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DIRECTOR SELECTION AND DIVERSITY POLICY OF “CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.”



12 November 2018

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0.- INTRODUCTION

The Board of Directors of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (hereinafter "CAF" or the "Company"), in accordance with the provisions of articles 249 bis and 529 ter of the Corporate Enterprise Act¹ and article 34.b) of the Articles of Association and article 5.3 b) of the Rules of the Board of Directors, has the power to approve the general strategies and policies of the Company and the Group of which it is the parent company ("CAF Group").

On 28 October 2015, the CAF Board of Directors approved a Director Selection Policy, which has been applied up to now.

Subsequently, other regulations were approved, offering a more advanced implementation of diversity with regard to the determination of the directors selection criteria.

More specifically, Royal Decree 18/2017 of 24 November, amending the Code of Commerce, the revised Corporate Enterprise Act approved by Royal Legislative Decree 1/2010 of 2 July, and Act 22/2015 of 20 July on Account Auditing, with regard to non-financial reporting and diversity, represented the transposition of Directive 2014/95/EU into national law through the amendment of sub-section 6 of art. 540.4 c) of the Corporate Enterprise Act, extending the concept of diversity in the composition of the Board of Directors to additional issues other than gender.

Based on the above, at its meeting held on 12 November 2018, the Company's Board of Directors agreed to approve this Diversity and Director Selection Policy to replace the former Director Selection Policy of 28 October 2015.

1.- PURPOSE

The Diversity and Director Selection Policy (hereinafter the "Policy") is specific and verifiable. It aims to ensure that proposals for the appointment and re-election of directors are based on a prior analysis of the needs of the Board of Directors and the Company, and also to foster a diversity of knowledge, experience and gender among Board members. To do so, it applies criteria that ensure the right diversity in the composition of the board and that there is no implicit bias that could lead to discrimination by reason of age, gender, disability or any other personal condition.

2.- SCOPE OF APPLICATION

The Policy shall essentially be applicable to the selection of candidates for the position of director of CAF, who are natural persons or, if such candidates are legal persons, then the provisions of this Policy shall apply to the natural persons acting on their behalf.

¹ Revised text of the Ley de Sociedades de Capital (Spanish Corporate Enterprise Act), approved by Royal Legislative Decree 1/2010 of 2 July, amended by Act 31/2014 of 3 December 2014.

3.- DIVERSITY CRITERIA

The diversity criteria shall serve as a key factor in the analysis of the needs of the Board of Directors and those of the Company for which the directors are to be selected.

The diversity criteria may condition the selection of directors whenever this is necessary to ensure a diverse composition that benefits the Company through the existence of a diversity of experiences and viewpoints that add value to the decisions adopted by the Board of Directors.

In particular, and to ensure that it is applied, diversity criteria are adopted in relation to the following categories:

3.1.- Training and professional experience

Efforts shall be made to ensure that candidates have the capabilities that are either complementary to those of the members of the Board of Directors or make it possible to offset the loss of those capabilities of the members being replaced.

In this respect, it is desirable that the candidate's area of expertise, either through his/her academic qualifications or professional experience, or a combination of both, allows for a diversity of profiles within the Board of Directors. Such diversity will offer contrasting viewpoints that promote constructive, multidisciplinary debate for decision-making and, in short, an enhanced performance of the powers of the Board as a whole.

3.2.- Age

It is desirable to have directors of varying ages, so that this age difference may serve to provide a positive variety in the understanding and focus of the debate on any matters that must be studied and agreed by the Board of Directors.

3.3.- Disability

The Director selection procedure must be free from any bias whatsoever against disability, which could involve some kind of discrimination.

3.4.- Gender

The Director selection procedure shall take account of the gender diversity criterion in order to guarantee a balanced presence of women on the Board of Directors.

In this respect, the current Policy has set a target to increase the number of women directors to at least thirty percent of the total number of members of the Board.

4.- SELECTION PROCESS

The selection of candidates for the position of director shall start with an analysis of the Company's needs, which must be conducted by the Board of Directors with the advice and prior report of the Nomination and Remuneration Committee.

For this purpose, and in compliance with article 529 quincecies of the Corporate Enterprise Act, the Appointment and Remuneration Committee has the following duties:

- a) Assess the competencies, knowledge and experience required of the Board of Directors. For this purpose, it shall define the roles and capabilities required of the candidates for a particular vacancy and assess the time and commitment required so that they may effectively carry out their duties.

- b) Set a representation target for the least represented sex on the Board of Directors and prepare guidelines on how to achieve this target.

Any proposal for the appointment or re-election of directors submitted by the Board of Directors for the approval of the General Shareholders' Meeting and any appointment decisions taken by the Board through its powers of co-option shall be preceded by the corresponding proposal by the Nomination and Remuneration Committee, in the case of independent Directors, or by a report from the Board itself in all other cases.

Any proposal must be accompanied, in any case, by an explanatory report from the Board, assessing the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Shareholders' Meeting or to those of the meeting of the Board. The proposal for the appointment or re-election of any non-independent Director must also be preceded by a report from the Nomination and Remuneration Committee.

Likewise, the Company may count on the collaboration of external advisers for the validation of candidates for the position of director.

In compliance with article 529 bis of the Corporate Enterprise Act, the Board of Directors must ensure that the procedures to select its members favour diversity of gender, experiences and knowledge and that there is no implicit bias that may involve some type of discrimination, and, in particular, these procedures should facilitate the selection of female directors.

During the entire selection process, the Board of Directors and the Nomination and Remuneration Committee shall ensure compliance with the diversity criteria set out herein.

5.- CONDITIONS TO BE MET BY THE CANDIDATES

Candidates to the Company's Board of Directors must be respectable, ideal and with recognised creditworthiness, competence, experience, qualifications and training.

Likewise, the said candidates must guarantee their willingness to devote sufficient time to the work and their commitment to their duties.

Moreover, every effort shall be made to ensure that the composition of the Board of Directors is balanced, making it possible to enrich decision making and to provide diverse points of view, considering for this purpose, among others, the diversity criteria set out herein.

Those who do not meet the appointment requirements set out in the Rules of the Company's Board of Directors cannot be considered to be candidates for the position of director.

6.- MONITORING AND CONTROL

The Board of Directors is first and foremost responsible for the monitoring and control of this Policy. For its part, the Nomination and Remuneration Committee shall make an annual verification of the same, reporting on this in the Annual Corporate Governance Report.

7.- APPROVAL AND DISSEMINATION

This Policy was approved by CAF's Board of Directors at its meeting held on 12 November 2018, coming into effect from that date onwards, replacing the CAF Policy for the Selection of Directors dated 28 October 2015.

To ensure that the parties concerned and stakeholders are familiar with the same, this Diversity Policy for the Selection of Directors shall be published on the Company's website (www.caf.net) and also on the Group's corporate Portal.