

Construcciones y Auxiliar de Ferrocarriles, S.A.

Financial Statements for the year ended
31 December 2017 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.

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 2017, 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 2017, 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 2017 by reference to the stage of completion amounted to EUR 844 million.

Determination of the stage of completion necessarily 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 number of hours incurred in each contract as a percentage of the total number of hours budgeted or the estimation of the margin taking into consideration the expected revenue and estimated costs to be incurred. 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.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the recognition of revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively, including the information system controls, for which we involved our internal technology and systems experts, and the performance of 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 and 12 to the accompanying financial statements contain the disclosures and information relating to the Company's revenue by reference to the stage of completion.

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

Provisions for delays in deliveries and other contractual commitments

Description

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 rolling stock material pursuant to the production schedule or other contractual commitments.

As described in Note 17 to the accompanying financial statements, the provisions recognised by the Company to meet these obligations amounted to EUR 119 million at 31 December 2017.

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.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process for recognising provisions for delays in deliveries. In particular, the controls whereby management assesses the status of each project. We obtained the detail 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, the circumstances prevailing in those contracts and historical experience. We also carried out substantive tests relating to the obtainment of confirmations from third parties.

Lastly, we also assessed the appropriateness 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 2017, 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 review:

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, 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 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 in the preceding paragraphs, we have checked that the information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2017 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 Appendix 1 to this auditor's report. This description, which is on page 7, 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 2018.

Engagement Period

The Annual General Meeting held on 10 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

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 Múgica
Registered in ROAC under no. 18694

27 February 2018

Appendix 1 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.

**2017 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 BUSINESS MODEL AND OUTLOOK

CAF is a multinational company **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, from integrated transport systems to wheel sets, components, infrastructure, signalling and services (maintenance, refurbishing and financial services). Within the wheel-sets segment, which represents its core business, CAF offers a wide range of products that includes, among others, high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

With more than 85% of revenue relating to the international market and a significant focus on western Europe, the CAF Group has production plants in Spain, France, the US, Mexico and Brazil, in addition to a new plant currently under construction in the UK that will start up in 2018. The Company also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

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 focus on furthering the development of prior years' lines of action and setting 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. The backlog, which represented 4.2 x sales in 2017, and business alliances will support the Company in its pursuit of this objective. In this regard, the efforts already underway aimed at equipping the Company with industrial capacity in the UK in various areas of activity are worth mentioning (services, engineering and manufacture), to improve its response to requirements in that market.
- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, operation of railway systems, leasing, maintenance and/or refurbishing of trains and locomotives, and various value propositions to customers that might arise from the marketing of digital services (condition based maintenance, fleet management, etc.). In this regard, in 2017 the Company acquired RIFER, a leader in Italy in the provision of wheel set and railcar maintenance services. Based in Milan, very close to the Swiss border, at an important rail and intermodal transport hub, this strategic location will enable CAF MiiRA to offer products and services to Central European countries. With a headcount of more than 60 employees and annual billings of close to EUR 10 million, this company has experienced considerable growth over the last few years thanks to its commitment to modernising its facilities and production processes and methods.
- Significant growth in business related to the design and construction of turnkey transport systems and, when required by customers, the maintenance and operation thereof, by the Company on its own or through alliances, including capital investment depending on the circumstances.
- Continue making investments in technological development, in relation to technologies and high value-added marketable products at component, subsystem or material level, intended to be supplied to customers in all our lines of business (wheel sets, signalling, energy, data management, inspections, 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, Vectia, 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 ongoing strategy to gain a competitive advantage. The acquisition in July 2017 of the engineering company BWB, one of the UK's most prestigious consulting firms, forms part of this strategy. BWB has a headcount of around 300 people and has experienced significant growth in recent years thanks to the success of its business model.
- Make progress in the digitization of our operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0). These initiatives span innovative solutions for the services included in the Company's railway solutions, its production processes and IT systems, as a means to guarantee its long-term competitiveness.
- Systematic and recurring execution of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety and management of all the Company's business activities and areas, within a highly competitive environment. This includes:
 - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK, Urbos AXL, metro, etc.)
 - Gradual expansion of the Industrial Operations Transformation Plan.
 - Optimisation of the life cycle cost (LCC) of the product, an area that will increasingly define our competitiveness.
- Lastly, to make progress in fundamental areas of business management such as, corporate social responsibility, shareholder and investor attention, 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 clients' 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 (*)

