

A SPEECH BY THE CHAIRMAN OF  
CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (C.A.F.),  
MR. ANDRES ARIZKORRETA  
AT THE ANNUAL GENERAL MEETING  
2015

Ladies and Gentlemen, good morning and welcome on behalf of the Board of Directors. Today, we will submit the 2015 financial results for the approval of the Annual General Meeting.

*[Change of Chairmanship]*

First off, I would like to address my opening words as incoming Chairman of the Annual General Meeting to my predecessor and current Honorary Chairman, José María Baztarrica. José María has earned our deepest personal appreciation, and I would like to acknowledge and express our gratitude for his accomplishments and the professional leadership at the helm of our organization.

CAF's current reality is the best statement for his extraordinary career. This corporate project employs over 7,500 staff and operates in over 40 countries on all five continents. We compete by supplying cutting-edge transport solutions based on technological and innovative expertise in the same league as the multinational competitors in the industry.

At the same time, as incoming Chairman, I would like to take a moment to express my firm belief that CAF is entering into a new period of growth, thanks to the consistency, scope and depth of our product offering, services and solutions, an appropriate combination of stability and growth in our target markets, the strength of both our orders in hand and the range of tenders submitted, not to mention the competitiveness of our company in terms of profitability and generated cash flow.

CAF has a significant track record in terms of value proposition as a supplier of comprehensive transport solutions.

At the present time, our customers benefit from engineering and management expertise throughout all stages of transport projects, from viability analysis to operation and maintenance, including system design and engineering, project financing, construction/production and commissioning.

If I had to identify the key elements of our evolution in two words, I would highlight technology and people.

Just as technological development has of late been our trademark, we are all the same firmly committed to maintaining this attribute in coming years as well.

Our roots are firmly entrenched with a stable shareholder base and our work teams, both of which contribute to fulfil a long-term project.

CAF has been able to diversify both in terms of markets and products.

Let me bring up some highlights now. We have added 57 new customers in the last 10 years. Income for 2015 stems from 68 projects in 25 different countries, with sales outside of Spain comprising 80% of the total. International growth has enabled us to compensate for the decline in the Spanish market in recent years.

Rolling stock, which accounted for 88% of CAF sales in 2010, stands at a mere 64% in 2015. And it is services that are making up an increasing share of our turnover.

In short, we are ideally positioned to benefit from the growth outlook in this industry, because we focus on high-growth segments such as comprehensive systems, signalling and high-volume vehicles, such as metropolitan and regional vehicles.

In addition to our long term presence in Latin America markets, we have strengthened our foothold in high-volume and high growth rate regions, such as Western Europe and the NAFTA region.

Proof of this are the current tenders still awaiting decisions, which stand at more than 6,000 million euro for close to 60 projects on five continents, but with a particular focus

on Europe, as well as the signing of contracts such as NS in Holland, UK-Arriva or UK-First Group and Flytoget in Norway, which, in my opinion, mark a maturity milestone.

*[Organization of the speech]*

Next, I will set out the main figures and financial results of the CAF Group for year 2015, as well as the most significant features of the year's business. I will also provide and account of the events that have taken place in the early months of 2016.

In any case, let me remind you that you can refer to our 2015 Annual Report for in-depth information, and to learn about details of the technological, commercial, industrial, and human-resources activities undertaken during this period.

I will also share my thoughts with you regarding our current competitive environment and the associated challenges and opportunities, as these will undoubtedly shape up the performance of our Company in the years to come.

At the conclusion of this presentation, the board will put to vote the items in the agenda, which were announced to you beforehand.

*[Significant Events 2015]*

Financial year 2015 has witnessed significant progress with regard to the strategic roadmap pursued over the last three years. Our pathways aimed at both, business growth and improvement in efficiency.

Our income outlook is clear, with a record-breaking portfolio of 5,700 million euro, up 4.4 times over 2015.

Particularly worthy of note is the signing, in January of this year, of a 740 million euro contract in the United Kingdom with the operator Arriva UK and the leasing organization Evertsholt Rail Group, which is responsible for the financing of the order. The order includes the manufacturing of two fleets of trains of the Civity UK platform, the recent contract, also in the United Kingdom, with First Group, for 310 million euro, as well as the contract signed in Australia for the supplying of trams for the city of Canberra, totalling approximately 100 million euro.

These contracts follow the trail of other outstanding contracts also signed in 2015.

Among these, the agreement with the Serco Group to manufacture 75 cars in addition to the associated spare parts and technical support for the franchise, Caledonian Sleeper, which operates railway services between England and Scotland, with an approximate amount of 200 million euro.

The supply of 20 trains for the Medellin Underground totalling 89 million euro.

The Flytoget AS contract for the supply of 8 High-Speed trains for the new Airport Express-service, which will link Oslo with the airport, valued at approximately 120 million euro.

