gender from among the Board members, by following criteria to ensure the existence of appropriate diversity in its membership and the absence of any implicit biases that may lead to discrimination based on age, gender, disability, or any other personal circumstance or situation, in accordance with Recommendation 14 c) under the Code of Good Governance of Listed Companies, and with articles 529 bis and 529 quindecies of the Spanish Capital Companies Law.

C1.30
In order to implement the abovementioned principles, the Company has various official communication channels with shareholders and investors, for example:

- The corporate web site of CAF (www.caf.net), where relevant information for shareholders and investors is published. This web site is continuously updated. The web site includes announcements of information on the results and other corporate events on the Investor Agenda, as well as for example the list of independent entities that carry out the reviews of CAF as a listed company.
- Personalised attention for analysts and investors, via the Shareholders and Investor Services Office, through the channels provided on the corporate web site.

C.2.1
AUDIT COMMITTEE
e) Submit to the Board of Directors, the proposals for the selection, appointment, reappointment and removal of an external auditor of the Company, being responsible for the selection process, pursuant to article 16, sections 2, 3, 5 and 17.5 of the Regulations (EU) 537/2014 of 16 April, as well as its employment conditions and regularly collect information about the audit plan and its execution, whereby preserving its independence during the undertaking of its role. The Committee must carry out the final evaluation of the auditor's performance and its contribution to the quality of the audit and the integrity of the financial information. f) Establish the appropriate relations with the external auditor in order to gather information on issues that may prejudice the independence of the auditor, to be assessed by the Committee, and on any other matters concerning the undertaking of the auditing of the accounts and, where appropriate, the approval of services other than those prohibited, under the terms established under article 5, sections 4 and article 6.2.b) of Regulation (EU) 537/2014 of 16 April and under paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July on Account Auditing, regarding the principles of independence, as well as establishing, with the external auditor, any other notifications pursuant to the legislation and audit requirements. In any case, receive from the auditors or audit companies an annual written confirmation of their independence from the Company or companies directly or indirectly related to the them, as well as information concerning the additional services of any kind rendered to the Company by said auditors or companies, or by the individuals or companies related to them pursuant to the Account Auditing legislation. g) Issuing, prior to the issuance of the audit report, an annual report expressing an opinion as to whether the independence of the external auditor is prejudiced. Such report must contain, in any case, an assessment on the provision of each and every additional service referred to in the previous section, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. h) With respect to the external auditor: i. In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation. ii. Ensure that the external auditor's compensation for his work does not compromise its quality or independence. iii. 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 and the reasons for the same. Ensure that the external auditor holds an annual meeting with the Board in plenary session to report on the work carried out, the progress in the accounting situation, and the risks the Company faces. v. 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. i) Supervise the Company´s internal control and management risk function. j) Report in advance to the Board of Directors on all matters under the Law, bylaws and the Board's Regulations; and particularly on: 1º. the financial information that the Company must make public on a regular basis, 2.° the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens and 3.º related party transactions. k) Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. l) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders. m) Evaluation of the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks. n) Be informed on the structural and corporate changes intended by the Company for reviewing and submitting the report to the Board of directors on the economic conditions and the accounting effects and, specifically, on the swap ratio proposed. o) Approving an annual work plan, which contains, among others, the yearly schedule for Committee meetings in order to facilitate the achievement of goals efficiently pursued. p) Issue a report on those transactions made by the Company or the Group's Companies with directors or shareholders holding a significant interest, individually or collectively, including those represented on the Board of Directors of the Company or other Companies of the same group, or with persons related thereto, pursuant to the Capital Companies Law. The issue of this report shall not be applicable for any transaction meeting all of the three following conditions: i) they are governed by standard form agreements applied on an across-the board basis to a large number of clients, ii) they are performed at general prices or rates by the person acting as supplier of the asset or provider of the service involved; and iii) they contain amounts not exceeding one percent of the Company's annual revenues. q) According to the Internal Code of Conduct within the Company's securities markets area: i) Upon request of the Control and Monitoring Body, issue a report on the possible approval of transactions of Affected Securities and Instruments during the restricted periods, and ii) In coordination with the Control and Monitoring Body, assess whether the market research processes that have been carried out contain the disclosure of inside information. r) Submit an annual evaluation report on its own performance before the Board of Directors, in accordance with the framework of the annual assessment of the Board of Directors and its Committees. s) Every year submit a report on the Committee's activities and performance during the previous year. t) Any other function attributed to it by law, the By-Laws, the Regulations of the Board of Directors or conferred by the Board of Directors. The provisions of sections f), g) and h) will be understood notwithstanding the regulatory standards of account auditing.
Likewise, the Committee has the following powers: 1.- The Committee shall have full access to any type of Company information, documentation or records considered necessary for the furtherance of its duties. 2.- The Committee shall request the Board of Directors external expert advice on matters especially relevant if deemed necessary when Company or Group companies' experts or technicians may not duly or independently provide it. 3.- Moreover, at any time, the Committee may request the personal collaboration and reports from any of the executive directors of the Company and/or group companies, any other non-executive board member, employee and expert, when it is deemed necessary or appropriate in order to comply with the duties of the Committee, as well as to request the attendance of any such person at a Committee meeting to report on any specific item on the agenda.

Operation:
The Committee shall convene upon the Chairman's decision to perform its functions. The Committee will meet, at least, at the time of each publication date of the annual or interim financial information and, at these meetings, the internal auditor will be asked to attend and, when a review report has been issued, the external auditor will also join the meeting to address the corresponding points on the agenda. At least some of these meetings held with the internal auditor or the external auditor must take place without the presence of the Company's senior management, so that any specific issues arising from the reviews can be discussed exclusively with them.
Moreover, the Committee will meet when required by the Board of Directors (Article 5 of the Audit Committee Regulations). Meetings are to be convened by the Secretary of the Committee as per the instructions of the Chairperson, at least five calendar days in advance, to be sent by letter, fax, telegram or e-mail. As an exception it may be less than this when it is deemed by the Chairperson to be an urgent matter.
The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss and approve matters not included in the cited agenda. In any event, the Chairperson of the Committee will rely on the Secretary to forward and make available any necessary information and documentation to the other of the members of the Committee with sufficient lead time so that they can be analysed prior to a meeting (Article 6 of the Audit Committee Bylaws and Regulations). Committee meetings will be held at the place stated in the call, except for the case described in the following section. Exceptionally, Committee meetings may be held via telephone conference, video conference or by any other means of non-face-to-face communication, as long as the identity and participation of the attendee is duly ensured and that all members of the Committee are a party to such communication. In this case, the meeting will constitute a quorum and be open at the place where the Chairperson is located (Article 7 of the Audit Committee Bylaws and Regulations). The Committee shall be duly convened when half of the members attend the meeting in person or by proxy. The Committee Chairman and Secretary shall be those individuals appointed for such positions. In case of absence or inability, the Chairman shall be replaced by the member of the Committee with more seniority, or the most senior Committee member in case of several members holding the same seniority. In case of absence or inability, the Secretary shall be replaced by the member of the Committee of less age. Furthermore, the Committee may hold a meeting without a prior call when all the members are present, or duly represented, and when they unanimously agree to hold the meeting. (Article 8 of the Audit Committee Regulations). The Audit Committee's decisions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Secretary shall record the minutes of each meeting which, once approved either at the end of the meeting or in the following one, shall be signed by the Chairman and the Secretary. (Article 9 of the Audit Committee Regulations).
The main actions carried out by the Committee during the fiscal year 2018 were as follows: (i) Activities concerning financial and non-financial information and the associated internal control mechanisms:
a) Prior to being submitted before the Board of Directors for their preparation, the examination of the individual and consolidated Financial Statements and the Directors Reports of CAF, S.A. and the CAF Group, respectively, corresponding to the 2017 fiscal year. The Directors Report includes the Statement of Non-Financial Information, which contains information on non-financial indicators relating to environmental activity, social issues, Human Resources, Respect for Human Rights and the Fight against Corruption and Bribery, which are explained in greater detail under the Corporate Responsibility Report, b) The review of the individual and consolidated quarterly and half-yearly financial statements, prior to being submitted before the Board of Directors for approval, c) The Review of any other information so that it may be announced to the market or submitted to the supervisory bodies during this fiscal year. d) Analysis for the one-year renewal of the Short-Term Commercial Paper Issuance Programme (Euro-Commercial Paper Programme) -ECP), launched in December 2017, proposed before the Board of Directors for its approval, e) Continued monitoring, by the Head of Internal Audit and the Financial Department, of the proper functioning of

the internal control systems, including the ICFR, while identifying any deficiencies in its performance, in the case of there being any.
(ii) Activities associated with related-party transactions:
a) Review of significant related-party transactions carried out by the Company and planned for the upcoming fiscal year and determine whether they need to be brought to the attention of the Board, b) Regular information for the Board of Directors concerning related-party transactions carried out by the Company.
(iii) Activities relating to the corporate social responsibility policy and its terms of implementation during the year:
Activities regarding matters of corporate social responsibility activities conferred by the Board to the Appointments and Remuneration Committee, notwithstanding the verification of the relative information included in the Directors Report attached to the individual and consolidated Financial Statements of CAF, S.A. and the CAF Group, respectively, by the Audit Committee.
(iv) Activities relating to risk management and control:
a) Ongoing evaluation of the Internal Control over Financial Reporting (ICFR) system and the analysis of its recommendations and improvement plans, proposed by Internal Audit, b) Supervision of the tasks and performance of the Risk Management Unit. The attendance of the Unit's Manager at Committee meetings, to report on the main risks and contingencies of the Company and its Group. In this context: Periodic risk map supervision for the risks identified and evaluated during the various processes throughout the Organisation. Monitoring of the risk management models implemented by the Company. c) Monitoring of the actions of the Internal Fiscal Function of the Company, which is responsible for the control and management of fiscal risks for the Group and the preparation of periodic reports on the situation of the different phases of development of its function and the more relevant developments of fiscal matters that affect the Company. d) Analysis of the transaction and acquisition of the Polish company "Solaris Bus & Coach, S.A.", whose corporate purpose is the manufacture of buses, and favourable report raised before the Board for the presentation of a binding offer. e) Analysis of any other possible relevant corporate transaction. f) Evaluation of the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks.
(v) Activities relating to Internal Audit:
The Committee has directly and continuously analysed and supervised the actions carried out by the Company's Internal Audit. Apart from the outcomes of the foregoing, the Committee has conducted the following actions:
a) Supervision of the 2017 Internal Audit Work Plan compliance, b) Approval of the 2018 Internal Audit Work Plan, which is comprised of: The review of financial information (quarterly, semi-annual, annual financial statements and the directors report) and monitoring of the main financial and fiscal risks. Monitoring of the ICFR, covering processes and subsidiaries. Monitoring of the risk management model. Consulting for the drafting of policies. c) Monitoring of the development of the Internal Audit Work Plan and the degree of compliance with the issued recommendations.
(vi) Activities of the external auditor:
a) Preparing the proposal for the renewal of the external auditor, to be submitted at the General Shareholders Meeting, b) Analysis of the external auditor's reports on the individual and consolidated financial statements of the Company for fiscal year 2017, c) Analysis of the limited review report on the semi-annual financial statements for fiscal year 2018, d) Request for the written confirmation of independence issued by the auditor and preparation of the report on the independence of the auditor for fiscal year 2017, e) Establishing the scope and criteria for the approval of non-audit services and approving the budget for non-audit services for fiscal year 2019, f) In coordination with the external auditor, the analysis of: The duration of the audit engagement term and its calculation, in accordance with Regulation (EU) 537/2014, of 16 April. Non-auditing services provided by the external auditor during the year, while assessing their nature, circumstances and context, so that these do not compromise the independence of the auditor. The quality control system and internal practices that the external auditor has established regarding matters of the independence of the auditor. Determining the required parameters to assess the performance of the auditor and how it has contributed to the quality of the audit and to the integrity of the financial information. The impact of the acquisition of the Polish company Solaris Bus & Coach, S.A. on the Company's accounts.
(vii) Monitoring activities of the Committee's own action plans:
Throughout the current year, the Committee has continuously monitored the 2018 Action Plans. It has verified that all of these have been satisfactorily implemented.
(viii) Other activities:
a) Gathering information on possible corporate transactions that require reviewing, b) Approval of the report on the function of the Audit Committee for fiscal year 2017, c) Supervising the communication strategy and the relationship with shareholders and investors, including small and medium-sized shareholders. d) Proposing to the Board of Directors the following new Policies on: (i) Liquidity and Financing, (ii) Market Risks, and (iii) Investments, e) Proposing to Board of Directors the amendments made to the Regulations of the Audit Committee, so as to include: (i) the measures suggested by the external consultant for the 2017 Assessment Report of the Board of Directors of CAF, (ii) the more important aspects covered by the CNMV Technical Guide that were not expressly established in the internal regulations, (iii) the powers conferred by the Board of Directors under the scope of Recommendation 53 of the Code of Good Governance of Listed Companies, (iv) changes required for the standardisation of the Regulations of the Board and its Committees and, (v) other technical improvements. f) Proposing the amendments of its Regulations to the Board of Directors, g) Approving an annual work plan for fiscal year 2019, which contains the yearly schedule for Committee meetings with the external auditors, h) Preparing the Report on the Annual Evaluation of its performance, i) preparing an Annual Report on the activities carried out by this Body in 2018, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV.

APPOINTMENTS AND REMUNERATION COMMITTEE
Operation:
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 Committee's 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.

During 2018 the most relevant actions carried out by this Committee were as follows:
(i) Activities regarding appointments:
a) Analysis of the Board of Directors' needs so as to provide advice on any vacancies that could arise in its membership, b) Issuing a favourable opinion prior to the Board's proposal for the re-election of an Executive Director, c) Issuing a favourable opinion prior to the Board's proposal for the re-election of a Non-Executive Director, d) Proposing the re-election of an Independent Director to the Board of Directors before being submitted to the General Meeting, e) Proposing the appointment by co-option of a female independent Director to the Board of Directors, to be raised before General Meeting for its ratification, f) Issuing its favourable opinion regarding the appointment of a senior executive and the contractual conditions to the Board of Directors.
(ii) Activities regarding remuneration:
a) Proposing to the Board of Directors the Director Remuneration Report corresponding to fiscal year 2017, b) Raising before the Board of Directors the proposal to review the remuneration of the Executive Committee during the fiscal year 2018, which included bonuses linked to the achievement of certain KPIs, c) Proposing to the Board of Directors an increase in Board meeting attendance allowances for this fiscal year, d) Analysis and proposal to the Board of Directors of the introduction of bonuses for Executive Directors linked to the achievement of certain KPIs.
(iii) Activities regarding matters of corporate governance:
a) Analysis and raising before the Board of Directors the 2017 Corporate Social Responsibility Report, b) Reporting on the oversight and assessment of the Corporate Governance System and Corporate Social Responsibility.
(iv) Other actions:
a) Approving of the Performance Report of the Appointments and Remuneration Committee for the fiscal year 2017, b) Reviews on the process of reporting non-financial and diversity information and proposing to the Board of Directors, for approval, so it becomes part of the Directors Report for fiscal year 2017, c) Monitoring of the process of nominating the executives and directors of the Polish company "Solaris Bus & Coach, SA", d) Proposing to the Board of Directors amendments on Diversity to the Directors Selection Policy, e) Monitoring of the situation regarding liability insurance for Company directors and executives.
f) Monitoring of the new jurisprudence on the remuneration system for executive directors of non-listed companies, g) Compliance checks regarding the Policy on Diversity and Selection of Directors, h) Approving the Report on its own annual performance assessment, as well as the Report on the annual assessment of the Board of Directors, in accordance with the provisions of Recommendation 36 of the Code of Good Governance of Listed Companies, i) Preparatory work for the amendment of the Regulations of the Appointments and Remuneration Committee, which is dependent upon the final text of the upcoming publication of the Technical Guide on Appointments and Remuneration Committees by the CNMV, j) Preparing the Report on the Annual Evaluation of its performance, k) Preparing an Annual Report on the activities carried out by this Body in 2018, which will be published under the terms of Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV. (v) Monitoring activities of the Committee's own action plans: Throughout the current fiscal year, the Committee has continuously monitored the 2018 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 19 December 2017. It has verified that all of these have been fulfilled satisfactorily.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

27/02/2019

State whether any directors voted against or abstained from voting on this report.

[ ] Yes
[√] No

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

Auditor's Report on the "Information Relating to the System of Internal Control over Financial Reporting (ICFR)" for the year ended 31 December 2018

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

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

AUDITOR'S 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 CAF GROUP") FOR THE YEAR ENDED 31 DECEMBER 2018

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 November 2018, 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 2018, 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 accompanying information relating to the ICFR system.

It should be noted in this regard that, 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, 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 Standards on Auditing, 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 (CNMV) on its website, which establish 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 2018 described in the Information relating to 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 system of 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 audit regulations in force in Spain, we do not express an audit opinion in the terms provided for in those regulations.

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, as established in Circular no. 5/2013 of the National Securities Market Commission dated June 12, 2013, which has been modified by Circular 7/2015 of the National Securities Market Commission dated 22 December 2015 and the Circular 2/2018 of the National Securities Market Commission dated 12 June 2018 ("the Circulars of the NSMC").

2. Inquiries of 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 mainly the documentation furnished directly to those responsible for describing the ICFR system. 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 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, duly 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 Article 540 of the Consolidated Spanish Limited Liability Companies Law, and "the Circulars of the NSMC", for the purposes of the description of the ICFR system in annual corporate governance reports.

Deloitte, S.L.

Pablo Mugica
27 February 2019

Construcciones y Auxiliar de Ferrocarriles, S.A.