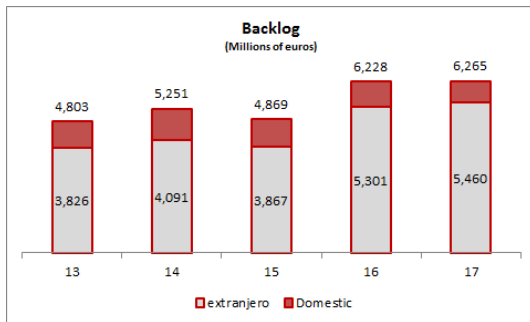
	2017	2016	Change (%)
Contracts-(**)			
Backlog	6,265	6,228	0.6%
Contracts in the year	1,514	2,677	-43%
Profit and cash flow			
Revenue	1,013	858	18%
EBITDA	31.8	10.4	206%
Profit for the year	10.3	1.5	587%
Cash flow	30.8	20.6	50%
Equity	680	696	-2%
Proposed dividend per share	0.66	0.58	14%

- The Company's backlog is at record highs and continues to guarantee the continuation of the Company's normal business activities.
- The proposed distribution of profit consists of paying dividends of EUR 22.6 million.

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

(**) Data of the consolidated group.

Commercial activity



2017 ended with a new record for the volume of backlog, which amounts to EUR 6,265 million.

In addition to this landmark, the Group's vision for the future is also important, which translates into the development of new products and business lines to be able to maintain the growth trend in future years. In this connection we should highlight the agreement reached with Euskal Trenbide Sarea and EuskoTren to implement an autonomous driving system on Line 3 of the Bilbao metro, which is compatible with

the ERTMS -European Rail Traffic Management System- signalling system. The Company will also collaborate with EuskoTren in the improvement of preventive maintenance of the 900 and 950 series in the "Study into predictive maintenance patterns" project.

Within the new business lines, mention should be made of the new ENEP car for transporting truck trailers by rail, thereby helping to reduce greenhouse gas emissions and heavy traffic on the roads. With this new car, which does not require investments in logistics terminals, and supported by the sound performance of the BITRAC locomotives, leased in recent years, the Company participated in the Expression of Interest launched simultaneously by the Spanish and French Governments for the operation of European rolling highways. Also, the ENEP car is capable of extending the rolling highway concept to all Iberian gauge tracks with a minimal investment in gauge-changing facilities.

Among the new projects obtained in 2017, mention should be made of the contract entered into at the beginning of the year with RATP - Régie Autonome des Transports Parisiens-, the Paris public transport operator, for twelve electric maintenance locomotives equipped with batteries to operate "catenary free", a solution aligned with the Company's commitment to environmental sustainability.

Tramway solutions were of notable importance in the backlog arranged in 2017; furthermore, CAF was selected to supply new trams for Vitoria - Gasteiz.

Specifically, four public authorities have renewed the trust previously placed in the company by exercising various options to extend their contracts. Storstockholms Lokaltrafik AB, the company responsible for the Stockholm transport network, signed two extensions in 2017 and acquired 20 new trams: ten four-car trams and ten three-car trams; its fleet for the Swedish capital now boasts 42 Urbos trams. In the Netherlands, specifically in the province of Utrecht, a contract was entered into for the manufacture of 22 seven-car trams, in addition to the initial supply for 27 trams arranged in 2015. BKK -Budapesti Közlekedési Központ-, which manages the transport services in Budapest, the Hungarian capital, formalised an agreement for 21 five-car trams and five nine-car trams, taking the total number of cars to 46 and 17, respectively. In the US, Kansas City decided to increase its fleet of trams with the addition of two new three-car units.

Four new clients chose the Urbos platform to provide tramway services to their respective populations. In the US, specifically Washington State, Seattle Department of Transport (SDOT) entered into a contract for ten three-car trams that can operate on "catenary-free" sections using the energy accumulation system developed in house by CAF.