The trams for Luxembourg, St. Etienne and Utrecht, for a total amount of close to 180 million euro.

The various contracts signed by CAF Signalling for the supply of ERTMS signalling for several high-speed lines in Spain.

During 2015, we were additionally able to recognize the impact of the efficiency-improvement measures implemented in recent years.

Accordingly, we have demonstrated our ability to maintain operating profitability, despite an environment of declining sales, and have reversed the trend towards working capital deterioration with measures that promote efficiency in the use of capital. Among these, I would draw your attention to the invoicing and collection profile of contracted projects, and the reduction of inventory.

All of the foregoing is associated with significant industrial activity in our plants, in response to the current extensive and complex array of orders in hand of the organization. Hence, relative to the vehicle business, 852 cars were manufactured last year in all the Group's factories. Here we should highlight the cars supplied for the commuter-train projects in Auckland (New Zealand), Bari (Italy), Belo-Horizonte and CPTM in Brazil, trains for Saudi Arabia, long-distance cars for Amtrak in the United States, metro units in Helsinki, Bucharest, Sao Paulo and Santiago de Chile, as well as trams for Budapest, Tallinn, Freiburg, Houston and Sydney.

*[Consolidated Profit]*

These projects have enabled us to upkeep business and stay on track in a difficult macro-economic environment, which had a particular impact on us with the devaluation of the Brazilian Real.

Net Turnover as of 31st December 2015 stood at 1,284 million euro, 11% down from 2014, due principally to the effect of the devaluation of the Brazilian Real and lower progress in the execution of some specific projects.

However, at December 2015, the EBITDA Margin stood at 166 million euro, equalling 12.9% of sales turnover, with an increase of 13% over 2014.

The improvement in the EBITDA reflects the stability of our concession and maintenance businesses, our focus on projects which generate high profits and cash flow, and the reductions in costs associated with efficiency-improvement processes and with keeping a tight rein on expenditure

Depreciation has decreased by 9.5% based on the upkeep of the asset base, following strong investments between 2010 and 2013 in our plants in Brazil, Mexico, USA as well as in the MiiRA Wheels Business Unit.

Despite this, net profit for the Financial Year after the Corporation Tax as of 31st December 2015 was 42.6 million euro, 31% down from the previous year, mainly as a result of exchange-rate fluctuation with the devaluation of the Brazilian Real and higher financing costs in Brazilian subsidiaries.

Financial net debt declined by 11.7% down to 479 million, which equals 2.9 times the EBITDA, compared to a ratio of 3.7 the preceding year.

Furthermore, expectations are positive with regard to cash-flow generation over the medium term, as a result of lower working-capital requirements for signed projects, a reduction in the debt associated with concessions in Brazil and Mexico, and normalized investment requirements.

In this context, we submit to this Annual General Meeting a proposal for dividend distribution of 5.25 euro per share, similar to the appropriation of earnings for the year before, and in keeping with our investment return commitment with the shareholders.

With regard to this point, I would like to extend my particular gratitude to Cartera Social as the controlling shareholder, and to Kutxabank for their partnership with CAF over the last 25 years.

*[Corporate Governance]*

Just now, I would like to comment on matters related to the Corporate Governance progress made by the Company.

Aware, as we are, of how important this matter is to our shareholders, investors and other stakeholders, we dedicated particular effort to the Corporate Governance of our Company during the preceding financial year, and we intend to continue to make further progress in this area this present year.

It is our goal to continue to improve compliance with the Good Governance Code for listed Companies, published by the Spanish Securities and Exchange Commission.

At the beginning of the year, the Appointments and Remuneration Committee was set up and its relevant Regulations approved.

Likewise, CAF's Board of Directors has approved a Policy on Communication and Contact with Shareholders, Institutional Investors, and Proxy Advisors, the Corporate Social Responsibility Policy, and the Board Member Selection Policy.

In addition, and in accordance with the recommendations of the Spanish Securities and Exchange Commission, the Board of Directors has evaluated its own performance and the performance of its committees during 2015. This has led to the drawing up of the relevant reports and the approval of a plan of action with improvements which will be monitored in 2016.

The Board of Directors has continued working on improvements to the board Regulations. As a result, at this meeting shareholders will receive information on the

most recent modifications of the Regulations of the Board of Directors approved early in 2016, in order to comply with specific recommendations on good governance.

*[2016 Developments]*

The events during the early months of 2016 unfolded just as predicted. With regard to the results obtained during the first quarter of this year, net turnover stands out markedly, hitting 281 million euro, 78% of which pertains to external markets.

Additionally, EBITDA stood at 36.6 million euro, and Pre-tax Profit at 13.7 million euro, which represent 13% and 5% of sales respectively.

*[Outlooks]*

In the matter of prospects, I have to admit that the macroeconomic environment is complex and volatile.