Balance Sheets as at 31 December 2018 and 2017 (Notes 1 to 3)
(Thousands of euros)

Assets	31/12/18	31/12/17 (*)
Non-current assets:		
Intangible assets (Note 6):		
Other intangible assets	37,059	22,601
	37,059	**22,601**
Property, plant and equipment (Note 7)	**113,727**	**119,926**
Non-current investments in Group companies and associates (Notes 9, 10 & 15)	**937,742**	**761,198**
Non-current financial assets (Notes 8 & 15)	**18,363**	**25,743**
Deferred tax assets (Note 16)	**73,438**	**71,791**
Total non-current assets	**1,180,329**	**1,001,259**
Current assets:		
Inventories (Note 11)	**63,388**	**37,995**
Trade and other receivables (Notes 10, 11 & 12):		
Trade receivables for sales and services	1,104,941	863,441
Other receivables (Notes 8, 14 & 16)	43,745	25,737
	1,148,686	**889,178**
Current investments in Group companies and associates (Note 10)	**137,254**	**97,072**
Current financial assets (Notes 8 & 15)	**59,431**	**77,817**
Current prepayments and accrued income	**750**	**731**
Cash and cash equivalents	**390,413**	**179,189**
Total current assets	**1,799,922**	**1,281,982**
Total assets	**2,980,251**	**2,283,241**

Equity and liabilities	31/12/18	31/12/17 (*)
Equity (Note 13):		
Shareholders' equity		
Share capital:		
Registered share capital	10,319	10,319
	10,319	**10,319**
Share premium	**11,863**	**11,863**
Reserves	**661,752**	**648,916**
Profit for the Year	**4,285**	**10,333**
	688,219	**681,431**
Valuation adjustments (Note 15):		
Available-for-sale financial assets	244	-
Hedges	(381)	(1,586)
	(137)	**(1,586)**
Grants, donations and legacies received	**-**	**74**
Total equity	**688,082**	**679,919**
Non-current liabilities:		
Long-term provisions (Note 17)	**1,938**	**2,039**
Non-current payables (Notes 14 & 15):		
Bank borrowings and debt instruments or other marketable securities	463,618	356,779
Other financial liabilities	42,992	54,266
	506,610	**411,045**
Non-current payables to Group companies and associates (Note 10)	**-**	**-**
Deferred tax liabilities (Note 16-f)	**152**	**208**
Total non-current liabilities	**508,700**	**413,292**
Current liabilities:		
Short-term provisions (Note 17)	**237,351**	**184,826**
Current payables (Notes 14 & 15):		
Bank borrowings, debt instruments and other marketable securities	152,446	10,298
Other financial liabilities	56,388	71,222
	208,834	**81,520**
Current payables to Group companies and associates (Note 10)	**30,247**	**18,048**
Trade and other payables:		
Payable to suppliers (Note 10)	515,760	399,164
Other payables (Notes 10, 11, 14 & 16)	768,934	484,317
	1,284,694	**883,481**
Other current liabilities (Note 14)	**22,343**	**22,155**
Total current liabilities	**1,783,469**	**1,190,030**
Total equity and liabilities	**2,980,251**	**2,283,241**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the balance sheet as at 31 December 2018.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A.

Statements of Profit or Loss for the years ended 31 December 2018 and 2017 (Notes 1 to 3)

(Thousands of euros)

	(Debit) Credit	
	2018	**2017 (*)**
Continuing operations:		
Revenue (Notes 10 & 19-a)	1,429,863	1,012,918
+/- Changes in inventories of finished goods and work in progress	(24,314)	(56,882)
In-house work on non-current assets	7,408	3,966
Procurements (Notes 10 & 19-b)	(792,164)	(486,758)
Other operating income (Notes 3-f, 3-j, 10 & 15)	15,507	2,714
Staff costs (Note 19-d)	(286,195)	(256,002)
Other operating expenses (Notes 10, 17 & 19-e)	(270,441)	(188,411)
Depreciation and amortisation charge (Notes 6 & 7)	(21,367)	(20,427)
Allocation to profit or loss of grants related to non-financial non-current assets and other grants (Note 13-h)	103	230
Impairment and gains or losses on disposals of non-current assets (Note 7)	30	-
Profit (loss) from operations	**58,430**	**11,348**
Finance income (Notes 8, 9 & 10)	28,937	34,253
Finance costs (Notes 10, 14 & 15)	(27,203)	(26,833)
Exchange differences (Note 18)	(2,336)	(3,124)
Impairment and gains or losses on disposals of financial instruments (Notes 8 & 9)	(36,298)	(3,097)
Financial profit	**(36,900)**	**1,199**
Profit before tax	**21,530**	**12,547**
Income tax (Note 16)	(17,245)	(2,214)
Profit for the year from continuing operations	**4,285**	**10,333**
Profit for the year	**4,285**	**10,333**
Earnings per share (in euros)		
Basic	0.125	0.301
Diluted	0.125	0.301

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the statement of profit or loss for 2018.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A.

Statements of Recognised Income and Expense for 2018 and 2017
(Notes 1 to 3)
(Thousands of euros)

	2018	2017 (*)
A) Profit for the year per statement of profit or loss	**4,285**	**10,333**
B) Income and expense recognised directly in equity	**(1,011)**	**(6,311)**
Arising from valuation of financial assests	244	-
Arising from cash flow hedges (Note 15)	1,620	(2,138)
Arising from actuarial gains and losses and other adjustments (Note 3-k)	(2,402)	(5,525)
Tax effect (Notes 16-c & 16-f)	(473)	1,352
C) Transfers to profit or loss	**(16)**	**(70)**
Arising from cash flow hedges (Note 15)	80	133
Grants, donations and legacies received (Note 13-h)	(103)	(230)
Tax effect (Notes 16-c & 16-f)	7	27
Total recognised income and expense (A+B+C)	**3,258**	**3,952**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the statement of recognised income and expense for 2018.

Construcciones y Auxiliar de Ferrocarriles, S.A.

Statements of Changes in Total Equity for 2018 and 2017 (Notes 1 to 3)

(Thousands of euros)

	Shareholders' equity						
	Share capital	Share premium	Reserves	Profit for the year	Valuation adjustments	Grants, donations and legacies received	Total equity
Ending balance at 31 December 2016 (*)	**10,319**	**11,863**	**672,024**	**1,546**	**(142)**	**240**	**695,850**
Total recognised income and expense	**-**	**-**	**(4,771)**	**10,333**	**(1,444)**	**(166)**	**3,952**
Transactions with shareholders - dividends paid (Note 13)	**-**	**-**	**(18,337)**	**(1,546)**	**-**	**-**	**(19,883)**
Ending balance at 31 December 2017 (*)	**10,319**	**11,863**	**648,916**	**10,333**	**(1,586)**	**74**	**679,919**
Total recognised income and expense	**-**	**-**	**(2,402)**	**4,285**	**1,449**	**(74)**	**3,258**
Transactions with shareholders	**-**	**-**	**15,238**	**(10,333)**	**-**	**-**	**4,905**
Dividends distribution (Note 13)	-	-	(12,292)	(10,333)	-	-	(22,625)
Business combination (Note 9)	-	-	27,530	-	-	-	27,530
Ending balance at 31 December 2018	**10,319**	**11,863**	**661,752**	**4,285**	**(137)**	**-**	**688,082**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the statement of changes in total equity for 2018.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A.

Statements of Cash Flows for 2018 and 2017 (Notes 1 to 3) (Thousands of euros)

	2018	2017 (*)
CASH FLOWS FROM OPERATING ACTIVITIES (I)	**266,732**	**41,541**
Profit for the year before tax	21,530	12,547
Adjustments for:		
- Depreciation and amortisation charge (Notes 6 & 7)	21,367	20,427
- Changes in provisions (Note 17)	54,146	8,399
- Recognition of grants in profit or loss (Note 13)	(103)	(230)
- Gains/Losses on derecognition and disposal of non-current assets (Note 7)	(30)	-
- Gains/Losses on derecognition of and valuation adjustments to financial instruments (Notes 8 & 9)	36,298	3,097
- Finance income	(28,937)	(34,253)
- Finance costs	27,203	26,833
- Exchange differences (Note 18)	-	1,189
- Other income and expenses	(2,341)	2,699
Changes in working capital		
- Inventories (Note 11)	(17,261)	(8,290)
- Trade and other receivables	(240,950)	30,184
- Other current assets	1,110	(256)
- Trade and other payables	398,632	(31,780)
- Other current liabilities	467	-
- Other non-current assets and liabilities	(1,830)	(795)
Other cash flows from operating activities		
- Income tax recovered (paid) (Note 16)	(9,225)	(889)
- Other amounts received (paid) (interest and dividends) (net)	(6,565)	12,659
CASH FLOWS FROM INVESTING ACTIVITIES (II)	**(275,545)**	**(125,894)**
Payments due to investment		
- Group companies and associates (Notes 9 & 10)	(362,274)	(114,204)
- Intangible assets (Note 6)	(21,396)	(13,305)
- Property, plant and equipment (Note 7)	(22,045)	(15,934)
- Other financial assets (Note 8)	(5,489)	(1,183)
Proceeds from disposal		
- Group companies and associates (Notes 9 & 10)	134,542	17,148
- Property, plant and equipment (Note 7)	61	-
- Other financial assets (Note 8)	1,056	1,584
CASH FLOWS FROM FINANCING ACTIVITIES (III)	**219,605**	**15,605**
Proceeds and payments relating to financial liability instruments		
- Proceeds from debt instruments and other marketable securities (Nota 14)	305,000	-
- Proceeds from issue of borrowings from Group companies and associates (Note 10)	5,768	1,620
- Proceeds from issue of bank borrowings (Note 14)	175,000	69,917
- Proceeds from issue of other borrowings (Note 14)	4,094	519
- Repayment of debt instruments and other marketable securities (Nota 14)	(230,000)	-
- Repayment of bank borrowings (Note 14)	(6,500)	(25,737)
- Repayment and amortisation of other borrowings (Note 14)	(9,360)	(8,114)
- Repayment of borrowings from Group companies and associates (Nota 10)	(1,772)	(2,717)
Dividends and returns on other equity instruments paid		
- Dividends (Note 13)	(22,625)	(19,883)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)	**432**	**(172)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)	**211,224**	**(68,920)**
Cash and cash equivalents at beginning of year	179,189	248,109
Cash and cash equivalents at end of year	390,413	179,189

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the statement of cash flows for 2018.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A.

Notes to the Financial Statements
for the Year Ended 31 December 2018

1. Company activities

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

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

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

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements of the CAF Group for 2018 were formally prepared by its directors at the Board of Directors Meeting held on 27 February 2019. The consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting of Construcciones y Auxiliar de Ferrocarriles, S.A. on 2 June 2018, and were filed at the Guipúzcoa Mercantile Registry.

2. Basis of presentation of the financial statements

a) Regulatory financial reporting framework applicable to the Company

These financial statements were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

a) The Spanish Commercial Code and all other Spanish corporate law.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007 and its industry adaptations, in particular the industry adaptation for construction companies.

c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.

d) All other applicable Spanish accounting legislation.

b) Fair presentation

The accompanying financial statements for 2018, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Company's equity, financial position, results of operations, changes in equity and cash flows for 2018. These financial statements, which were formally prepared by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes.

The financial statements for 2017, which were formally prepared by the directors, were approved by the shareholders at the Annual General Meeting on 2 June 2018 (see Note 13).

c) *Non-obligatory accounting principles applied and changes in accounting policies*

No non-obligatory accounting principles were applied. The directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

In 2018 there were no significant changes in accounting policies with respect to those applied in 2017.

d) *Use of estimates*

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein.

Although these estimates were made on the basis of the best information available at 2018 year-end, 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 (see Notes 6, 7, 8, 11, 15, 16 and 17).

e) *Comparative information*

The information relating to 2018 contained in these notes to the financial statements is presented, for comparison purposes, with the information for 2017.

f) *Grouping of items*

Certain items in the balance sheet, statement of profit or loss, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

g) *Consolidated Group and basis of consolidation*

As indicated in Note 9, the Company has ownership interests in the share capital of other (unlisted) companies which are equal to or greater than 20%.

The Company’s long-term investments in Group companies and associates are presented in accordance with the corporate legislation in force (see Note 9). Consequently, CAF’s financial statements for 2018 do not reflect the financial and equity changes arising from the application of consolidation methods to these ownership interests or to the transactions performed by them. These changes, which are significant, are however reflected in the CAF Group’s consolidated financial statements for 2018.

The main aggregates in the consolidated financial statements of the CAF Group for 2018 and 2017, prepared in accordance with Final Provision Eleven of Law 62/2003, of 30 December, applying International Financial Reporting Standards as adopted by European Union Regulations, are as follows:

2018 consolidated financial statements

	Thousands of euros
Total assets	**4,005,961**
Equity-	**757,267**
Of the Parent	751,712
Of non-controlling interests	5,555
Revenue	**2,048,419**
Profit for the year-	**39,620**
Of the Parent	43,462
Of non-controlling interests	(3,842)

2017 consolidated financial statements

	Thousands of euros
Total assets	**3,115,254**
Equity-	**760,200**
Of the Parent	750,417
Of non-controlling interests	9,783
Revenue	**1,477,039**
Profit for the year-	**42,517**
Of the Parent	42,406
Of non-controlling interests	111

h) Correction of errors

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

3. Accounting policies

The principal accounting policies used by the Company in preparing its financial statements as at 31 December 2018 and 2017, in accordance with the Spanish National Chart of Accounts, 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. Development projects are amortised on a straight-line basis over 5 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 6).

b) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 3-c. The acquisition cost was revalued pursuant to the related legislation, including Guipúzcoa Regulation 11/1996, of 5 December, Guipúzcoa Regulation 13/1991, of 13 December, and Guipúzcoa Regulation 1/2013, of 5 February (see Note 13-c).

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 Company on its 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 2018 and 2017 the Company did not capitalise any borrowing costs to "Property, Plant and Equipment", as it did not have any significant projects the construction period of which exceeded one year and it considered the attributable general-purpose borrowings to be very insignificant.

c) Impairment of assets

At each balance sheet date, the Company 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

Financial assets and trade and other receivables

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

(1) Loans and other long-term receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business. 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 Company has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.

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

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

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

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

(4) Available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These assets are measured in the balance sheet at fair value which, in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in fair value are recognised directly under "Equity - Valuation Adjustments - Available-for-Sale Financial Assets" in the 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 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 fair value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost, unless there are indications of impairment, in which case they are recognised in profit or loss.

(5) Investments in Group companies, associates and jointly controlled entities. These are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

Company management determines the most appropriate classification for each asset on acquisition, which is subsequently reviewed at the end of each year.

At least at each reporting date the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the statement of profit or loss.

The Company recognises an allowance for debts in an irregular situation due to late payment, suspension of payments, insolvency or other reasons, after performing a case-by-case collectability analysis (see Note 12). Also, the Company derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the risks relating to default and delinquency and the rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred. At 31 December 2018, the Company had factores without recourse receivables amounting to EUR 13,110 thousand (31 December 2017: EUR 46,055 thousand).

Cash and cash equivalents

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

Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Derivative financial instruments

The Company uses these instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. Basically, it does so to hedge the foreign currency risk to which its project contracts, certain investments in investees and the financing received are exposed, and to hedge the interest rate risk arising from loan drawdowns (see Notes 5 and 15).

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

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

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

- In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under "Changes in Fair Value of Financial Instruments" in the accompanying statement of profit or loss.

- 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 Company for those 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 firm commitments, 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 effective portion of the hedging instrument are charged or credited to "Impairment and Gains or Losses on Disposals of Financial Instruments" in the statement of profit or loss, and are adjusted in the line item that includes the value of the investment by the portion of the hedge that meets the criteria to be considered effective. These hedges are used for the equity of CAF USA, Inc.

The fair value of the derivative financial instruments was calculated including the Company's own credit risk and that of the counterparty (see Note 15).

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:

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

2. 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.

3. For inventories that necessarily take a period of more than twelve months to become available for sale, the cost includes the related borrowing costs.

f) Recognition of contract revenue and profit

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Maintenance revenue is recognised on an accrual basis. The Company has certain maintenance contracts billed on a straight-line basis which envisage the performance of in-depth inspections from time to time. In these cases, the difference between the costs billed and the costs incurred, determined as the proportion that contract costs incurred bear to the total contract costs, is recognised with a charge to "Revenue" and a credit to "Trade and Other Payables - Other Payables" in the accompanying balance sheet.

For construction contracts, the Company 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 total budgeted costs. Potential losses on project contracts are recognised in full when they become known and can be estimated.

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

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

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

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

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

Sales of products, basically wheel sets and components, are recognised when the goods and title thereto are transferred (see Note 19).

The Company changed the method of recognising income from sales of waste and scrap metal and rebillings to suppliers. Since 1 January 2018 this income has been recognised under "Other Operating Income" in the accompanying consolidated statement of profit or loss.

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. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

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 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 - Advances Received on Orders" (prebillings) (see Note 11).

h) Foreign currency transactions and other obligations

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing (see Note 18). Any resulting gains or losses are recognised directly in the statement of profit or loss in the year in which they arise. Foreign currency transactions for which the Company decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3-d.

i) Current/Non-current classification

Items are classified under "Current Assets" and "Current Liabilities" (prebillings, deferred billings and short-term provisions) which may be realised or settled in more than twelve months, since they form part of the Company's normal operating cycle as established in the applicable legislation. Considering the items as a whole, the directors' estimates indicate that the current assets will be realised essentially in the short term and, in any event, the current liabilities to be settled in more than twelve months exceed the current assets that would be realised in more than twelve months (see Notes 11 and 17).

j) Government grants

The Company accounts for grants, donations and legacies received as follows:

a) Non-refundable grants, donations and legacies related to assets: these are measured at the fair value of the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss, except for grants received from shareholders or owners, which are recognised directly in equity and do not give rise to the recognition of any income (see Note 13-h).

b) Refundable grants: while they are refundable, they are recognised as a liability.

c) Grants related to income: grants related to income are credited to income when definitively granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to profit or loss in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred. The Company recognised income of EUR 891 thousand and EUR 2,272 thousand in 2018 and 2017, respectively, in this connection under "Other Operating Income" in the accompanying statement of profit or loss.

k) Post-employment benefits

The Company's legal and contractual obligations to certain of its employees in relation to supplementary retirement and death benefits are met through premiums under defined benefit plans to external funds deposited, or in the process of being externalised, at independent insurance companies. The contributions made in 2018 for various groups of employees amounted to EUR 8,543 thousand (2017: EUR 6,777 thousand). The impact of these obligations on the statement of profit or loss for 2018 amounted to EUR 3,308 thousand (2017: EUR 4,085 thousand) with a charge to "Staff Costs". In 2018 a net actuarial loss of EUR 2,402 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2017: a net actuarial loss of EUR 5,525 thousand).