On the island of Mauritius, for the 26-km section connecting the island's main cities -Curepipe, Vacoas, Rose Hill, Quatre Bornes and the capital, Port Louis-, CAF will supply 18 seven-car Urbos trams and a signalling system, automatic vehicle location system and transit signal priority system, in addition to workshop equipment and a driving simulator. This is a turnkey project led by Larsen & Toubro Limited.

In Belgium, De Lijn -Flemish Transportation Company- entered into a contract for 48 trams that will operate in the provinces of Antwerp, West Flanders and East Flanders. In Italy, the Region of Calabria formalised a contract for the purchase of four five-car Urbos trams for the new tramway

system in the city of Cosenza. In Germany, the public transport authority Zweckverband Schönbuchbahn arranged a contract for nine three-car light rail vehicles and maintenance over a 19-year period, to provide the essential structure for mobility within its network area.

CAF's light-rail vehicles will also operate in Manila, the capital of the Philippines, on Line 1 of the Manila Light Rail Transit System, as part of a project that the Department of Transport of the Philippine Republic arranged through Mitsubishi Corporation. 30 units of rolling stock will be supplied, strengthening the trust between the two companies by means of a new project, following previous successful collaborations on the Istanbul metro and the Canberra tram.

In the metro market, the city of Naples arranged a contract for the supply of ten six-car units for Line 1 of the metro of the capital of the Campania region of Italy. The relationship of trust between CAF and various Italian public authorities continues to grow with this new contract, which joins those entered into in the past with the Rome metro, Bari commuter trains, the Friuli-Venezia Giulia and Sardinia regions and Trenitalia.

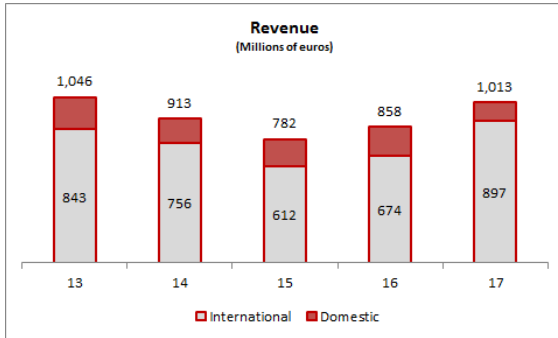
We conclude this summary by analysing the diesel and electric units contracted in the UK and New Zealand. On the other side of the world, the city of Auckland has renewed its trust in our trains by contracting an additional 15 electric units and maintenance over a period of eight years. These units are equipped with an on-board electricity storage device which enables them to operate on lines that are not electrified, as is the case of the Papakura–Pukekohe route, thereby avoiding the use of diesel trains that currently provide the service.

In the UK, the joint venture formed by Abellio, Japan East Railway Company and Mitsui & Co Ltd was awarded the operation of the West Midlands franchise and selected CAF for the manufacture and maintenance of 26 diesel multiple units (14 four-car units and twelve two-car units). The selection of CAF confirms the trust of UK operators in CAF's products, which enjoy a significant presence in the UK, as demonstrated by the tramway contracts in cities like Edinburgh and Birmingham, or wheel sets for the provision of services by operators such as First Group, Arriva and Serco.

Last, but by no means least, mention should be made of the sound commercial performance of, and contracts contributed by, the wheel sets business (MiiRA) and the Group's other businesses, which increased the total annual contracts to around EUR 1,500 million.

The Company, which is now more than 100 years old, faces 2018 with a renewed sense of optimism in light of the forecast investments from various operators, which include opportunities in the domestic market such as those announced by the Ministry of Public Works relating to imminent tenders by Renfe for various types of material.

Industrial activity



Within 35 projects in the design, manufacture or delivery phase that were active in 2017, approximately 20 of them related to the manufacturing phase, which occupied the industrial activity of the Group's various plants.

Certain projects were completed in 2017, such as the project for twelve locomotives for the Saudi Arabian operator SAR, with the delivery of the remaining locomotive; or Euskotren's order for 28 units, the manufacture of the last six of which was completed; the eight trains for the Istanbul metro completing the order for 21

trains; the last of the 20 trains contracted by the Helsinki metro; and the six trams completing the contract for twelve arranged by the German city of Freiburg.