Uncertainty surrounding China, Brexit uncertainty looms, the declining price of oil, slashes in the prices of raw materials, adjustments in developing countries, financial tensions and other factors give rise to a complex and highly volatile environment.

This climate is characterized by global, multiple and diverse risks, where geopolitics, policies and the economy are in constant interaction.

Government responses have taken the form of quite unorthodox combinations of expansive monetary policies together with fiscal austerity, the consequences of which are uncertain and ambiguous.

The forecast, ultimately, is that although the world economy will continue to grow, this growth will be weaker and more fragile than in the past.

With regard to our sector, the outlooks remain positive. It will continue to expand. The majority of growth estimates involve an annual rate of 2.7% until 2019.

It is difficult to ascertain whether this figure will be accurate, but macrotendencies involving population increases, sustainable urban development and a growing environmental awareness, combined with public policies tending to promote railway

transport, not only in less developed countries, but also in mature markets, make us confident that provided that there are no sudden shocks growth is assured.

In addition, the recent approval by the European Parliament of the so-called Technical Pillar of the Fourth Railway Package, which is focused on the standardization and simplification of rolling stock harmonization processes throughout the Union, will contribute to cost containment and to the reduction of the high level of working capital which until now was associated with the approval of new trains. With the ensuing benefits for the entire sector.

In this climate, CAF will continue to invest in order to promote business growth, and to take advantage of the opportunities lying ahead for us, as leading competitors in this industry.

Bearing this in mind, I do not want to finish my presentation without providing a brief update on our corporate strategy as well as a summary of our current objectives:

- ✓ Continue to reinforce our position in the core business of design and manufacture of trains.
- ✓ Continue our drive towards internationalization, focusing on high volume and growth regions.
- ✓ Promote wheels and axles sales and the service business, in search for growth alternatives beyond our significant maintenance business, which involves the servicing of over 6,000 railway vehicles daily.
- ✓ Progress with regard to our value proposition, based not only on the ambitious Technology Plan, but also on the Strategic Plans of our subsidiaries: Signalling, Power & Automation and Turnkey Engineering.
- ✓ Explore and harness the possibilities offered by the so-called Digital Transformation or Industry 4.0, not only concerning the improvement of our industrial daily-operations but also relating to solutions that we will be able to incorporate into our customer-focussed products and services. Examples of these are: remote predictive diagnosis of units in operation, optimized



management of tasks in maintenance workshops, spare-parts logistics for customers, and remote updates, among others.

- ✓ In addition to the above, we will reinforce emphasis on quality and customer focus, and here, our plans to improve the management of quality, safety and standardization will be key drivers.

Together with the said lines of action on the growth axis, CAF will continue to push other drivers along the axis of greater efficiency, such as:

- Continuous improvement of platforms and modules. OARIS, URBOS, CIVITY... as well as future platform and module developments.
- Our plan for the transformation of industrial operations, on which we have placed great hopes.
- Comprehensive management of the product's life cycle, which is becoming a key component of competitiveness.
- Or also the curtailing of costs in all of our activities.

In addition to the growth and improvement in the efficiency of our core business, CAF will pursue the systematic development of new income sources, initially in an embryonic phase, as was the case at one time for signalling, traction or communication, but which will open up the possibility of new transformation cycles in the future.

None of the above will be possible if we are not in turn able to improve our ways of working in the various organizational and operational spheres.

- The take-off of the product Engineering area, which reinforces advances in platforms and modularization.
- The reinforcement and new orientation of Project Management.
- The plan to improve Information and Communication Technologies.
- The centralised management of treasury.
- The new corporate risk-management strategy.
- The area for comprehensive management of RAM/LCC.
- The drive to the relations with shareholders and investors, who will receive increased attention.

These are just some examples of the organisational adjustments that will be necessary to meet upcoming challenges.

Furtherance of all these plans, actions and objectives has been and is an essential task of the Executive Committee's function. I would like to express my sincere gratitude and appreciation to each and every member of the Committee.

*[Final message]*

Today, CAF is a strong, profitable and global company. It is a company with sound growth prospects that is capable of meeting the challenges of the coming years from a solid competitive position.

However, without a doubt, it is our people who will give shape to the future of CAF. When we speak of growth, efficiency, new sources of income and improvements in the way we work, we are talking about people. It is people who make decisions. They choose one path or another. They assess risk. And they will have the credit of their success. But always committed individuals.

We have faith in the capacity and commitment of our people, in their self-imposed standards of excellence and responsibility, in their will to transform our undertakings as we strive to build closer relationships with our customers and to leverage our technology-based added-value proposition.

I would also like to express my gratitude to our shareholders for their confidence and support, which inspire us to take on new challenges and contribute to the strengthening of the CAF-Group mission.

Lastly, I would like to conclude by thanking you all for attending the Annual General Meeting today.

Thank you very much.