In accordance with te accrual basis of accounting, at 31 Decembre 2018 the Company recognised a current asset of EUR 268 thousand in the balance sheet, calculated by an independent valuer, being such amount the difference between the present value of the defined benefit obligations accrued and the fair value of the assets qualifying as plan assets (31 December 2017: Liabilities of EUR 2,833 thousand and assets of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related years (see Notes 4, 16 and 19-d).

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

In accordance with the applicable collective agreement, the Company contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (see Notes 19-d, 20 and 21).

l) Early retirements and termination benefits

At 31 December 2018, "Non-Current Payables - Other Financial Liabilities" and "Current Payables - Other Current Liabilities" in the accompanying balance sheet included approximately EUR 3,408 thousand and EUR 2,799 thousand, respectively (31 December 2017: EUR 5,892 thousand and EUR 3,113 thousand), relating to the present value estimated by the directors of the future payments to be made to employees with whom hand-over contracts had been entered into in December 2018 or they availed themselves of the preretirement plan approved in 2013. The net provision for 2018 was recognised with a charge of EUR 575 thousand to "Staff Costs" (2017: EUR 6,272 thousand with a charge to "Staff Costs") in the statement of profit or loss (see Notes 14, 16 and 19-d).

m) Income tax

The expense for income tax and other similar taxes are recognised in the 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 there will be sufficient taxable profits in the future against which the deferred tax assets can be utilised, which at the Company are deemed to be those that will be earned in the period covered by its backlog.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

n) Leases

The Company 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.

At 31 December 2018 and 2017, the Company had not entered into any finance leases in which it acted as lessee. In finance leases in which the Company 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 profit or loss as earned using the effective interest method (see Note 8-a).

At 31 December 2018 and 2017, the Company had various outstanding operating leases for which it had recognised an expense of EUR 3,035 thousand in 2018 (2017: EUR 2,258 thousand) with a charge to "Other Operating Expenses" in the accompanying 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 2018 amounted to EUR 23,571 thousand over the next few years, of which EUR 2,029 thousand are due in 2019 (31 December 2017: EUR 4,394 thousand, of which EUR 1,460 thousand were to be paid in 2018). The 2018 figure takes into account expected renewals of the leases on which CAF can exercise the renewal option.

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

ñ) Related party transactions

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

4. Distribution of profit

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

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

5. Financial risk management

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

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

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

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

a) Market risk

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

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

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

At 31 December 2018, the Company has a liability exposure of EUR 205.8 million in relation to changes in market interest rates (31 December 2017: EUR 103 million) and of EUR 410.2 million in relation to fixed interest rates (31 December 2017: EUR 263 million), of which EUR 31.7 million were fixed as a result of interest rate derivatives (see Notes 14 and 15).

a.2) Foreign currency risk

The Company operates on an international stage and, therefore, is exposed to foreign currency risk in its foreign currency transactions (currently the US dollar, the Brazilian real, the pound sterling, the New Taiwan dollar, the Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Japanese yen, the Canadian dollar and the Colombian peso, among others).

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

In line with the principles of this policy, as a general rule the Company transfers to third parties, provided that the cost is reasonable, the foreign currency risk associated with its contracts denominated in currencies other than the Company's functional currency. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Company's results present fairly its industrial and services activity.

At 31 December 2018 and 2017, the Company had used currency forwards to hedge substantially all of its foreign currency accounts receivable from and payable to customers and suppliers, and its loans in foreign currency with Group companies. A 10% fall in the exchange rate in relation to the unhedged positions in Brazilian reals against the euro at 31 December 2018 would have a negative impact of EUR 2,458 thousand, although exposure to other currencies would not be significant (31 December 2017: this had a negative impact of EUR 2,354 thousand in relation to the Brazilian real).

At 31 December 2018 and 2017, the Company 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 CAF USA Inc., the exposure of which is hedged (see Notes 9 and 15).

a.3) Commodity price risk

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

b) Credit risk

Most of the Company's accounts receivable and work in progress relate to various customers 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 rules in the OECD Consensus concerning instruments of this nature. The decision on whether or not to hedge is taken on the basis of the type of customer and the country in which it operates.

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

c) Liquidity and financing risk

As determined in the Liquidity and Financing Policy, management of liquidity and financing involves ensuring that the payment commitments arising from the obligations undertaken are met, optimising the financial structure and safeguarding adequate management of the Company’s surpluses in the framework of its long-term strategy (see Notes 8 and 14).

The Company manages liquidity and financing risk using the following mechanisms:

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

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

- Maintaining a strong short-term liquidity position.

- Maintaining surplus undrawn credit balances.

6. Intangible assets

The changes in “Intangible Assets” in the balance sheet in 2018 and 2017 were as follows:

2018

	Thousands of euros				
	31/12/17	Additions or charge for the year	Disposals or reductions	Transfers to inventories	31/12/18
Cost:					
Development expenditure	95,949	17,872	-	(497)	113,324
Computer software	18,076	3,524	-	-	21,600
Total cost	**114,025**	**21,396**	**-**	**(497)**	**134,924**
Accumulated amortisation:					
Development expenditure	61,319	5,168	-	-	66,487
Computer software	13,485	1,273	-	-	14,758
Total accumulated amortisation	**74,804**	**6,441**	**-**	**-**	**81,245**
Impairment:					
Development expenditure	16,620	-	-	-	16,620
Total impairment	**16,620**	**-**	**-**	**-**	**16,620**
Intangible assets, net	**22,601**	**14,955**	**-**	**(497)**	**37,059**

2017

	Thousands of euros				
	31/12/16	Additions or charge for the year	Disposals or reductions	Transfers to inventories	31/12/17
Cost:					
Development expenditure	86,199	11,134	-	(1,384)	95,949
Computer software	15,905	2,171	-	-	18,076
Total cost	**102,104**	**13,305**	**-**	**(1,384)**	**114,025**
Accumulated amortisation:					
Development expenditure	57,065	4,254	-	-	61,319
Computer software	12,562	923	-	-	13,485
Total accumulated amortisation	**69,627**	**5,177**	**-**	**-**	**74,804**
Impairment:					
Development expenditure	16,620	-	-	-	16,620
Total impairment	**16,620**	**-**	**-**	**-**	**16,620**
Intangible assets, net	**15,857**	**8,128**	**-**	**(1,384)**	**22,601**

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

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

Research and development expenditure incurred in 2018 and recognised in profit or loss amounted to EUR 6,400 thousand (2017: EUR 3,895 thousand).

At 2018 year-end the Company had fully amortised intangible assets in use and/or whose technology was still being applied, amounting to EUR 57,127 thousand (31 December 2017: EUR 54,447 thousand).

Impairment losses

The Company did not recognise any impairment losses on its intangible assets in 2018 and 2017.

7. Property, plant and equipment

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

2018

	Thousands of euros				
	31/12/17	Additions or charge for the year	Disposals or reductions	Transfers	31/12/18
Cost:					
Land	13,582	-	(31)	-	13,551
Buildings	149,109	3,709	(664)	5	152,159
Plant and machinery	234,157	8,779	(10,860)	(5)	232,071
Other fixtures, tools and furniture	14,305	1,889	(35)	-	16,159
Other items of property, plant and equipment	36,195	1,535	(4)	(10,172)	27,554
Total cost	**447,348**	**15,912**	**(11,594)**	**(10,172)**	**441,494**
Accumulated depreciation:					
Buildings	87,024	4,774	(664)	-	91,134
Plant and machinery	204,669	7,416	(10,860)	-	201,225
Other fixtures, tools and furniture	11,260	697	(35)	-	11,922
Other items of property, plant and equipment	21,914	2,039	(4)	(3,018)	20,931
Total accumulated depreciation	**324,867**	**14,926**	**(11,563)**	**(3,018)**	**325,212**
Impairment	**2,555**	**-**	**-**	**-**	**2,555**
Property, plant and equipment, net	**119,926**	**986**	**(31)**	**(7,154)**	**113,727**

2017

	Thousands of euros				
	31/12/16	Additions or charge for the year	Disposals or reductions	Transfers	31/12/17
Cost:					
Land	13,482	288	-	(188)	13,582
Buildings	138,199	10,719	-	191	149,109
Plant and machinery	227,305	8,624	(1,767)	(5)	234,157
Other fixtures, tools and furniture	12,923	1,380	-	2	14,305
Other items of property, plant and equipment	34,138	2,057	-	-	36,195
Total cost	**426,047**	**23,068**	**(1,767)**	**-**	**447,348**
Accumulated depreciation:					
Buildings	82,512	4,512	-	-	87,024
Plant and machinery	198,120	8,316	(1,767)	-	204,669
Other fixtures, tools and furniture	10,651	609	-	-	11,260
Other items of property, plant and equipment	20,101	1,813	-	-	21,914
Total accumulated depreciation	**311,384**	**15,250**	**(1,767)**	**-**	**324,867**
Impairment	**2,555**	**-**	**-**	**-**	**2,555**
Property, plant and equipment, net	**112,108**	**7,818**	**-**	**-**	**119,926**

The main additions in 2018 relate to the robotised installation of bogies, fit-out of the finishing warehouses using the Lean methodology, adaptation of the iron and steel warehouse for the manufacture of car bodies, and certain facilities and machinery for the improvement and automation of the machining processes.

In prior years the Group transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled. The locomotives were leased to third parties in 2018. At the end of 2018, ownership of 8 of the 9 locomotives was transferred and a carrying amount of EUR 7,154 thousand was transferred to “Inventories”; the sale of the final unit is expected to take place in the coming year. At 31 December 2017, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand.

In 2013 the Company revalued its property, plant and equipment pursuant to Guipúzcoa Regulation 1/2013, of 5 February, paying a one-off rate of 5% of the revalued amount. Previously, the Company had availed itself of other legislation relating to revaluations, namely, Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 (see Note 13-c).

The 2013 revaluation was made applying the rates established in legislation on the acquisition cost, based on the year of acquisition of the property, plant and equipment. In the case of improvements, the year in which they are made was taken into account. Also, the established rates were applied to the depreciation taken for accounting purposes on the acquisition or production cost that was deductible for tax purposes, based on the year in which it was applied. In the case of assets revalued pursuant to Guipúzcoa Regulation 11/1996, the rates were applied to the acquisition price and to the depreciation that was deductible for tax purposes, without taking into account the net increase in value arising from the revaluations.

The Company revalued items recognised such as buildings, plant, machinery and tools. The revaluation of the balance sheet items amounted to EUR 46,170 thousand and the adjustment to the depreciation charge amounted to EUR 19,676 thousand.

The net increase in value arising from the revaluations is depreciated over the tax periods in the remaining useful lives of the assets. The effect of the revaluations on the depreciation charge for the year was EUR 896 thousand (2017: EUR 1,483 thousand).

The effect of the revaluations of the property, plant and equipment in accordance with Guipúzcoa Regulation 1/2013, Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 on the depreciation charges for the year and the accumulated depreciation recognised in 2018 and in prior years amounted to approximately EUR 964 thousand and EUR 11,979 thousand, respectively (2017 and prior years: EUR 1,593 thousand and EUR 11,697 thousand).

At 31 December 2018, the Company recognised EUR 7,409 thousand (31 December 2017: EUR 13,542 thousand) under "Current Payables - Other Financial Liabilities" in relation to non-current asset suppliers (see Note 14).

At 2018 year-end the Company had firm investment commitments amounting to EUR 1,303 thousand in relation mainly to the new fitting-out of new offices (2017 year-end: EUR 3,096 thousand). In principle, these investments will be equity financed.

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2018 and 2017 the property, plant and equipment were fully insured against these risks.

At 31 December 2018, the gross cost of fully depreciated property, plant and equipment still in use amounted to approximately EUR 243,904 thousand (31 December 2017: approximately EUR 246,841 thousand), of which at 31 December 2018 EUR 48,063 thousand related to "Buildings" (2017: EUR 45,789 thousand), EUR 174,466 thousand to "Plant and Machinery" (2017: EUR 180,855 thousand) and EUR 21,375 thousand to "Other Fixtures, Tools and Furniture" and "Other Items of Property, Plant and Equipment" (2017: EUR 20,197 thousand).

In 2018 the Company sold items of property, plant and equipment with a carrying amount of EUR 31 thousand, giving rise to a gain of EUR 30 thousand (with no impact in 2017).

The Company has no future dismantling or restoration commitments and, accordingly, no asset was recognised in this connection.

At 31 December 2018 and 2017, the Company did not have any investments in property, plant and equipment located abroad for significant amounts.

Of the Company's property, plant and equipment, at the end of 2018 and 2017 there were no significant assets that were not being used directly in operations, except for the aforementioned locomotives.

Impairment losses

At the end of 2016, the Company discontinued its activities at the steelworks at its Beasain plant. Consequently, the Company's directors evaluated the recoverability of the related net assets, based on the appraisal performed by an independent valuer, recognising impairment with a charge to profit or loss for 2016 (2018 and 2017: no additional impairment was recognised).

8. Financial assets (non-current and current)

a) Non-current financial assets

The detail of "Non-Current Financial Assets" at the end of 2018 and 2017 is as follows (in thousands of euros):

Classes / Categories	Non-current financial assets					
	Equity instruments		Loans, derivatives and other		Total	
	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17
Held-to-maturity investments	-	-	133	367	133	367
Loans and receivables	-	-	7,936	9,536	7,936	9,536
Available-for-sale financial assets-	1,479	1,438	-	-	1,479	1,438
Financial derivatives (Note 15)	-	-	8,815	14,402	8,815	14,402
Total	**1,479**	**1,438**	**16,884**	**24,305**	**18,363**	**25,743**

The detail of loans and receivables is as follows (in thousands of euros):

	31/12/18	31/12/17
Non-current trade receivables	3,765	4,932
Loans to employees	4,171	4,604
Total	**7,936**	**9,536**

Non-current trade receivables

“Non-Current Trade Receivables” includes an account receivable amounting to EUR 3,765 thousand at long term (31 December 2017: EUR 4,932 thousand) and EUR 1,324 thousand at short term (31 December 2017: EUR 1,245 thousand) relating to a finance lease of rolling stock for an initial amount of EUR 10,570 thousand, under which the Company will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2018 EUR 1,500 thousand (2017: EUR 1,500 thousand) were received and EUR 411 thousand (2017: 490 thousand) were credited to "Finance Income" in the accompanying statement of profit or loss, based on the interest rate implicit in the transaction (see Note 3-n).

Loans to employees

In accordance with the agreements entered into with employees, the Company grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Company does not discount these amounts since it considers that the effect of doing so is scantly material.

Available-for-sale financial assets

The Company owns 14.18% of Iniciativa FIK, AIE, the company object of which is research and development and the exploitation of scientific and technological knowledge. The par value of the shares amounts to EUR 3,125 thousand. The ownership interest has been written down by EUR 2,287 thousand (31 December 2017: EUR 2,085 thousand) and impairment of EUR 202 thousand was recognised in 2018 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss.

Albali Señalización, S.A. was incorporated on 23 November 2011, with shares representing 9% of the share capital subscribed by CAF. In 2012 the Company sold a portion of the shares it had subscribed, leaving its ownership interest at 3%. At 31 December 2018, the fair value of the subscribed shares was EUR 641 thousand (31 December 2017: EUR 398 thousand). The difference between these amount was recognised with a credit to "Valuation Adjustments" in the accompanying balance sheet.

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

2018

	2020	2021	2022	2023 and subsequent years	Total
Held-to-maturity investments	28	-	92	13	133
Loans and receivables	2,009	2,034	1,761	2,132	7,936
Financial derivatives	5,316	502	2,580	417	8,815
Total	**7,353**	**2,536**	**4,433**	**2,562**	**16,884**

2017

	2019	2020	2021	2022 and subsequent years	Total
Held-to-maturity investments	278	-	-	89	367
Loans and receivables	1,997	2,038	2,038	3,463	9,536
Financial derivatives	12,585	1,817	-	-	14,402
Total	**14,860**	**3,855**	**2,038**	**3,552**	**24,305**

Impairment losses

In 2018 and 2017 the Company did not recognise any changes under "Non-Current Financial Assets - Loans and Receivables" as a result of impairment losses.

b) Current financial assets

The detail of "Current Financial Assets" at the end of 2018 and 2017 is as follows (in thousands of euros):

	31/12/18	31/12/17
Held-for-trading financial assets	59,281	55,120
Loans and receivables (Note 8-a)	150	-
Financial derivatives (Note 15)	-	22,697
Total	**59,431**	**77,817**

The Company invests cash surpluses 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 statement of profit or loss. In 2018 the Company recognised a loss of EUR 577 thousand in this connection (2017: income of EUR 696 thousand).