The manufacturing phase of other projects commenced in previous years continued, namely the order for 35 trains for the operator CPTM in the Brazilian city of Sao Paulo, of which nine units were manufactured, taking the total to 24 at the end of the year; or the project for the Santiago de Chile metro, with the manufacture of 18 units of the order for 41 trains; ten of the 16 trams under the contract arranged with the city of Saint Etienne; the 15 trains of the Civity platform for the city of Toluca (Mexico); eight trams for Utrecht; the first of the trams for Canberra; the first nine trams of the 21 arranged by Luxembourg and 15 trains for the Medellín city metro.

The first five trains for the Dutch operator Nederlandse Spoorwegen (NS) left the manufacturing plants. Four of the trains have four cars and the other train has three cars. This is the first delivery batch of the 118 trains of the aforementioned two types that make up the order.

As regards the other projects, which are in earlier phases of development, mention should be made of the projects arranged with the UK operators Arriva Northern and TransPennine, the first units of which were at different stages of completion at the end of 2017.

The most important products manufactured in 2017 were as follows:

	No. of Vehicles
Long-distance Amtrak cars	11
Long-distance Caledonian cars	16
Locomotive for Saudi Railway Company (SAR)	1
Euskotren commuter trains	18
Commuter trains for CPTM	72
Commuter trains for Toluca	75
Commuter trains for NS (four-car units)	16
Commuter trains for NS (three-car units).....	3
Chile metro.....	90
Istanbul metro	48
Helsinki metro.....	4
Medellín metro	45
Trams for Freiburg	42
Trams for Saint Etienne	50
Trams for Utrecht	40
Trams for Luxemburg	63
Trams for Canberra	5
TOTAL	599

BOGIES

With welded chassis877

WHEEL SETS AND COMPONENTS UNITS (MiiRA)-

Assembled axles4,160
Loose axle bodies6,211
Monoblock wheels.....47,816
Elastic wheels867
Couplers451
Gear units2,482

Investments

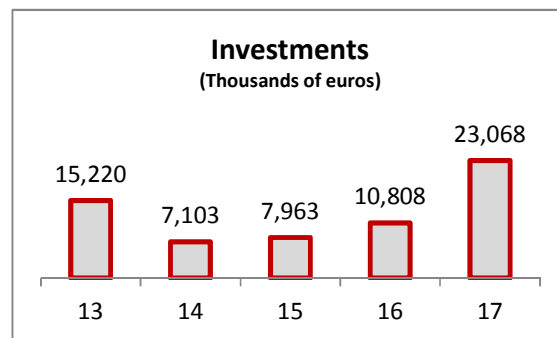
Capital expenditure by CAF in 2017 amounted to EUR 23,068 thousand. 2017 investments included:

At the Wheel Sets Business Unit (MiiRA), the investment for a new automatic axle machining and verification line was completed and the line came into service at the end of the year. Similarly, the adaptation of MiiRa's new offices was completed in early 2017 and they are now fully operational.

At the Rolling Stock Business Unit, a plan commenced in 2017 to improve the industrialisation model with the aim of equipping the Company with the capacity and facilities required to provide an optimal response to the considerable number of projects awarded in 2016. These measures included most notably the new engineering and R&D building being constructed in Beasain and investment in manufacturing areas, such as the refitting and renovation of the finishing warehouses applying the lean manufacturing methodology, implementation of new vehicle-platform-specific lines, the conditioning and equipping of the new kitting areas, acquisition of a new paint shop and the construction of a new tram test track.

With regard to investments in the Company's other departments, the existing offices were also reorganised and extended. The main departments affected by these investments were the Quality, Manufacturing Engineering, Purchasing and Planning departments.

Similarly in the IT area, the data warehousing system is currently being upgraded to provide a more modern hybrid infrastructure comprised of various types of data warehousing. A server consolidation process was also launched to equip servers with greater processing resources, thus minimising the number of incidents and reducing consumption.



R&D+i activity

As regards CAF and CAF I+D, in 2017 CAF Group's new Technology Plan for 2018-2019 was completed which, aligned with the Strategic Plan, will set in motion a total of 47 new projects for CAF and its subsidiaries, and continue another 67.