9. Group companies and associates

The detail of "Non-Current Investments in Group Companies and Associates" at 31 December 2018 and 2017 is as follows (in thousands of euros):

	31/12/17	Change	31/12/18
Ownership interests	532,531	420,788	953,319
Impairment losses on ownership interests	(102,960)	(34,215) (*)	(137,175)
Non-current loans (Note 10)	331,627	(210,029)	121,598
Total	**761,198**	**176,544**	**937,742**

(*) Including a net amount recognised of EUR 36,096 thousand under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss for 2018 and a net reversal of EUR 1,881 thousand relating to the impact of derivatives related to net investments in foreign operations.

	31/12/16	Change	31/12/17
Ownership interests	492,069	40,462	532,531
Impairment losses on ownership interests	(92,061)	(10,899) (*)	(102,960)
Non-current loans (Note 10)	274,809	56,818	331,627
Total	**674,817**	**86,381**	**761,198**

(*) Including a net amount recognised of EUR 3,115 thousand under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss for 2017 and a net amount recognised of EUR 7,784 thousand relating to the impact of derivatives related to net investments in foreign operations.

The most significant information in relation to investments in Group companies and associates the end of 2018 and 2017 is as follows (in thousands of euros):

2018

Name	Location	Line of business	Percentage of ownership		Cost	Impairment recognised during the period	Accumulated impairment	Basic financial data (1)			
			Direct	Indirect				Share capital	Reserves and accumulated profits or losses	Profit (Loss) from operations	Profit (Loss) for 2018
Industrial											
CAF USA, Inc.	Delaware	Manufacturing	100%	-	54,283	-	818 (9)	54,283	5,770	3,743	1,967
CAF México, S.A. de C.V. (2)	Mexico City	Manufacturing and maint.	99.94%	0.06% (3)	6,755	-	-	6,773	5,149	2,689	895
CAF Brasil Industria e Comercio, S.A. (2)	Sao Paulo	Manufacturing and maint.	1.18%	98.82% (3)	2,765	(828)	(1,837)	181,758	(72,770)	(17,935)	(40,422)
CAF Argentina, S.A.	Buenos Aires	Maintenance	97.61%	2.39% (3)	4,017	(664)	(3,541)	2	494	59	(7)
CAF Rail UK, Ltda.	Belfast	Maintenance	100%	-	108	-	-	108	1,345	700	441
CAF Italia, S.R.L.	Rome	Maintenance	100%	-	100	-	-	100	771	906	534
CAF Chile, S.A.	Santiago de Chile	Manufacturing and maint.	99%	1% (3)	1	-	-	1	2,083	1,252	983
CAF Turquía, L.S.	Istanbul	Manufacturing and maint.	99.96%	0.04% (3)	3,365	752	(1,190)	3,367	(2,267)	107	138
CAF Argelia, E.U.R.L.	Algiers	Manufacturing and maint.	100%	-	2,171	(69)	(262)	2,171	(390)	273	117
Trenes CAF Venezuela, C.A.	Caracas	Manufacturing and maint.	100%	-	25	(10)	(18)	18	(18)	2	-
CAF Rail Australia Pty. Ltd.	Sydney	Manufacturing and maint.	100%	-	74	-	-	74	284	(292)	(231)
CAF India Private Limited	Delhi	Manufacturing and maint.	3.11%	96.89% (3)	110	-	-	3,917	4,473	77	36
Trenes de Navarra, S.A.U.	Navarre	Manufacturing	100%	-	22,170	(649)	(11,945)	8,470	1,722	(375)	(489)
Construcciones Ferroviarias de Madrid, S.L.U.	Madrid	Manufacturing	100%	-	2,500	-	-	2,500	1,105	(334)	(262)
CAF Digital & Design Solutions, S.A. (11)	Jaén	Manufacturing and engin.	100%	-	5,262	104	(3,762)	1,521	(378)	223	156
Tradinsa Industrial, S.A.	Lleida	Repairs	82.34%	17.66% (4)	3,215	-	-	3,850	1,039	(247)	(291)
CAF New Zealand, Ltd.	Auckland	Manufacturing and maint.	100%	-	48	-	-	48	1,055	938	675
CAF Sisteme Feroviare, S.R.L.	Bucharest	Manufacturing and maint.	100%	-	-	-	-	-	113	24	7
CAF Colombia, S.A.S.	Medellín	Manufacturing and maint.	100%	-	456	-	-	36	478	65	23
CAF Arabia Co.	Riyadh	Manufacturing and maint.	95%	5% (3)	301	-	-	316	257	4,547	3,173
CAF Deutschland GmbH	Munich	Manufacturing and maint.	100%	-	25	-	-	25	135	92	56
CAF Hungary K.F.T.	Budapest	Manufacturing and maint.	100%	-	160	-	-	24	122	160	99
Ferrocarril Interurbano S.A. de C.V.	Mexico City	Manufacturing and equip.	17.20%	32.43% (10)	68	-	-	385	541	209	338
CAF Netherlands, B.V.	Utrecht	Manufacturing and maint.	100%	-	450	-	-	450	33	183	144
Metro CAF Mauritius Ltd.	Mauritius	Maintenance	100%	-	1	-	-	1	-	18	15
CAF Belgium S.P.R.L.	Brussels	Maintenance	95%	5% (3)	171	-	-	180	-	5	4
Technology											
CAF I+D, S.L. (Sole-Shareholder Company)	Guipúzcoa	R&D	100%	-	5,734	-	-	4,705	6,693	255	128
CAF Power & Automation, S.L.U. (2)	Guipúzcoa	Electronic and power equipment	100%	-	18,530	-	-	6,090	13,198	(8,948)	(4,052)
CAF Turnkey & Engineering, S.L.U. (2)	Vizcaya	Engineering	100%	-	9,700	-	-	5,703	7,944	3,027	2,558
Centro de Ensayos y Análisis Cetest, S.L.	Guipúzcoa	Tests	58.55%	41.45% (3)	5,650	-	-	9,650	1,728	346	216
Geminys, S.L.	Guipúzcoa	Operating manuals	100%	-	172	-	-	150	969	1,137	840
CAF Signalling, S.L.U. (2)	Guipúzcoa	Signalling	100%	-	35,062	(5,797)	(21,782)	12,000	7,054	732	(4,611)
BWB Holdings, Ltd. (2) (14)	Nottingham	Engineering	100%	-	18,434	-	-	229	17,668	403	230

Name	Location	Line of business	Percentage of ownership		Cost	Impairment recognised during the period	Accumulated impairment	Basic financial data (1)			
			Direct	Indirect				Share capital	Reserves and accumulated profits or losses	Profit (Loss) from operations	Profit (Loss) for 2018
Actren, S.A.	Madrid	Maintenance	51%	-	1,530	-	-	3,000	1,198	2,816	2,271
Sermanfer, S.A. (2)	Madrid	Maintenance	100%	-	301	-	-	301	1,367	1,047	578
CAF Investment Projects, S.A.U (2)	Guipúzcoa	Business development	100%	-	228,222	(1)	(3,114) (7)	47,917	175,720	95,772	38,790
CAF Diversified Business Development, S.A. (2) (12)	Zaragoza	Holding company	100%	-	153,206	(27,356)	(27,356)	3,000	182,307	(19,776)	(29,115)
Ferrocarriles Suburbanos, S.A. de C.V.	Mexico City	Transport services	28.05%	15.3% (5)	60,925	-	(60,925)	16,301	(74,907)	88,773	58,606
Ennera Energy and Mobility, S.L. (2)	Guipúzcoa	Power generation	43.03%	56.97% (3)	3,101	(1,069)	(1,710)	4,532	1,516	(2,920)	(2,087)
Rail Line Components, S.L.	Guipúzcoa	Marketing	100%	-	60	-	-	60	4,675	2,327	1,749
Consorcio Traza, S.A. (6)	Zaragoza	Holding company	25%	-	16,029	-	-	575	24,662	2,128	(3,882)
CAF Group UK, Ltd. (2)	Coventry	Holding company	100%	-	37,415	(140)	(182)	37,415	(567)	(1,196)	(1,036)
Rifer S.R.L. (14)	Milán	Component maintenance	100%	-	4,713	(369)	(369)	20	4,819	(1,170)	(876)
Solaris Bus & Coach, S.A.(2) (13)	Bolechowo	Transport services	73.08%	26.02% (8)	244,679	-	-	34,578	210,219	538	(3,252)
Other investments					1,255	-	-				
					953,319	(36,096)	(137,175)				

1) After adjustments and unifying entries for consolidation purposes and considering unspoken capital gains on the purchasing date. The financial statements in foreign currencies were translated to euros using the "year-end exchange rate" method, which means that any translation gains or losses and valuation adjustments on hedges are recognised under "Translation Differences - Reserves" and "Valuation Adjustments – Reserves".
2) Head of a group of companies. The information on reserves and accumulated profits or losses, profit or loss from operations and profit or loss for 2018 is presented at sub-consolidated level. The information on the companies that form part of the CAF Group is presented in the consolidated financial statements.
3) Through CAF Diversified Business Development, S.A.U.
4) Through Sermanfer, S.A.
5) Through CAF Investment Projects, S.A.U.
6) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
7) Provision relating to the impact of derivatives related to net investments in foreign operations.
8) Through Openaco Trading Co. Limited
9) Including a balance receivable of EUR 818 thousand, relating to the impact of derivatives related to net investments in foreign operations.
10) Through CAF Turnkey & Engineering, S.L.U., CAF México S.A. de C.V. and CAF Signalling, S.L.U.
11) Formerly Construcciones Ferroviarias CAF Santana, S.A.
12) Formerly Urbanización Parque Romareda, S.A.
13) Profit or loss since the obtainment of control of these companies by the Group in 2018.
14) Considering the options described in Note 9 to these financial statements.

2017

Name	Location	Line of business	Percentage of ownership: Direct	Percentage of ownership: Indirect	Coste	Impairment recognised during the period	Accumulated impairment	Basic financial data (1): Share capital	Basic financial data (1): Reserves and accumulated profits or losses	Basic financial data (1): Profit (Loss) from operations	Basic financial data (1): Profit (Loss) for 2017
Industrial											
CAF USA, Inc.	Delaware	Manufacturing	100%	-	54,283	-	(1,062) (9)	54,283	2,340	1,579	627
CAF México, S.A. de C.V. (2)	Mexico City	Manufacturing and maint.	99.94%	0.06% (3)	6,755	-	-	6,773	1,699	1,993	2,863
CAF Brasil Industria e Comercio, S.A. (2)	Sao Paulo	Manufacturing and maint.	1.18%	98.82% (5)	2,765	(263)	(1,009)	181,758	(29,998)	(8,964)	(30,089)
CAF Argentina, S.A.	Buenos Aires	Maintenance	97.61%	2.39% (3)	4,017	(83)	(2,877)	2	952	223	(14)
CAF Rail UK, Ltda.	Belfast	Maintenance	100%	-	108	-	-	108	868	700	493
CAF Italia, S.R.L.	Rome	Maintenance	100%	-	100	-	-	100	417	713	353
CAF Chile, S.A.	Santiago de Chile	Manufacturing and maint.	99%	1% (3)	1	-	-	1	1,495	771	774
CAF Turquía, L.S.	Istanbul	Manufacturing and maint.	99.94%	0.06% (3)	2,657	(289)	(1,942)	2,659	(1,822)	166	(121)
CAF Argelia, E.U.R.L.	Algiers	Manufacturing and maint.	100%	-	2,171	(193)	(193)	2,171	(114)	(270)	(310)
Trenes CAF Venezuela, C.A.	Caracas	Manufacturing and maint.	100%	-	25	(9)	(9)	18	(18)	84	4
CAF Rail Australia Pty. Ltd.	Sydney	Manufacturing and maint.	100%	-	74	-	-	74	132	134	167
CAF India Private Limited	Delhi	Manufacturing and maint.	3.11%	96.89% (8)	110	-	-	3,917	4,818	55	57
Trenes de Navarra, S.A.U.	Navarre	Manufacturing	100%	-	16,170	240	(11,296)	4,270	364	(746)	(442)
Construcciones Ferroviarias de Madrid, S.L.U.	Madrid	Manufacturing	100%	-	2,500	-	-	2,500	786	424	319
Construcciones Ferroviarias-CAF Santana, S.A.	Jaén	Manufacturing and engin.	100%	-	5,262	306	(3,866)	1,521	(495)	155	117
Tradinsa Industrial, S.A.	Lleida	Repairs	82.34%	17.66% (4)	3,215	-	-	3,850	908	317	131
CAF New Zealand, Ltd.	Auckland	Manufacturing and maint.	100%	-	48	-	-	48	599	789	469
CAF Sisteme Feroviare, S.R.L.	Bucharest	Manufacturing and maint.	100%	-	-	-	-	-	109	19	4
CAF Colombia, S.A.S.	Medellín	Manufacturing and maint.	100%	-	456	-	-	36	387	172	112
CAF Arabia Co.	Riyadh	Manufacturing and maint.	95%	5% (3)	301	-	-	316	-	1,938	158
CAF Deutschland GmbH	Munich	Manufacturing and maint.	100%	-	25	-	-	25	91	74	45
CAF Hungria K.F.T.	Budapest	Manufacturing and maint.	100%	-	160	-	-	24	132	66	(5)
Ferrocarril Interurbano S.A. de C.V.	Mexico City	Manufacturing and equip.	17.20%	32.43% (10)	68	-	-	385	49	131	441
CAF Netherlands, B.V.	Utrecht	Manufacturing and maint.	100%	-	180	-	-	180	-	44	33
Technology											
CAF I+D, S.L. (Sole-Shareholder Company)	Guipúzcoa	R&D	100%	-	5,734	-	-	4,705	7,270	(581)	(577)
CAF Power & Automation, S.L.U. (2)	Guipúzcoa	Electronic and power equipment	100%	-	18,530	-	-	6,090	13,200	(3,871)	(982)
CAF Turnkey & Engineering, S.L.U. (2)	Vizcaya	Engineering	76.85%	23.15% (5)	7,250	-	-	5,703	2,636	5,200	4,764
Centro de Ensayos y Análisis Cetest, S.L.	Guipúzcoa	Tests	58.55%	41.45% (5)	5,650	-	-	9,650	1,471	434	257
Geminys, S.L.	Guipúzcoa	Operating manuals	100%	-	172	-	-	150	575	548	395
CAF Signalling, S.L.U. (2)	Guipúzcoa	Signalling	100%	-	29,061	(2,444)	(15,985)	11,000	4,692	(1,579)	(2,600)
BWB Holdings, Ltd. (2) (11)	Nottingham	Engineering	100%	-	18,434	-	-	229	18,212	223	52

Name	Location	Line of business	Percentage of ownership		Cost	Impairment recognised during the period	Accumulated impairment	Basic financial data (1)			
			Direct	Indirect				Share capital	Reserves and accumulated profits or losses	Profit (Loss) from operations	Profit (Loss) for 2017
Services											
Actren, S.A.	Madrid	Maintenance	51%	-	1,530	-	-	3,000	1,198	4,009	3,087
Sermanfer, S.A. (2)	Madrid	Maintenance	100%	-	301	-	-	301	1,074	471	284
CAF Investment Projects, S.A.U (2)	Guipúzcoa	Business development	100%	-	244,649	-	(3,113) (7)	179,056	75,875	109,222	16,988
Urbanización Parque Romareda, S.A.	Zaragoza	Holding company	100%	-	60	-	-	60	203	(2)	(2)
Ferrocarriles Suburbanos, S.A. de C.V.	Mexico City	Transport services	28.05%	15.3% (5)	60,925	-	(60,925)	16,301	(67,668)	10,025	(7,398)
Ennera Energy and Mobility, S.L. (2)	Guipúzcoa	Power generation	39.7%	60.3% (5)	2,601	(338)	(641)	4,282	1,411	(731)	(216)
Rail Line Components, S.L.	Guipúzcoa	Marketing	100%	-	60	-	-	60	3,653	1,430	1,022
Consorcio Traza, S.A. (6)	Zaragoza	Holding company	25%	-	18,184	-	-	575	53,328	6,439	22
CAF Group UK, Ltd. (2)	Coventry	Holding company	100%	-	11,968	(42)	(42)	11,968	(66)	(40)	(49)
Rifer S.R.L. (11)	Milán	Component maintenance	100%	-	4,713	-	-	20	4,693	500	270
Other investments					1,258	-	-				
					532,531	(3,115)	(102,960)				

1) After adjustments and unifying entries for consolidation purposes and considering unspoken capital gains on the purchasing date. The financial statements in foreign currencies were translated to euros using the "year-end exchange rate" method, which means that any translation gains or losses and valuation adjustments on hedges are recognised under "Translation Differences - Reserves" and "Valuation Adjustments – Reserves".
2) Head of a group of companies. The information on reserves and accumulated profits or losses, profit or loss from operations and profit or loss for 2017 is presented at sub-consolidated level. The information on the companies that form part of the CAF Group is presented in the consolidated financial statements.
3) Through Urbanización Parque Romareda, S.A.
4) Through Sermanfer, S.A.
5) Through CAF Investment Projects, S.A.U.
6) Consorcio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
7) Provision relating to the impact of derivatives related to net investments in foreign operations.
8) Through CAF Investment Projects, S.A.U. (96.73%) and Urbanización Parque Romadera, S.A (0.16%).
9) Including a balance payable of EUR 1,062 thousand, relating to the impact of derivatives related to net investments in foreign operations.
10) Through CAF Turnkey & Engineering, S.L.U, CAF México, S.A. de C.V. and CAF Signalling, S.L.U.
11) Profit or loss since the obtainment of control of these companies by the Group in 2017, considering the options described in Note 9 to these financial statements.

The main change in 2018 relates to the acquisition in September of 100% of Solaris Bus & Coach, S.A. which engages mainly in the manufacture of buses in the urban mobility sphere. This transaction was performed, on the one hand, through the acquisition of 100% of Openaco Trading Co. Limited for EUR 162,822 thousand (a company which held an 82.24% ownership interest in Solaris Bus & Coach, S.A. upon acquisition) and, on the other hand, through the direct acquisition of the remaining 17.76% of the company for EUR 35,157 thousand.

In December 2018 the Company increased the capital of Solaris Bus & Coach, S.A. by EUR 46,700 thousand, which was paid in full, meaning that the direct ownership interest in this company became 73.08% and the indirect ownership interest through Openaco Trading Co. Limited became 26.92%.

In 2018 a corporate restructuring transaction was carried out within the Group. This transaction consisted of the spin-off of the shares of CAF Brasil Industria e Comercio, S.A., CAF India Private Limited, CAF Taiwan, Ltd., Lander Simulation and Training Solutions, S.A., Ennera Energy and Mobility, S.L. and CAF France, SAS, held by CAF Investment Projects, S.A.U., to CAF Diversified Business Development, S.A. Since the transactions are spin-offs among Group companies, the carrying amounts have been used in the consolidated financial statements. These carrying amounts do not differ from those that would have been obtained applying the Rules for the Preparation of Consolidated Financial Statements at 1 January 2018, specifically Recognition and Measurement Standard 21 "Transactions between Group Companies". This corporate transaction resulted in a reduction of EUR 115,428 thousand in the cost of the ownership interest held by the Company in CAF Investment Projects S.A.U. and an increase of EUR 142,958 thousand in the cost of the ownership interest of the CAF Diversified Business Development S.A. The net effect of this transaction was recognized with a credit of EUR 27,530 thousand to "Reserves" in the accompanying balance sheet (see Note 13).

Also various capital increases were performed through the conversion of debt into capital at CAF Investment Projects, S.A.U. and CAF Turquía, L.S for amounts of EUR 99,000 thousand and EUR 708 thousand, respectively. Additionally, capital increases were performed at CAF Group UK, Ltd., CAF Diversified Business Decelopment, S.A., Trenes de Navarra, S.A., CAF Signalling, S.L., Ennera Energy and Mobility, S.L. and CAF Netherlands, B.V. for amounts of EUR 25,447 thousand, EUR 10,188 thousand, EUR 6,000 thousand, EUR 6,000 thousand, EUR 500 thousand and EUR 270 thousand, respectively.

In 2018 the Company acquired from the Group company CAF Investment Projects, S.A.U. a 23.15% ownership interest in CAF Tyrnkey & Engineering, S.L.U. for EUR 2,450 thousand.

In 2018 CAF Belgium SPRL and Metro CAF (Mauritius) Ltd. were incorporated with share capital of EUR 171 thousand and EUR 1 thousand, respectively.

The investee Consorcio Traza, S.A. distributed dividends amounting to EUR 7,524 thousand, of which EUR 2,156 thousand were recognized with credit to the ownership interest, since they correspond to profits earned prior to the acquisition, and EUR 5,368 thousand were recognized with a credit to "Finance Income" in the accompanying statement of profit or loss (Note 10).

In 2017 a fully paid capital increase of EUR 5,000 thousand was performed at CAF Signalling, S.L.U. (including a share premium of EUR 4,200 thousand).

Also, capital increases of EUR 180 thousand and EUR 11,968 thousand were performed at CAF Netherlands, B.V. and CAF Group UK, Ltd., respectively, which were both incorporated in 2017. In the last quarter of 2017, 16.27% of the shares of Construcciones Ferroviarias - CAF Santana, S.A. were acquired for EUR 167 thousand.

In addition, CAF Brasil Industria e Comercio, S.A.'s ownership interest was diluted following the capital increase which was fully subscribed by the controlling shareholder, which belongs to the CAF Group.

Lastly, in 2017 the Company acquired majority ownership interests which grant control over the following companies:

- BWB Holdings, Ltd., the head of a group of companies based in the UK which engages in engineering activities. In 2017 the Company acquired 60% of the shares representing the share capital of BWB Holdings, Ltd. for an amount of EUR 9,301 thousand. Also, there were cross call and put options for the other 40% of the share capital, to be exercised in 2018 and 2020, the amount of which is linked to certain financial parameters on the date the option is taken (net financial debt and EBITDA). The first option (for 13.4% of the capital) was exercised in 2018 for an amount of EUR 2,308 thousand. Based on their maturity, EUR 6,788 thousand were recognised with a credit to "Non-Current Payables - Other Financial Liabilities" in the balance sheet as at 31 December 2018 (see Note 14).

- Rifer, S.R.L., a company located in Italy which engages in providing rolling stock material maintenance services. The Company acquired 51% of the shares representing the share capital for EUR 650 thousand. Also, there are cross call and put options for the other 49% of the share capital, to be exercised in 2019 and 2020, the amount of which is linked to certain financial parameters on the date the option is taken (net financial debt and EBITDA). In 2018 the amount payable for these options was adjusted, and an amount of EUR 1,252 thousand was recognised with a credit to "Finance Income" in the statement of profit or loss. Based on their maturity, EUR 1,198 thousand were recognised under "Current Payables – Other Financial Liabilities" and EUR 1,677 thousand were recognised under "Non-Current Payables – Other Financial Liabilities" in the balance sheet.

10. Balances and transactions with related parties

The detail of the transactions with related parties (in addition to those specified in Notes 8 and 22) in 2018 and 2017 is as follows:

2018

Company	Thousands of euros (*)				
	Finance income	Services provided or sales recognised	Services received or purchases recognised	Dividends received	Finance costs
Industrial					
CAF USA, Inc.	1,110	4,295	29,887	-	-
CAF México, S.A. de C.V.	2,023	100,054	(55)	-	-
CAF Brasil Industria e Comercio, S.A.	-	3,053	124	-	-
CAF Rail UK, Ltda.	74	2,747	4,420	-	-
CAF Italia, S.R.L.	39	179	7,032	-	-
CAF Chile, S.A.	-	8,590	17	-	-
CAF Turquía, L.S.	10	1,806	1,589	-	-
CAF Argelia, E.U.R.L.	-	198	-	-	-
CAF India, Private Limited	-	-	747	-	-
Trenes de Navarra, S.A.	108	8	7,311	-	-
Construcciones Ferroviarias de Madrid, S.L.	-	-	9,044	-	1
CAF Digital & Design Solutions, S.A.	17	-	4,420	-	-
Tradinsa Industrial, S.A.	117	-	4,841	-	-
CAF Rail Australia, Pty. Ltd.	13	161	1,101	-	-
Trenes CAF Venezuela, C.A.	-	-	62	-	-
CAF Arabia, Co.	359	3,753	657	-	-
CAF New Zealand, Ltd.	-	2,975	351	-	-
CAF Colombia, S.A.S.	-	-	188	-	-
CAF Sisteme Feroviare, S.R.L.	2	-	666	-	-
CAF Deutschland, GmbH	1	-	1,481	-	-
CAF Taiwan, Ltd.	224	(1,801)	-	-	-
CAF Hungary, K.F.T.	15	126	1,262	-	-
CAF France, S.A.S.	67	830	5,865	-	-
CAF Argentina, S.A.	-	(360)	8	-	-
CAF Netherlands, B.V.	-	-	3,652	-	-
CAF Rolling Stock UK, Ltd.			8,173	-	-
Technology					
CAF I+D, S.L.	-	376	5,757	-	16
CAF Power & Automation, S.L.U.	27	1,794	51,969	-	
Nuevas Estrategias de Mantenimiento, S.L. (NEM, S.L.)	-	-	1,680	-	-
CAF Turnkey & Engineering, S.L.U.	-	71	13,341	-	-
Centro de Ensayos y Análisis Cetest, S.L.	-	384	7,143	-	-
Lander Simulation and Training Solutions, S.A.	2	-	4,052	-	-
Geminys, S.L.	-	-	3,191	-	-
CAF Signalling, S.L.U.	145	-	17,454	-	-
Vectia Mobility, S.L.	349	-	-	-	-
BWB Holdings, Ltd.	197	-	-	-	-
Solaris Bus & Coach, S.A.	133	-	11	-	-
Services					
Actren, S.A.	-	16,438	1,541	1,574	-
Sermanfer, S.A.	-	-	5,311	-	1
CAF Investment Projects, S.A.U.	15,464	-	3	-	-
Ennera Energy and Mobility, S.L.	53	-	(3)	-	-
Rail Line Components, S.L.	6	144	5,837	-	-
Plan Metro, S.A.	-	13,611	3	-	-
Ctrens Companhia de Manutençao, S.A.	-	1,858	-	210	-
CAF Group UK, Ltd.	11	-	-	-	-
Diversified Business Development, S.A.	79	-	-	-	-
Rifer, S.R.L.	-	-	153	-	-
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	-	-	-	-
S.E.M. Los Tranvías de Zaragoza, S.A.	-	7	(128)	-	-
Sefemex, S.A. de C.V.	-	-	34	-	-
Consorcio Traza, S.A. (**)	-	-	-	5,368	-
Construction					
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	-	-	-	84
Total	**20,645**	**161,297**	**210,192**	**7,152**	**102**

(*) These transactions are carried out on an arm's length basis.

(**) The dividends received amounted to EUR 7,524 thousand, and EUR 2,156 thousand were recognised with a credit to "Non-Current Investments in Group Companies and Associates" (see Note 9).

2017

Company	Thousands of euros (*)				
	Finance income	Services provided or sales recognised	Services received or purchases recognised	Dividends received	Finance costs
Industrial					
CAF USA, Inc.	1,057	4,256	39,083	-	-
CAF México, S.A. de C.V.	69	137,277	114	-	53
CAF Brasil Industria e Comercio, S.A.	-	8,744	11	-	-
CAF Rail UK, Ltda.	16	2,081	2,896	-	1
CAF Italia, S.R.L.	46	102	7,270	-	-
CAF Chile, S.A.	-	988	-	-	-
CAF Turquía, L.S.	88	1,707	2,521	-	-
CAF Argelia, E.U.R.L.	-	502	-	-	-
CAF India, Private Limited	-	-	595	-	-
Trenes de Navarra, S.A.	80	-	1,986	-	-
Construcciones Ferroviarias de Madrid, S.L.	-	-	7,007	-	-
Construcciones Ferroviarias - CAF Santana, S.A.	-	447	4,138	-	1
Tradinsa Industrial, S.A.	131	2	3,859	-	-
CAF Rail Australia, Pty. Ltd.	10	301	867	-	-
Trenes CAF Venezuela, C.A.	-	-	182	-	-
CAF Arabia, Co.	428	4,316	7,157	-	-
CAF New Zealand, Ltd.	-	3,491	539	-	-
CAF Colombia, S.A.S.	-	-	(3)	-	-
CAF Sisteme Feroviare, S.R.L.	2	-	592	-	-
CAF Deutschland, GmbH	6	-	1,650	-	-
CAF Taiwan, Ltd.	308	(5,964)	-	-	-
CAF Hungary, K.F.T	33	61	1,713	-	-
CAF France, S.A.S.	65	8,156	5,631	-	-
CAF Argentina, S.A.	-	-	14	-	-
CAF Netherlands, B.V.	-	-	404	-	-
Technology					
CAF I+D, S.L.	-	174	4,534	-	4
CAF Power & Automation, S.L.U.	-	970	37,883	-	2
Nuevas Estrategias de Mantenimiento, S.L. (NEM, S.L.)	-	-	960	-	-
CAF Turnkey & Engineering, S.L.U.	-	-	10,370	-	-
Centro de Ensayos y Análisis Cetest, S.L.	-	343	4,723	-	1
Lander Simulation and Training Solutions, S.A.	2	-	-	-	-
Geminys, S.L.	-	-	3,798	-	-
CAF Signalling, S.L.U.	57	70	12,826	-	-
Vectia Mobility, S.L.	69	-	-	-	-
BWB Holdings, Ltd.	94	-	-	-	-
Services					
Actren, S.A.	-	12,327	1,650	3,128	-
Sermanfer, S.A.	-	-	5,159	-	-
CAF Investment Projects, S.A.U.	27,054	-	-	-	-
Ennera Energy and Mobility, S.L.	13	-	(10)	-	-
Rail Line Components, S.L.	-	146	4,168	-	-
Plan Metro, S.A.	-	13,043	-	-	-
Ctrens Companhia de Manutençao, S.A.	-	67	-	201	-
CAF Group UK, Ltd.	20	-	-	-	-
Construction					
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	847	-	-	26
Total	**29,648**	**194,454**	**174,287**	**3,329**	**88**

(*) These transactions are carried out on an arm's length basis.

As a result of these transactions, of those performed in previous years, the stage of completion of the projects contracted, the loans granted, the taxation under the consolidated tax regime (see Note 16) and the advances granted, the Company's balances with Group companies, associates and related parties at 31 December 2018 and 2017, were as follows:

2018

	Thousands of euros						
	Non-current loans (Note 9)	Current investments in Group companies and associates (Note 16)	Trade receivables from Group companies and associates (Note 12)	Stage of completion net billings-(*) (Note 12)	Advances to suppliers (Note 11)	Payable to suppliers - Group companies and associates	Current payables to Group companies and associates (Note 16)
Industrial							
CAF USA, Inc.	-	28,303	(1,901)	(1,449)	-	9,689	253
CAF México , S.A. de C.V.	-	47,572	16,297	74,600	-	3,899	207
CAF Brasil Ind. C., S.A.	-	-	1,204	(488)	-	3	-
CAF Argentina, S.A.	-	-	661	(359)	-	122	-
CAF Rail UK, Ltda.	-	2,066	2,029	264	-	753	33
CAF Italia, S.R.L.	-	1,713	92	27	-	1,901	543
CAF Chile, S.A.	-	-	3,508	(1,312)	-	17	1,500
CAF Turquía, L.S.	-	-	1,327	-	-	222	-
CAF Argelia, E.U.R.L.	-	-	744	12	-	1,306	-
Trenes CAF Venezuela, C.A.	-	-		-	-	(40)	-
CAF India, Private Limited	-	-		-	-	199	-
Trenes de Navarra, S.A.	-	3,211		-	-	1,268	-
Construcciones Ferroviarias de Madrid, S.L.	-			-	-	1,075	343
CAF Digital & Design Solutions, S.A.	-	956	2	25,757	-	1,829	-
Tradinsa Industrial, S.A.	-	4,967	1	-	1,428	1,629	-
CAF Rail Australia Pty. Ltd.	-	657	161	-	-	227	37
CAF New Zealand, Ltd.	-	6	469	(1,828)	-	232	-
CAF Arabia, Co.	-	4,449	1,603	-	-	562	-
CAF Sisteme Feroviare, S.R.L.	-	68		-	-	122	-
CAF Deutschland, GmbH	-	175		-	-	280	-
CAF Colombia, S.A.S.	-	-		-	-	-	-
CAF Taiwan, Ltd.	-	1,542	2,380	678	-	3,471	-
CAF France, S.A.S.	-	5,508	1,102	2,498	-	3,297	-
CAF Hungary, K.F.T	-	202	3	-	-	274	-
CAF Netherlands, B.V.	-	-		-	-	694	160
Solaris Bus & Coach, S.A.		24	5	-	-	11	-
CAF Belgium, S.P.R.L.					-	99	-
Metro CAF Mauritius, Ltd.					-		550
Technology							
CAF I+D, S.L.	-	248	67	-	-	1,484	281
CAF Power & Automation, S.L.U.	-	3,647	1,284	-	10,875	17,587	119
Nuevas Estrategias de Mantenimiento, S.L.	-	21		-	(115)	191	-
CAF Turnkey & Engineering, S.L.U.	-	1,030	90	-	16	2,818	-
Centro de Ensayos y Análisis Cetest, S.L.	-	309	148	-	16	2,193	-
Lander Simulation and Training Solutions, S.A.	-	103	1	-	2,245	754	-
Geminys, S.L.	-	450	1	-	-	777	2,944
CAF Signalling, S.L.U.	-	4,873	4	-	984	6,777	827
BWB Holdings, Ltd.	-	4,800		-	-	-	39
Vectia Mobility, S.L.	-	12,651		-	-	-	-
CAF Rolling Stock UK, Ltd.					-	3,043	-
Services							
Actren, S.A.	-	-	1,096	5,868	-	504	-
Sermanfer, S.A.	-	-		-	-	526	79
CAF Investments Projects, S.A.U.	121,598	3,181		-	-	4	7,164
Ennera Energy and Mobility, S.L.	-	2,559		-	-	-	880
Rail Line Components, S.L.	-	614	1,330	2,094	-	2,712	138
Plan Metro, S.A.	-	-	1,294	1,043	-	-	-
Ctrens Companhia de Manutençao, S.A.	-	118	370	-	-	-	-
Provetren, S.A. de C.V.	-	-		-	-	-	-
CAF Group UK, Ltd.	-	1,152		-	-	-	24
Diversified Business Development, S.A.	-	79		-	-	-	11,457
Rifer, S.R.L.					-	227	-
Construction	-						
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	-		-	-	80	2,669
Sefemex, S.A. de C.V.					-	34	
Total	**121,598**	**137,254**	**35,372**	**107,405**	**15,449**	**72,852**	**30,247**

(*) The stage of completion net billings at 31 December 2018 included EUR 124,583 thousand in deferred billings (asset) (see Note 12) and EUR 17,178 thousand in prebillings (liability).