Similarly, the Product Plan for 2018-2019 was completed, which is focused on the basic development of new types of vehicle to extend CAF's product range and on improving its existing offering.

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

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

The 2017-2018 Technology Plan implemented in 2017 fostered a total of 134 projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2017-2018 Technology Plan encompassed the following fields:

- Specific rolling stock products
- Basic railway technologies such as dynamics, aerodynamics, fluids, noise, EMC, etc., in addition to technologies such as Big Data, cybersecurity, communications and computer vision.
- Digital Train, which comprises projects using Big Data and Machine Learning, etc. technologies to gather and process data obtained in service for use in product and maintenance enhancements.
- Energy accumulation and management, comprising projects relating to the reduction and optimisation of energy consumption in trains (driving, ancillary systems, etc.) and in the railway system as a whole, capture and storage of energy in batteries and hydrogen, etc.
- Signalling (on-board and fixed)
- Traction
- Specific products and developments using wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

All of the above combined the execution of projects aimed at assimilating new 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, a project associated with the Digital Train developments funded by the strategic HAZITEK programme.
- SIP-SCIE, a project to develop energy capture technologies supported by the Spanish Centre for Industrial Technological Development (CDTI).
- ROLL2RAIL, a two-year project led by CAF on the technical side which precedes Shift2Rail, the aim of which is to develop a series of key technologies that will provide a significant leap in innovation in the rolling stock vehicle field.
- 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, PINTA, IMPACT, etc.) which are scheduled to continue until 2024.

The subsidiaries continued their normal technological development activity. The following activities are worthy of note:

- Development of proprietary, on-board ETCS DMI software in compliance with BL3 regulations, thereby eliminating the need to depend on software licensed from a third party.
- Certification of the generic on-board ETCS software for the Netherlands, including the country-specific CRs required by ProRail.
- ERTMS system L1 Infrastructure with temporary speed restrictions (PCE, L1EM, LEU) was completed. It is being installed in the Atlantic Axis, Vandellós -Tarragona and Pamukova - Kosekoy projects.
- ATO system for the Mexico-Toluca project integrated in Laboratory.
- Modularisation of the traction platforms, including software.
- Complete validation and application of Full-Litio technology in customer projects, which enables "catenary-free" rolling stock to operate and extends its battery life.
- Development of hybrid renewable energy (mainly photovoltaic) systems and battery storage systems.

In addition to the development, enhancement and expansion of CAF's existing vehicle platforms, the most significant engineering projects undertaken in 2017 were as follows:

- Oaris high-speed trains for Flytoget (Norway)
- Diesel and electric multiple units for Arriva Northern (UK)
- Electric multiple units for First TransPennine Express (UK)
- LRVs for the Boston and Maryland metros (US)
- Push-pull cars for Caledonian and First TransPennine Express (UK)
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)
- Metros for Mexico City Line 1 (Mexico), Algiers (Algeria) and Quito (Ecuador).

The following projects entered into service in 2017:

- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Naples metro (Italy)
- Trams for Cosenza (Italy), Seattle (USA) and De Lijn (Belgium)

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 CAF's results and reputation;
- Defending the interests of shareholders, customers, other groups interested in the Company's operations and that of society in general; and
- Ensuring the Company's stability and financial strength in a sustained way over time.

To do so, the General Risk Management and Control Policy is implemented throughout the entire CAF Group 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 identified 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 the Company is facing 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 Group'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", in 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. They include the following: personnel/employment law, human, social and environmental rights, among others, and are further detailed in their related sections.
- 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.

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.

NON-FINANCIAL INFORMATION AND CORPORATE SOCIAL RESPONSIBILITY STATEMENT

This section of the directors' report provides disclosures on the non-financial information as defined in the legislation in force ("non-financial information statement"), without prejudice to CAF also preparing an annual corporate social responsibility report that includes both the aforementioned non-financial information and also further develops additional matters relating to sustainability and corporate social responsibility.