2017

	Thousands of euros						
	Non-current loans (Note 9)	Current investments in Group companies and associates (Note 16)	Trade receivables from Group companies and associates (Note 12)	Stage of completion net billings (*) (Note 12)	Advances to suppliers (Note 11)	Payable to suppliers - Group companies and associates	Current payables to Group companies and associates (Note 16)
Industrial							
CAF USA, Inc.	-	20,741	2,264	39	-	9,825	1,555
CAF México , S.A. de C.V.	-	9,819	19,222	41,814	-	9,505	472
CAF Brasil Ind. C., S.A.	-	-	559	(955)	-	-	-
CAF Argentina, S.A.	-	-	662	-	-	55	-
CAF Rail UK, Ltda.	-	1,574	2,005	-	-	1,124	-
CAF Italia, S.R.L.	-	708	40	-	-	1,055	178
CAF Chile, S.A.	-	-	696	-	-	-	-
CAF Turquía, L.S.	-	730	383	-	-	482	-
CAF Argelia, E.U.R.L.	-	-	926	-	-	1,551	-
Trenes CAF Venezuela, C.A.	-	-	-	-	-	7	-
CAF India, Private Limited	-	-	-	-	-	94	-
Trenes de Navarra, S.A.	-	2,653	-	-	-	645	-
Construcciones Ferroviarias de Madrid, S,L.	-	-	-	-	-	1,342	17
Construcciones Ferroviarias-CAF Santana, S.A.	-	-	2	30,092	-	735	50
Tradinsa Industrial, S.A.	-	3,639	4	-	270	1,654	-
CAF Rail Australia Pty. Ltd.	-	465	-	-	-	295	7
CAF New Zealand, Ltd.	-	9	3,201	-	-	7	558
CAF Arabia, Co.	-	12,799	859	-	-	1,572	-
CAF Sisteme Feroviare, S.R.L.	-	41	-	-	-	82	-
CAF Deutschland, GmbH	-	225	-	-	-	270	-
CAF Colombia, S.A.S.	-	-	54	-	-	5	-
CAF Taiwan, Ltd.	-	12,783	2,340	2,479	-	5	-
CAF France, S.A.S.	-	4,781	2,392	3,405	-	5,392	-
CAF Hungary, K.F.T	-	555	36	-	-	496	-
CAF Netherlands, B.V.	-	-	-	-		398	-
Technology							
CAF I+D, S.L.	-	442	294	-	-	1,205	1,156
CAF Power & Automation, S.L.U.	-	882	32	-	10,905	12,574	-
Nuevas Estrategias de Mantenimiento, S.L.	-	99	-	-	-	121	-
CAF Turnkey & Engineering, S.L.U.	-	467	1	-	8	2,108	-
Centro de Ensayos y Análisis Cetest, S.L.	-	1,523	118	-	(8)	1,890	90
Lander Simulation and Training Solutions, S.A.	-	220	1	-	395	266	-
Geminys, S.L.	-	421	-	-	-	1,837	-
CAF Signalling, S.L.U.	-	5,440	107	-	2,363	6,240	76
BWB Holdings, Ltd.	-	4,846	-	-	-	-	-
Vectia Mobility, S.L.	-	3,349	-	-	-	-	-
Services							
Actren, S.A.	-	-	2,754	1,194	-	1,409	-
Sermanfer, S.A.	-	-	-	-	-	446	74
CAF Investments Projects, S.A.U.	331,627	6,908	-	-	-	-	10,645
Ennera Energy and Mobility, S.L.	-	247	2	-	-	-	448
Rail Line Components, S.L.	-	532	6	-	-	1,946	-
Plan Metro, S.A.	-	-	1,273	166	-	-	-
Ctrens Companhia de Manutençao, S.A.	-	151	4	-	-	-	-
Provetren, S.A. de C.V.	-	-	-	-	-	-	-
CAF Group UK, Ltd.	-	23	-	-		-	-
Urbanización Parque Romareda, S.A.	-	-	-	-	-	-	180
Construction					-		
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	-	847	-	-	22	2,542
Total	**331,627**	**97,072**	**41,084**	**78,234**	**13,933**	**66,660**	**18,048**

(*) The stage of completion net billings at 31 December 2017 included EUR 115,887 thousand in deferred billings (asset) (see Note 12) and EUR 37,653 thousand in prebillings (liability).

The balance of non-current loans of CAF Investment Projects, S.A.U. relates mainly to a loan with a maximum limit of EUR 500,000 thousand. At 31 December 2018, EUR 121,598 thousand of the loan principal (excluding accrued interest receivable) had been drawn down in order to finance or enhance the equity of Group companies or to acquire new companies (EUR 331,627 thousand drawn down at 31 December 2017). This loan bears interest at market rates.

The other loans granted to and received from Group companies are governed by agreements that bear interest at market rates.

At 31 December 2018, the Company had recognised EUR 2,529 thousand and EUR 20,495 thousand under "Current Investments in Group Companies and Associates" and "Current Payables to Group Companies and Associates", respectively, with various companies belonging to the tax group for the estimated income tax and for the VAT returns (EUR 4,364 thousand receivable and EUR 11,325 thousand payable at 31 December 2017).

The accounts receivable and payable (basically trade receivables and payables) do not bear interest.

Joint Ventures

The detail of the Company's interests in joint ventures, based on the form adopted thereby, at 31 December 2017 and 2018 is as follows:

2018

Name	Ownership interest	Jointly controlled assets (Thousands of euros)	Jointly controlled liabilities (Thousands of euros)
UTE CSM	61.79%	171	165
UTE Valencia	39.35%	79	73

2017

Name	Ownership interest	Jointly controlled assets (Thousands of euros)	Jointly controlled liabilities (Thousands of euros)
UTE CSM	61.79%	5,962	5,956
UTE Valencia	39.35%	3,829	3,823

11. Inventories and construction contracts

The detail of "Inventories" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 19-b)	41,571	12,442
Advances to suppliers (Note 10)	21,817	25,553
Total	**63,388**	**37,995**

At 31 December 2018 and 2017, the Company had firm raw material purchase commitments amounting to approximately EUR 467,768 thousand and approximately EUR 540,940 thousand, respectively (see Note 15).

The Company takes out insurance policies to adequately insure its inventories. At 31 December 2018 and 2017, the insurance policies taken out covered the carrying amount of the inventories at those dates.

Construction contracts

The detail of the cumulative amount of costs incurred and of profits recognised (less the related losses recognised) and the amount of advances received at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Deferred billings (asset) (Notes 3-g & 12)	777,151	433,962
Prebillings (liability) (Note 3-g)	(699,890)	(451,451)
Net balance	**77,261**	**(17,489)**
Costs incurred plus profits and losses recognised based on stage of completion	2,322,113	1,423,404
Billings made excluding advances	1,544,962	(989,442)
Advances received	(699,890)	(451,451)
Net balance	**77,261**	**(17,489)**

12. Trade and other receivables

At 31 December 2018 and 2017, the detail of "Trade and Other Receivables" was as follows:

	Thousands of euros	
	31/12/18	31/12/17
Trade receivables for sales and services (Note 11)	944,986	706,470
Trade receivables from Group companies and associates (Notes 10 & 11)	159,955	156,971
Sundry accounts receivable (Note 14)	5,431	10,294
Employee receivables	1,317	2,604
Tax receivables (Note 16-a)	36,997	12,839
Total	**1,148,686**	**889,178**

Classes / **Categories**	Thousands of euros			
	Trade receivables from Group companies and associates		Trade receivables for sales and services	
	31/12/18	31/12/17	31/12/18	31/12/17
Trade receivables - in euros	86,702	20,593	709,636	416,509
Trade receivables - in foreign currency	73,253	136,378	235,350	289,961
Total	**159,955**	**156,971**	**944,986**	**706,470**

These accounts receivable include the deferred billing indicated in Note 11 amounting to EUR 777,151 thousand (2017: EUR 433,962 thousand). Deferred billings under "Trade Receivables from Group Companies and Associates" amounts to EUR 124,583 thousand (2017: EUR 115,887 thousand).

At 31 December 2018 and 2017, the balances billed included EUR 58,601 thousand in relation to the agreement with Metro de Caracas, the balance of which is past due and relates to work performed and billed to the customer and the collection of which is considered to be covered by the insurance policy in force and through offset against liabilities to the customer, basically the provision described in Note 17.

The unincorporated temporary joint venture (Spanish UTE) CSM, as policyholder, has arranged a supplier credit policy with credit risk coverage for the Metro de Caracas Line 1 refurbishment project. The insureds under this policy are the venturers in the aforementioned unincorporated temporary joint venture, including CAF. At 31 December 2018, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these financial statements all the objective conditions necessary for filing a claim under the aforementioned insurance policy had been met, but no claims had been made at that date. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

In relation to the contract with Metro de Caracas, the Company's accounting policy was to recognise only revenue the collection of which was considered probable, considering as such revenue already collected, revenue insured under credit policies and revenue that can be offset against other liabilities to the customer.

At 31 December 2018 and 2017, the Company had balances billed to Metro de Caracas amounting to EUR 37 million (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty as to their collectability.

At 31 December 2018, 68.27% of the billed receivables related to the top five customers (31 December 2017: 74.82%). "Trade Receivables for Sale and Services" includes retentions at 31 December 2018 amounting to EUR 524 thousand (31 December 2017: EUR 524 thousand).

The amount of the net past-due balances receivable from third parties at 31 December 2018 and 2017, additional to the past-due balances receivable from Metro de Caracas and taking into account the amounts received at the date of authorisation for issue of these financial statements, is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Past due > 90 days	4,758	39,174
Past due > 180 days	105,721	89,271
Total	**110,479**	**128,445**

73,56% of this balance is concentrated in two countries and six agreements in relation to which the Company is implementing active collection management measures, although no significant losses that had not been provisioned are expected.

On the basis of a case-by-case analysis of past-due balances, the Company considered that at 31 December 2018 there were balances that posed a collection risk totalling EUR 1,133 thousand (31 December 2017: EUR 1,437 thousand). These amounts had been provisioned and are presented as a reduction of the balance of "Trade Receivables for Sale and Services" in the accompanying balance sheet subsequent to the recognition of an endowment of EUR 374 thousand under "Other Operating Expenses" in the accompanying statement of profit or loss (2017: a reversal of EUR 102 thousand, see Note 19-e).

13. Equity and shareholders' equity

a) Share capital

At 31 December 2018 and 2017, the Company's share capital was represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities that had notified the Spanish National Securities Market Commission (CNMV) that they held voting rights representing over 3% of the Company's share capital at 31 December 2018 and 2017 were as follows:

	% 2018	% 2017
Cartera Social, S.A. (i)	25.16%	25.46%
Kutxabank, S.A. (ii)	14.06%	14.06%
Indumenta Pueri S.L.(iii)	5.02%	5.02%
Templeton Investment Counsel, LLC. (iv)	3.01%	3.01%
EDM Gestión, S.A. S.G.I.I.C. (v)	3.02%	3.02%

i. The shareholders of this company are employees of the Parent.

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

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

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

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

On 2 June 2018, at the Annual General Meeting, the Board of Directors was empowered to increase the share capital on one or more occasions, through the issuance of new shares against monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these financial statements, no capital increase had been performed since that resolution. This resolution renders null and void the powers granted by the General Meeting on 8 June 2013.

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

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

b) Share premium

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

c) Revaluation reserve

The amount of these revaluations (see Notes 3-b and 7) at 31 December 2018 and 2017 is allocated to the following accounts:

	Thousands of euros	
	31/12/18	31/12/17
Revaluation reserve Guipúzcoa Decree 1/2013 (*)	25,170	25,170
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
Total	**33,871**	**33,871**

(*) Net of the 5% tax paid in July 2013.

Revaluation reserve Guipúzcoa Decree 1/2013

The Company availed itself of the provisions of Guipúzcoa Decree 1/2013, of 5 February, on asset revaluation, and recognised a reserve amounting to EUR 25,170 thousand corresponding to the revalued amount of the assets (see Note 7), net of the related tax effect of 5% (see Note 16-e). The balance of the revaluation reserve under Guipúzcoa Decree 1/2013, of 5 February, is restricted until it is verified and accepted by the tax authorities, which should be performed within the three-year period following presentation of the tax return.

Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset losses, increase capital, or, after ten years have elapsed from the date of the balance sheet in which the revaluations were recognised, be allocated to unrestricted reserves. However, it may only be distributed when the revalued assets have been fully depreciated, transferred or derecognised.

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) Productive investment reserve

At 31 December 2018 and 2017, this reserve amounted to EUR 10,000 thousand and corresponded to the amount appropriated to it in the distribution of profit for the year ended 31 December 2013 pursuant to Article 39 of Guipúzcoa Regulation 7/96, of 4 July. Pursuant to the aforementioned regulation, the amount appropriated to this reserve must be invested in a period of two years from the end of the year the profit for which was appropriated to the reserve, and must be maintained over at least the following five years, or for its useful life if this were less, unless accounting losses are incurred (see Note 7). At 31 December 2018 and 2017, the Company had met the investment requirements established in the regulation (Note 16).

e) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2018 and 2017, the balance of this reserve had reached the legally required minimum.

f) *Restricted reserves*

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. Consequently, at the end of 2018 EUR 30,217 thousand (end of 2017: EUR 18,010 thousand) of the balance of "Other Reserves" were restricted (Note 6).

g) *Dividends*

The Annual General Meeting held on 2 June 2018 resolved to pay dividends amounting to EUR 22,625 thousand, of which EUR 10,333 thousand related to profit for 2017, and EUR 12,292 thousand were distributed with a charge to voluntary reserves.

The Annual General Meeting held on 10 June 2017 resolved to pay dividends amounting to EUR 19,883 thousand, of which EUR 1,546 thousand related to profit for 2016, and EUR 18,337 thousand were distributed with a charge to voluntary reserves.

h) *Grants*

The information on the grants received by the Company, which form part of equity, and on the amounts taken to income in this connection is as follows:

	Thousands of euros (*)
Balance at 31/12/16	**240**
Amount taken to profit or loss	(166)
Balance at 31/12/17	**74**
Amount taken to profit or loss	(74)
Balance at 31/12/18	**-**

(*) These amounts are net of the related tax effect (see Note 16-c).

At the end of 2018 and 2017 the Company had fulfilled all the conditions attaching to the grants detailed above and, therefore, it does not expect differences to arise in possible future reviews.

In 2018 and 2017 the Company did not receive any grants for investments in non-current assets.

In 2018 the Company transferred EUR 103 thousand to profit or loss in relation to grants received in prior years with a credit to "Allocation to Profit or Loss of Grants Related to Non-Financial Non-Current Assets and Other Grants" in the statement of profit or loss (2017: EUR 230 thousand).

14. Non-current and current liabilities

The detail of "Non-Current Payables" at the end of 2018 and 2017 is as follows (in thousands of euros):

Classes / Categories	Non-current financial instruments					
	Non-current bank borrowings		Other non-current financial liabilities		Total	
	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17
Accounts payable	463,618	356,779	33,716	37,600	497,334	394,379
Financial derivatives (Note 15)	-	-	9,276	16,666	9,276	16,666
Total	**463,618**	**356,779**	**42,992**	**54,266**	**506,610**	**411,045**

The detail of "Current Payables" at the end of 2018 and 2017 is as follows (in thousands of euros):

Classes / Categories	Current financial instruments					
	Short-term bank borrowings and debt instruments or other marketable securities		Other current financial liabilities (Note 7)		Total	
Categories	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17
Accounts payable	152,446	10,298	15,327	25,670	167,773	35,968
Financial derivatives (Note 15)	-	-	41,061	45,552	41,061	45,552
Total	**152,446**	**10,298**	**56,388**	**71,222**	**208,834**	**81,520**

Bank borrowings and debt instruments or other marketable securities

In 2018 the Company arranged five new loans with banks for a total of EUR 175 million. These loans had been drawn down in full at 31 December 2018.

In addition, in 2018 the Company repaid EUR 6.5 million on maturity.

At 31 December 2018, total bank borrowings included EUR 410.2 million tied to a fixed interest rate (EUR 31.7 million through an interest rate swap, see Note 15).

In 2017 the Company arranged three new loans for a total of EUR 65 million which have been drawn down in full, and renegotiated certain loans amounting to EUR 75 million, increasing the amount drawn down by EUR 5 million. In 2017 the Company repaid EUR 12 million and repaid early a loan for EUR 14 million. These loans were arranged on an arm's length basis. Of the amount drawn down, EUR 263 million were tied to a fixed interest rate (EUR 13.3 million through an interest-rate swap, see Note 15).

In relation to transactions performed prior to 31 December 2018, the Company had arranged loans and credit facilities with various banks up to a limit of approximately EUR 720,784 thousand (31 December 2017: EUR 515,775 thousand for loans, credit facilities and factoring arrangements), against which EUR 541,009 thousand had been drawn down at that date (31 December 2017: EUR 366,000 thousand).

On 21 December 2017, the Company arranged a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million ("the Programme"), which was registered at the Irish Stock Exchange. In 2018 issues amounting to EUR 230 million were launched under this programme, and were redeemed on maturity. This programme was extended for a period of 12 months, with the same aggregate maximum principal amount. Under the terms and conditions of the Information Memorandum relating to the Programme and for a period of 12 months, CAF may issue ordinary fixed-income securities with a maturity of less than 364 days, which may be listed on the Irish Stock Exchange, or on any other stock exchange or trading system. At 31 December 2018, EUR 75 million of the issues launched and maturing in the opening months of 2019 had not yet fallen due.

In 2018 the borrowing costs were incurred amounting to EUR 8,551 thousand (2017: EUR 8,304 thousand).

Other financial liabilities - Accounts payable

The changes in the items composing "Other Non-Current Financial Liabilities - Accounts Payable" are as follows (in thousands of euros):

2018

	31/12/17	Increase/Decrease	Transfers to short term	31/12/18
Refundable advances	20,420	4,661	(4,155)	20,926
Employee benefit obligations (Notes 3-l and 19-d)	5,892	576	(3,060)	3,408
Share purchase liabilities (Note 9)	10,371	(443)	(1,463)	8,465
Other	917	-	-	917
Total	**37,600**	**4,794**	**(8,678)**	**33,716**

2017

	31/12/16	Increase/Decrease	Transfers to short term	31/12/17
Refundable advances	27,005	337	(6,922)	20,420
Employee benefit obligations (Notes 3-l and 19-d)	3,165	6,359	(3,632)	5,892
Share purchase liabilities (Note 9)	-	10,371	-	10,371
Other	759	158	-	917
Total	**30,929**	**17,225**	**(10,554)**	**37,600**

Refundable advances

Through programmes that promote research, Government has awarded certain grants to CAF for the performance of research and development projects, which are recognised on the date they are 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 a grace period of 3 years and are repaid in a period of over 10 years.

In certain projects, the project coordinator is responsible for the performance of the project in dealings with Government, and collects all of the grants therefrom. At 31 December 2018, the Company recognised balances receivable totalling EUR 1,636 thousand under "Trade and Other Receivables - Other Receivables" (31 December 2017: EUR 1,920 thousand). Also, the Company had recognised EUR 1,227 thousand under "Trade and Other Payables - Other Payables", in relation to the amount payable to third parties arising from joint projects (31 December 2017: EUR 1,282 thousand).

Employee benefit obligations

The Company has recognised the future obligations to the employees who have entered into pre-retirement plans (see Note 3-l). Short-term obligations of EUR 2,799 thousand were recognised under "Other Current Liabilities" in the accompanying balance sheet as at 31 December 2018 (31 December 2017: EUR 3,113 thousand).

Also, the detail of the present value of the obligations assumed by the Company relating to post-employment benefits and long-term employee benefits, net of the fair value of the plan assets allocated for the coverage thereof, at the end of 2018 and 2017, is as follows (see Note 3-k):

	Thousands of euros	
	31/12/18	31/12/17
Present value of the obligations assumed	44,738	45,315
Less – Fair value of plan assets	(45,006)	(42,750)
Other current (assets) liabilities	**(268)**	**2,565**

The present value of the obligations assumed by the Company was determined by qualified independent actuaries using the following actuarial techniques:

- Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

- Actuarial assumptions used: unbiased and mutually compatible. In general, the most significant actuarial assumptions used in the calculations were as follows:

Actuarial Assumptions	2018	2017
Discount rate	1.75% - 2.47%	1.68% - 2.47%
Mortality tables	PERM/F/2000P	PERM/F/2000P
Annual salary or pension increase rate	1-2%	1-2%
Retirement age	65-67	65-67

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

Maturity of non-current payables

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

2018

	2020	2021	2022	2023	2024 and subsequent years	Total
Bank borrowings	28,691	135,775	92,571	38,843	167,738	463,618
Other financial liabilities - Accounts payable	16,007	4,909	3,957	2,816	6,027	33,716
Other financial liabilities - Financial derivatives	5,301	502	2,581	892	-	9,276
Total	**49,999**	**141,186**	**99,109**	**42,551**	**173,765**	**506,610**

2017

	2019	2020	2021	2022	2023 and subsequent years	Total
Bank borrowings	67,029	29,088	135,933	92,729	32,000	356,779
Other financial liabilities - Accounts payable	6,317	14,864	4,977	3,822	7,620	37,600
Other financial liabilities - Financial derivatives	12,752	3,914	-	-	-	16,666
Total	**86,098**	**47,866**	**140,910**	**96,551**	**39,620**	**411,045**

15. Derivative financial instruments

CAF uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates and interest rates. CAF 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, the Company has arranged interest rate hedging derivatives to hedge a portion of borrowings.

The breakdown of the net balances of derivatives, basically fair value and cash flow hedges, recognised in the balance sheets as at 31 December 2018 and 2017 is as follows:

2018

Currency put options at 31/12/18	Maturity (in currency)		
	2019	2020	2021 and subsequent years
Fair value hedges-			
USD currency forwards (*)	242,350,961	-	-
GBP currency forwards	244,987,889	183,117,700	249,852,362
BRL currency forwards	143,348,888	-	-
SEK currency forwards	583,657,791	86,664,170	-
AUD currency forwards	50,561,761	10,516,460	106,827,784
TWD currency forwards	25,982,325	-	-
SAR currency forwards	100,632,687	-	-
MXP currency forwards	2,675,521,008	-	-
CAD currency forwards	47,047	-	-
TRY currency forwards	11,565,720	-	-
JPY currency forwards	13,557,127,789	4,081,705,774	
ZAR currency forwards	3,984,534	-	-

(*) Including the partial hedge of the net investment in CAF USA, Inc. amounting to USD 22,300 thousand.

Currency call options at 31/12/18	Maturity (in currency)		
	2019	2020	2021 and subsequent years
Fair value hedges-			
USD currency forwards	39,128,686	28,373,000	-
MXP currency forwards	59,767,000	1,382,694,596	-
BRL currency forwards	7,020,251	-	-
GBP currency forwards	1,389,063	76,400,000	-
JPY currency forwards	-	3,297,090,500	-
Cash flow hedges-			
COP currency forwards	-	48,000,000,000	-
GBP currency forwards	24,397,052	-	-

2017

Currency put options at 31/12/17	Maturity (in currency)		
	2018	2019	2020 and subsequent years
Fair value hedges-			
USD currency forwards (*)	325,999,992	79,313,750	-
GBP currency forwards	184,930,953	112,649,300	95,037,543
BRL currency forwards	143,348,888	-	-
SEK currency forwards	293,315,120	301,302,732	86,664,170
AUD currency forwards	65,935,494	13,524,295	517,767
TWD currency forwards	323,955,063	-	-
SAR currency forwards	287,127,754	-	-
MXP currency forwards	2,736,360,398	-	-
CAD currency forwards	1,212,495	-	-
TRY currency forwards	2,860,449	-	-
JPY currency forwards	13,642,169,888	3,694,606,739	4,081,705,774

(*) Including the hedge of the net investment in CAF USA, Inc. amounting to USD 67,766 thousand.

Currency call options at 31/12/17	Maturity (in currency)		
	2018	2019	2020 and subsequent years
Fair value hedges-			
USD currency forwards	2,809,529	11,598,823	24,289,000
MXP currency forwards	59,767,000	-	-
BRL currency forwards	628,825	-	-
GBP currency forwards	2,675,136	-	-
Cash flow hedges-			
MXP currency forwards	-	-	591,486,246
GBP currency forwards	-	25,000,000	-
JPY currency forwards	-	-	4,588,021,500

On 17 July 2014, the Company arranged an interest rate swap with the start date on 30 September 2014, an initial principal amount of EUR 20 million and expiry on 30 June 2019. At 31 December 2018, the notional amount on which the interest rate swap is based amounted to EUR 6.7 million. In October 2018 the Company arranged another interest rate swap with the start date on 30 September 2018, an initial principal amount of EUR 25 million and expiry on 30 June 2023. In both of these transactions, the Company pays a fixed rate and receives a floating rate tied to Euribor to hedge the interest rate risk of certain loans with the same notional amount and repayment schedule (see Note 14).

The fair value of the derivative financial instruments arranged at each year-end are as follows:

	Thousands of euros			
	Fair value		Cash flow	
	31/12/18	31/12/17	31/12/18	31/12/17
USD currency forwards	(6,971)	5,055	-	-
GBP currency forwards	(19,552)	(581)	31	(38)
MXP currency forwards	(14,965)	(17,208)	-	(1,789)
BRL currency forwards	(2,811)	(6,409)	-	-
AUD currency forwards	119	24	-	-
SEK currency forwards	(2,331)	(1,066)	-	-
TWD currency forwards	63	666	-	-
SAR currency forwards	1,218	(2,733)	-	-
JPY currency forwards	4,291	(532)	-	(288)
COP currency forwards	-	-	(29)	-
Currency forwards in other currencies	(84)	(132)	-	-
Forward rate agreements	-	-	(501)	(88)
Measurement at year-end (*) (Notes 8 and 14)	**(41,023)**	**(22,916)**	**(499)**	**(2,203)**

(*) Before considering the related tax effect

In order to measure the financial instruments, on the one hand the Company uses the measurement of the instruments themselves, and on the other, the measurement of own and counterparty credit risk. The expense recognised under "Other Operating Expenses" in 2018 amounted to EUR 11 thousand (2017: EUR 633 thousand).

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

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

	31/12/18	31/12/17
Non-current assets (Note 8)	8,815	14,402
Current assets (Note 8)	-	22,697
Non-current liabilities (Note 14)	(9,276)	(16,666)
Current liabilities (Note 14)	(41,061)	(45,552)
Balance sheet net total	**(41,522)**	**(25,119)**
Fair value	(41,023)	(22,916)
Cash flow	(499)	(2,203)
Total derivatives, remeasured	**(41,522)**	**(25,119)**

In 2018 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 3,643 thousand (2017: expense of EUR 1,677 thousand) mainly as a result of changes in the estimated amounts of the hedged items.

Also, the settlement and the change in the value of the fair value derivatives resulted in an expense of EUR 8,363 thousand in 2018 (2017: expense of EUR 20,558 thousand), which is similar to the changes in value of the hedged items.

The items hedged by the Group, as indicated in Note 5-a on market risks, are mainly currency transactions included in each of the commercial agreements. When the hedges are initially arranged these transactions comprise either firm commitments (in which case they are recognised as fair value hedges) or highly probable transactions (in which case they are recognised as cash flow hedges) or net investments in foreign operations.

16. Tax matters

a) Current tax receivables and payables

The detail of the current tax receivables and payables at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Assets (Note 12)		Liabilities	
	31/12/18	31/12/17	31/12/18	31/12/17
Accrued social security taxes	-	-	7,269	5,175
Regular taxes-				
VAT	36,826	12,163	28,652	1,628
Other	-	-	-	5
Personal income tax withholdings	-	-	6,554	5,771
Income tax	171	676	-	-
Total	**36,997**	**12,839**	**42,475**	**12,579**

In 2011 Construcciones y Auxiliar de Ferrocarriles, S.A., as the parent, and certain subsidiaries availed themselves of the special VAT regime for groups.

b) Reconciliation of the accounting profit to the taxable profit

	Thousands of euros	
	2018	2017
Accounting profit (before tax)	**21,530**	**12,547**
Permanent differences-		
Sundry obligations to employees (Note 14)	57	1,058
Subsidiary dividends, litigation and other	(6,687)	(3,199)
Intellectual and industrial property	(1,571)	(1,204)
Increases and decreases due to temporary differences and accelerated depreciation and amortisation-		
Accelerated depreciation and amortisation	-	8,669
Sundry obligations to employees (Note 14)	(2,750)	3,373
Provisions for reliability, guarantees and other (Note 17)	31,628	7,389
Impairment losses on investments, results of joint ventures and other (Note 9)	3,753	(365)
Depreciation due to asset revaluation - Guipúzcoa Regulation 1/2013 (Note 7)	(186)	(447)
Taxable profit/Tax loss	**45,774**	**27,821**
Tax consolidation adjustments (impairment) and elimination of dividends of consolidated tax group	**34,221**	**2,782**
Adjusted taxable profit	**79,995**	**30,603**

Since 2007 the Company has filed consolidated tax returns under Guipúzcoa Income Tax Regulation 2/2014, of 17 January, as part of consolidated tax group no. 03/07/G, the parent of which is Construcciones y Auxiliar de Ferrocarriles, S.A. and the subsidiaries are: CAF Investment Projects, S.A.U., CAF I+D, S.L., CAF Power & Automation, S.L., Geminys, S.L., Ennera Energy and Mobility, S.L., Rail Line Components, S.L.U., CAF Turnkey & Engineering, S.L.U., Centro de Ensayos y Análisis Cetest, S.L. and CAF Signalling, S.L. The consolidated tax regime will be applied indefinitely while the requirements are fulfilled or the tax group does not expressly waive its application by means of the corresponding business taxation status notification form.

On 10 May 2018, Guipúzcoa Income Tax Regulation 1/2018 was approved, which substantially changed the tax regime applicable to the tax group headed by the Parent. Therefore, as a result of the reduction in the tax rate from 28% to 26% in 2018 and to 24% in 2019, and of changes in the limit on the use of tax credits and the offset of prior years' tax losses, the amount of the deferred tax assets and liabilities was adjusted, which gave rise to an income tax expense of EUR 12,154 thousand.

However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof. Accordingly, under the legislation in force, the income tax rate applied in 2018 was 26% (2017: 28%). The Company's tax liability to the tax authorities should be interpreted in the context of the consolidated tax regime under which it files tax returns. In this connection, the consolidated tax group files income tax returns to the central tax authorities and to the provincial tax authorities of Guipúzcoa and Vizcaya based on the volume of transactions performed in each territory.

c) Tax recognised in equity

The detail of the tax recognised directly in equity is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Arising in the year-		
Actuarial gains and losses (Note 3-k)	-	754
Grants (Note 13-h)	29	64
Hedges (Note 15)	(496)	561
Arising in prior years-		
Grants (Note 13-h)	(29)	(93)
Hedges (Note 15)	616	55
Total tax recognised directly in equity	**120**	**1,341**

d) Reconciliation of the accounting profit to the income tax expense

The reconciliation of the accounting profit to the income tax expense is as follows:

	Thousands of euros	
	2018	2017
Accounting profit before tax	**21,530**	**12,547**
Tax charge at 26% (2017: 28%)	**5,598**	**3,513**
Impact of permanent differences and tax consolidation adjustments	6,765	(158)
Differences - previous year's tax return	(103)	(292)
Other (taxes paid abroad)	1,134	564
Recognition of tax assets and deferred tax assets (Note 3-m)	(5,942)	(1,413)
Impact amendment income tax regulation	12,154	-
Use of tax credits and offset of prior years' tax losses	(2,361)	-
Total income tax expense recognised in profit or loss	**17,245**	**2,214**
Current tax expense	**19,469**	**8,844**
Deferred tax benefit	**(2,224)**	**(6,630)**

In 2018 tax credits amounting to EUR 719 thousand were used (unused in 2017), which were recognised in full under "Deferred Tax Assets" in the accompanying balance sheet as at 31 December 2017.

The differences between the estimated income tax for 2017 and the tax return ultimately filed gave rise to EUR 103 thousand being credited to "Income Tax" in the accompanying statement of profit or loss.

In 2018 the Company expects to report tax credits amounting to EUR 9,799 thousand (2017: EUR 9,661 thousand), which relate mainly to international double taxation tax credits, tax credits for R&D+i, tax credits for investments in new non-current assets and others.

e) Deferred tax assets (temporary differences and tax assets)

The detail of "Deferred Tax Assets" at the end of 2018 and 2017 is as follows:

	Thousands of euros	
	31/12/18	31/12/17
Temporary differences (deferred tax assets)	28,669	24,227
Tax credit carryforwards and other (Note 3-m)	20,399	17,365
Tax losses (Note 3-m)	24,370	30,199
Total deferred tax assets	**73,438**	**71,791**

In 2018 the Company earned taxable profit of EUR 79,995 thousand, of which EUR 6,316 thousand were offset by tax losses incurred by the Company in prior years and EUR 67,364 thousand were offset by tax losses incurred by other Group companies. The corresponding account payable was recognised in this connection (see Note 10). Also, another Group company transferred to the Company tax credits amounting to EUR 923 thousand. The corresponding account payable was recognised in this connection (see Note 10).

The Company has tax credit carryforwards earned between 2009 and 2018 amounting to EUR 81,517 thousand, of which EUR 20,399 have been recognised in the accompanying balance sheet as at 31 December 2018 (31 December 2017: EUR 72,583 thousand earned between 2009 and 2016, of which EUR 17,365 thousand had been recognised). The amounts not deducted due to insufficient tax charge can be used, observing the same limit, in the tax returns for the tax periods concluding in the immediately subsequent 30 years (15 years under the legislation applicable until 2017). In view of the uncertainty inherent to the recoverability of deferred tax assets, the Company's recognition policy is based on an assessment of future taxable profit on the basis of its backlog.

In 2013 the Company availed itself of the tax incentive provided for in Article 39 of Guipúzcoa Income Tax Regulation 7/1996. At 31 December 2016, the Company had fulfilled all the investment commitments related to this incentive (see Note 13).

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

The detail and changes in the Company's (recognised and unrecognised) temporary differences giving rise to deferred tax assets is as follows:

	Thousands of euros						
	31/12/16	Additions	Disposals	31/12/17	Additions	Disposals	31/12/18
Tax assets recognised	15,431	2,182	(248)	17,365	6,022	(2,988)	20,399
Tax effect of tax losses	30,199	-	-	30,199	2,848	(8,677)	24,370
Recognised temporary differences-							
Contractual and reliability liability	303	14	(1)	316	356	(93)	579
Provision for construction work not deductible in the year	10,418	1,829	-	12,247	4,098	(2,065)	14,280
Impairment losses on investments	200	269	(195)	274	50	(40)	284
Hand-over contracts	1,593	1,862	(935)	2,520	320	(1,350)	1,490
Warranties and maintenance	2,500	226	-	2,726	3,792	(679)	5,839
Asset revaluation	502	-	(130)	372	-	(109)	263
Hedges	-	647	(31)	616	122	(618)	120
Other	5,104	1,154	(1,102)	5,156	2,437	(1,779)	5,814
	66,250	**8,183**	**(2,642)**	**71,791**	**20,045**	**(18,398)**	**73,438**
Unrecognised temporary differences-							
Provisions for post-employment obligations	6,585	1,953	(552)	7,986	925	(2,102)	6,809
Impairment losses on equity investments	1,450	3	-	1,453	53	(212)	1,294
Other	37	-	(37)	-	70	(67)	3
	8,072	**1,956**	**(589)**	**9,439**	**1,048**	**(2,381)**	**8,106**

The amount of the recognised tax credits and tax loss carry forwards and their last year for deduction by the Company is as follows:

	Thousands of euros			
	31/12/18		31/12/17	
	Amount	Last year for deduction	Amount	Last year for deduction
Tax credits recognised-				
Earned in 2009	1,699	2039	1,699	2024
Earned in 2010	6,081	2040	2,110	2025
Earned in 2012 (no limit)	2,562	2042	2,562	2027
Earned in 2013 (no limit)	5,464	2043	5,464	2028
Earned in 2014 (no limit)	2,194	2044	3,112	2029
Earned in 2014 (International double taxation tax credit)	-	-	720	2029
Earned in 2015 (International double taxation tax credit)	341	2045	341	2030
Earned in 2016 (International double taxation tax credit)	800	2046	800	2031
Earned in 2017 (International double taxation tax credit)	548	2047	557	2032
Earned in 2018 (International double taxation tax credit)	710	2048		
Tax loss carryforwards-				
Earned in 2014	19,340		24,330	2029
Earned in 2015	5,030		5,869	2030
	44,769		**47,564**	

f) Deferred tax liabilities

The detail of and changes in the deferred tax liabilities of the Company are as follows:

2018

	Thousands of euros			
	31/12/17	Additions	Disposals	31/12/18
Grants (Note 13-h)	29	-	(29)	-
Goodwill	22	-	(5)	17
Other	157	-	(22)	135
Total	**208**	-	**(56)**	**152**

2017

	Thousands of euros			
	31/12/16	Additions	Disposals	31/12/17
Grants (Note 13-h)	93	-	(64)	29
Unrestricted and accelerated depreciation and amortisation	2,422	-	(2,422)	-
Goodwill	20	2	-	22
Hedges	(55)	55	-	-
Other	255		(98)	157
Total	**2,735**	**57**	**(2,584)**	**208**

g) Years open for review and tax audits

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 the date of preparation of the financial statements for 2018 the Company had all years since 2014 open for review for income tax and all years since 2015 open for review for the other taxes applicable to it. The Company's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Company of the commencement of its general audit of various local taxes (tax on business activity and tax on erection and installation projects and construction work - ICIO) for the years 2009-2013. In May 2015, as a result of the tax assessments received, a payment of EUR 266 thousand was made, EUR 235 of which against a provision recognised in 2014, and another of EUR 223 thousand was made, of which EUR 192 thousand were capitalised to property, plant and equipment. The Parent filed pleadings against these tax assessments in 2015. In relation to the tax on business activity, on 15 January 2018 the Company was served notice of the decisions of the Municipal Council of Beasain, which dismissed the administrative appeals lodged. In May 2018 pleadings were submitted to the Guipúzcoa Economic-Administrative Tribunal. No decision had been handed down in this connection at the reporting date. An appeal for judicial review was filed in relation to the tax on erection and installation projects and construction work, with no further developments taking place.

Also, on 20 June 2017, the Parent was notified by the provincial tax authorities of Guipúzcoa of the commencement of partial tax audits in relation to the income tax of the Company and of Tax Group no. 03/07/G for 2012 to 2015. The Company has furnished the information requested for these audits, but at the date of preparation of these financial statements the tax inspectors had not made any declaration in this connection. The Company's directors do not expect any liabilities to arise as a result of these audits.

17. Provisions and contingencies

Long-term provisions

The Company recognises provisions under "Long-Term Provisions" in the balance sheet 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 Company's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material. In 2018 the Company made payments amounting to EUR 1,830 thousand (2017: EUR 795 thousand) and recognised EUR 1,729 thousand (2017: EUR 1,208 thousand) mainly with a charge to "Staff Costs - Wages and Salaries" (Note 19-d).

Short-term provisions

The changes in "Short-Term Provisions" in the balance sheet for 2018 and 2017 were as follows (in thousands of euros):

2018

	Contractual liability (Note 3-f)	Warranty and support services (Note 3-f)	Litigation	Other (Note 3-m)	Total
31/12/17	**119,254**	**64,312**	**-**	**1,260**	**184,826**
Net charge for the year	32,008	48,161	1,000	138	81,307
Amounts used charged to profit or loss	(501)	(27,881)	(400)	-	(28,787)
31/12/18	**150,761**	**84,592**	**600**	**1,398**	**237,351**

2017

	Contractual liability (Note 3-f)	Warranty and support services (Note 3-f)	Litigation	Other (Note 3-m)	Total
31/12/16	**111,968**	**63,852**	**-**	**1,671**	**177,491**
Net charge for the year	8,924	28,688	-	-	37,612
Amounts used charged to profit or loss	(1,638)	(28,228)	-	(411)	(30,277)
31/12/17	**119,254**	**64,312**	**-**	**1,260**	**184,826**

Contractual liability and warranty and support services

The provisions for contractual liability relate mainly to delays in deliveries, in accordance with the production and shipment schedule and the contractual obligation agreed upon, and to provisions for onerous contracts. The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts.

The expected period to settle the provisions varies on the basis of their nature, the average approximate period being:

- Contractual liability: 1-2 years
- Warranty: 1-4 years (varies on the basis of the contractual arrangement to which it relates)

The Company recognised a net provision of EUR 53,118 thousand under "Other Operating Expenses" (2017: net reversal of EUR 7,746 thousand) relating to the difference between the provisions required in this connection at 2018 year-end and the provisions recognised at 2017 year-end. The expenses incurred to meet the various obligations in 2018, which amounted to approximately EUR 27,881 thousand (2017: EUR 28,228 thousand), were recognised primarily under "Procurements" and "Staff Costs".

In 2008 the Company entered into an agreement with Metro de Caracas for the manufacture and supply of 48 trains to be manufactured in Spain. At 31 December 2018 and 2017, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2018 the Company had recognised a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2017: EUR 66,535 thousand), which is recognised under "Contractual Liability" in the table above (see Note 12). These is no litigation relating to this agreement.

18. Foreign currency balances and transactions

The detail of the most significant balances and transactions in foreign currency, translated to euros at the year-end exchange rates and the average exchange rates for the year, respectively, is as follows:

	Thousands of euros	
	2018	2017
Accounts receivable (Note 12) (*)	235,350	289,961
Group accounts receivable (Notes 10 and 12) (*)	73,253	136,378
Loans granted to Group companies (**) (Note 10)	83,310	37,296
Loans received from Group companies (Note 10) (***)	3,534	3,534
Accounts payable (*)	14,171	15,052
Bank borrowings	-	-
Sales	389,153	406,819
Purchases and services received	67,956	70,910

(*) Balance mainly in pounds sterling and US dollars.
(**) Balance mainly in US dollars, pounds sterling and Mexican pesos.
(***) Balance in Mexican pesos.

The detail, by class of financial instrument, of the exchange differences recognised in profit or loss, additional to those indicated in Note 15, is as follows (in thousands of euros):

	Transactions settled in the year	
	2018	2017
Other	(2,336)	(3,124)
Total	**(2,336)**	**(3,124)**

19. Income and expenses

a) Revenue

The detail, by line of business, of the Company's revenue for 2018 and 2017 is as follows (in thousands of euros):

	2018	2017
High-speed	33,121	40,890
Regional and commuter	725,743	482,011
Metros	279,654	171,150
Tram and light rail	147,173	117,164
Bogies, refitting and other	48,727	32,466
Trains	**1,234,418**	**843,681**
Services	**113,597**	**97,780**
Wheel sets and components	**78,252**	**70,994**
Other	**3,596**	**463**
Total	**1,429,863**	**1,012,918**

The detail of the Company's sales by geographical market (EU, OECD, rest of the world) is as follows (in thousands of euros):

	2018	2017
Spain	141,168	116,252
European Union:		
EU – Euro Area	410,782	158,475
EU – No Euro Area	458,834	315,463
	869,616	**473,938**
Rest of the world	419,079	422,728
Total	**1,429,863**	**1,012,918**

b) Procurements

The detail of "Cost of Goods Held for Resale Sold", "Cost of Raw Materials and Other Consumables Used" and "Work Performed by Other Companies" in 2018 and 2017 is as follows (in thousands of euros):

	2018	2017
Cost of raw materials and other consumables used-		
Purchases from and work performed by third parties	808,729	541,361
Changes in inventories	(16,565)	(54,603)
Total	**792,164**	**486,758**

c) Detail of purchases by origin

The detail, by origin, of the purchases made by the Company in 2018 and 2017 is as follows:

	2018			2017		
	Spain	EU countries	Imports	Spain	EU countries	Imports
Purchases	71%	22%	7%	71%	18%	11%

d) Staff costs

The average headcount in 2018 and 2017 was as follows:

2018

Professional category	Average number of employees	Men	Women
Board members	2	1	1
Senior executives	10	9	1
Employees	1,688	1,263	425
Manual workers	2,537	2,468	69
Total (*)	**4,237**	**3,741**	**496**

(*) At 31 December 2018, the workforce comprised 3,828 permanent employees and 447 temporary employees.

2017

Professional category	Average number of employees	Men	Women
Board members	2	1	1
Senior executives	10	9	1
Employees	1,546	1,173	373
Manual workers	2,209	2,151	58
Total (*)	**3,767**	**3,334**	**433**

(*) At 31 December 2017, the workforce comprised 3,578 permanent employees and 351 temporary employees.

Since CAF does not meet the quota reserved for disabled employees, it has taken certain alternative measures established by Royal Decree 364/2005, of 8 April, which regulates alternative compliance of an exceptional nature with the quota reserved for disabled employees.

The average number of persons employed by the Company in 2018 and 2017 with a disability equal to or greater than 33%, by category, was as follows:

Professional category	Average number of employees		
	2018	Men	Women
Employees	14	13	1
Manual workers	44	42	2
Total	**58**	**55**	**3**

Professional category	Average number of employees		
	2017	Men	Women
Employees	14	13	1
Manual workers	41	40	1
Total	**55**	**53**	**2**

At 31 December 2018, the Company's Board of Directors comprised 7 men and 3 women. At 31 December 2017, it comprised 7 men and 3 women.

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

	2018	2017
Wages and salaries (Notes 3-k, 3-l, 14, 17, 20-a and 21)	212,742	190,379
Social security costs	60,110	53,092
Other expenses (Note 3-k)	13,343	12,531
Total	**286,195**	**256,002**

An expense of EUR 575 thousand (2017: EUR 6,272 thousand) is included under “Staff Costs - Wages and Salaries” in the statement of profit or loss in relation to early retirement (see Note 14).

e) Other operating expenses

	Thousands of euros	
	2018	2017
Outside services	216,121	179,511
Taxes other than income tax	828	1,081
Change in operating provisions and allowances and other (Notes 12 and 17)	53,492	7,819
Total	**270,441**	**188,411**

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 1,112 thousand in 2018 (2017: EUR 838 thousand). Of this amount, in 2018 EUR 726 thousand related to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2017: EUR 568 thousand), EUR 140 thousand of which related to the audit fees corresponding to the Parent in 2018 (2017: EUR 134 thousand). In addition, fees for other professional services amounting to EUR 230 thousand were billed in 2018 (2017: EUR 275 thousand): EUR 146 thousand for audit-related attest services including six-monthly reviews (2017: EUR 41 thousand), EUR 38 thousand for tax services (2017: EUR 2 thousand) and the remainder for other services.

f) *Information on the environment*

In 2018 and 2017 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

At 31 December 2018 and 2017, the Company did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Company's directors do not expect any material liabilities to arise as a result of the Company's environmental activities and, accordingly, the accompanying balance sheet does not include any provisions in this connection.

The Company did not receive any environmental grants in 2018.

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

20. Information on the Board of Directors

a) *Remuneration and other benefits of directors*

In 2018 and 2017, in addition to the remuneration that may be payable as indicated in Note 3-k, the total remuneration of the members of the Board of Directors amounted to approximately EUR 1,902 thousand (2017: EUR 1,721 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. Also, in 2018 the Company made contributions to long-term savings plans, instrumented in the form of a long-term defined contribution group savings insurance policy of which the Company is both policy-holder and beneficiary, totalling EUR 1,000 thousand (2017: EUR 140 thousand). At 31 December 2018 and 2017, no advances, guarantees or loans had been granted to its current or former directors.

In 2018 EUR 59 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2017: EUR 47 thousand).

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

In 2018 and 2017 neither the members of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A. nor persons related to them as defined in the Spanish Limited Liability Companies Law notified the other members of the Board of any direct or indirect conflict of interest that they might have with the Company.

21. Remuneration of senior executives

Remuneration of the Company's senior executives, per the binding definition of “Senior Executives” in the Corporate Governance Report, additional to the remuneration that may be payable to them as described in Note 3-k, amounted to EUR 2,613 thousand in 2018 (2017: EUR 2,075 thousand).

In 2018 and 2017 there were no other transactions with senior executives outside the ordinary course of business.

22. Other disclosures

a) *Guarantees and other contingent assets and liabilities*

At 31 December 2018, the guarantees provided to the Company by banks and insurance companies for third parties, and to other Group companies when the Company is the counter-guarantor, amounted to EUR 3,054,202 thousand (31 December 2017: EUR 2,463,816 thousand). Of this amount, EUR 11,781 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology and other government agencies (31 December 2017: EUR

16,170 thousand). The Company and its directors consider that no material liabilities will arise in this connection (see Note 14).

Also, the Company had been provided guarantees for third parties to secure the financial liabilities of its investees amounting to EUR 26,506 thousand (31 December 2017: EUR 36,007 thousand) (see Note 10).

At 31 December 2018, the Company was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and, therefore, it is difficult to assess its possible impact; however, the Company's directors consider that the likelihood of this situation giving rise to losses for the Company is low, since there are causes that have given rise to delays that can in no case be attributed to the consortium, the amounts claimed are greater than the damage caused to the customer, and there are claims for cost overruns incurred by the consortium attributable to the customer.

The subsidiary CAF Brasil Industria e Comercio, S.A. is part of a consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF Brazil's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date CAF's legal advisers consider that the Consortium has solid arguments to justify its defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could claim the potential losses from such members. At 31 December 2018, the Company had assumed the risk of a loss attributable to the CAF group under this contract since it had performed the major portion thereof, namely, the supply of the trains. At 31 December 2018, the amounts owed by the customer amounted to EUR 13.3 million and no amount had been recognised for additional claims on the original contract.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its defence and has cooperated on an ongoing basis with the authorities and provided them with the information requested. At present, following the issue of the report in December 2018 by the Superintendence of the CADE, a decision has not yet been handed down by the Court of the CADE. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period from filing for new tenders and/or criminal charges. At the date of formal preparation of these financial statements there were no economic claims filed against this subsidiary. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 203 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, have initiated court proceedings. At the date of formal preparation of these financial statements, only one of the proceedings initiated as a result of CADE's investigation had commenced, whereas in the other proceedings the Group was waiting to be summoned to declare or to submit pleadings as some of the parties involved were yet to be summoned. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleas in the first half of 2016. Subsequent to the ruling of the Court of Auditors which considered the existence of irregularities of any kind to be unproven, a request was made for these proceedings to be closed and dismissed. This request is awaiting a decision**.** Lastly, also as a result of CADE's investigations, an administrative proceeding was initiated by the São Paulo Court of Auditors in relation to which the subsidiary submitted its initial pleadings in the second half of 2018.

On 27 August 2018, the Spanish National Markets and Competition Commission ("CNMC") instituted penalty proceedings in connection with purported anti-competitive practices against various companies, which included CAF Signalling, S.A. and its parent Construcciones y Auxiliar de Ferrocarriles, S.A. as it is jointly and severally liable.

CAF is employing the legal actions to which it is entitled to defend its interests, and is at present unaware of the conduct and practices of which CAF Signalling, S.A. and Construcciones y Auxiliar de Ferrocarriles, S.A. are accused. The investigation is ongoing and the CNMC's period for handing down a decision has been interrupted and no decision by the CNMC is expected in 2019.

b) Disclosures on the average period of payment to suppliers

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2018	**2017**
	Days	Days
Average period of payment to suppliers	80.45	81.30
Ratio of transactions settled	84.36	85.26
Ratio of transactions not yet settled	68.08	67.75
	Thousands of euros	Thousands of euros
Total payments made	653,911	494,796
Total payments outstanding	206,214	144,823

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

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

The statutory maximum payment period applicable to the Company in 2018 under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

23. Events after the reporting period

At 31 December 2018, the Group's firm backlog, net of progress billings, amounted to approximately EUR 7,716,487 thousand (31 December 2017: EUR 6,264,780 thousand) (see Note 11). At 31 January 2019, the total was EUR 8,071,641 thousand (31 January 2018: EUR 6,158,860 thousand).

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

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

24. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2-a). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPROVAL BY THE BOARD OF DIRECTORS

ANDRÉS ARIZKORRETA GARCÍA **CHAIRMAN**	**JUAN JOSÉ ARRIETA SUDUPE** **DIRECTOR**
JAVIER MARTINEZ OJINAGA **DIRECTOR**	**LUIS MIGUEL ARCONADA ECHARRI** **DIRECTOR**
CARMEN ALLO PÉREZ **DIRECTOR**	**JOSÉ ANTONIO MUTILOA IZAGUIRRE** **DIRECTOR**
ALEJANDRO LEGARDA ZARAGÜETA **DIRECTOR**	**JULIÁN GRACIA PALACÍN** **DIRECTOR**
ANE AGIRRE ROMARATE **DIRECTOR**	**MARTA BAZTARRICA LIZARBE** **DIRECTOR-SECRETARY**

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ANE AGIRRE ROMARATE

ALEJANDRO LEGARDA ZARAGÜETA

JULIÁN GRACIA PALACÍN

MARTA BAZTARRICA LIZARBE

Certificate issued by the Secretary of the Board of Directors attesting that, following the authorisation for issue of the financial statements and directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. for the year ended 31 December 2018 by the Board of Directors at its meeting on 27 February 2019, the directors have signed this document, consisting of 151 sheets numbered sequentially from 1 to 151, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2019.

Approved by	Signed
THE CHAIRMAN	THE SECRETARY OF THE BOARD
ANDRÉS ARIZKORRETA GARCÍA	MARTA BAZTARRICA LIZARBE