In this connection and in accordance with CAF's Corporate Social Responsibility Policy, the central line of CAF's corporate strategy is that all persons that form part of CAF base their actions on the ethical principles of good faith and integrity, and that its standards of conduct are governed by the values contained in the aforementioned policy.

CAF's primary objective, as established in its Code of Conduct, is to build trust and drive value in the domestic and international markets for the items, equipment, materials, goods and services intended for transport and other related activities, for the benefit of customers' needs, shareholders' investment, competitiveness in the countries where it operates and the expectations of all the individuals who work at the organisation.

The Company also defines its social responsibility as a voluntary commitment to foster the achievement of its business objectives, complying with legal obligations and applying balanced criteria in dealings with stakeholders to create value on a sustainable basis.

CAF's Corporate Social Responsibility for 2017 has been prepared in accordance with the Core option of the Global Reporting Initiative (GRI) G4.

For more information than that disclosed below, see the "*2017 Corporate Social Responsibility Report*", which is available on CAF's website.

Environmental activity

CAF is committed to combatting climate change and to being environmentally friendly mainly through two channels:

- Offering more efficient and environmentally friendly means of transport, as detailed in the current Corporate Social Responsibility Policy. To do this, CAF carries out numerous research and development activities included in the 2015-2017 Technology Plan in order to prioritise the demands of its customers and users: the quality, safety and eco-efficiency of its products.
- Preventing the environmental impact of the industrial activities carried out. CAF's Environmental Policy indicates that the efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and minimise important areas of environmental concern, such as atmospheric emissions, waste generation and energy consumption, among others.

The following environmental risks associated with both the products and services the Company provides and the industrial activities it carries on are identified in these two areas: (i) use of pollutants; (ii) sub-optimal energy consumption; (iii) impact on water sources; (iv) impact on biodiversity; (v) greenhouse gas emissions; (vi) generation of waste; (vii) environmental impact of products and services; (viii) non-compliance with applicable environmental regulations; and (ix) non-compliance with requirements set by customer specifications.

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Company's Environmental Policy and the CSR Policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

In relation to the first area, and with the aim of offering more efficient and environmentally friendly means of transport, CAF is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their lifecycle.

As a result of these activities, in 2011 CAF developed the first verified Environmental Product Declaration (EPD) for a tram (the Urbos tram for Zaragoza) in the world under ISO 14025. This environmental impact study on the Zaragoza tram was quantified using a life cycle assessment (LCA) pursuant to ISO 14040 and ISO 14044. From 2011 CAF has continued to certify products in various segments (tram, metro, regional trains) and in 2017 it was one of the rolling stock manufacturers with the largest number of EPDs registered.

Furthermore, as regards how to minimise the environmental impact of its activities, the Company has implemented an Environmental Management System at its most important manufacturing centres (Beasain, Irún and Zaragoza) which is certified under ISO 14001:2004. The most recent maintenance audit for ISO 14001:2004 certification was performed in June 2017.

An audit was also carried out in order to identify gaps with respect to ISO 14001:2015 that will enable the establishment of an action plan to bring the system into line with the aforementioned standard and achieve certification. By doing so, in 2018 the Environmental Management Systems of all the centres will transition to the new version of ISO 14001:2015.

As regards the environmental indicators obtained in 2017, mention should be made, due to its importance, of the energy intensity indicator (energy use per man-hours). At the Company, this indicator stands at 0.70 Kwh per man hour. This figure has decreased considerably on 2016 due to the discontinuation of the steelworks activities at the Beasain factory at the beginning of 2017.

For more information on environmental matters, see Chapter 5 "Contributing to the care of the environment" in the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

Social matters

CAF, as explained in its Corporate Social Responsibility Policy, is committed to the local, national and international community, and implements and fosters initiatives focused on improving the quality of life of the people in the communities where it operates and the areas of its activity. The Company's objective is to participate in the various communities with which it interacts through development cooperation and supporting the various public authorities and leading public and private entities.

Associated with these undertakings, in addition to respecting the social, economic, cultural and linguistic environments in which CAF carries on its activity, are the following risks: (i) the adverse impact of CAF's activities on local communities; (ii) lack of alignment between the corporate objectives of CAF and the various communities; (iii) difficulty of establishing sustainable, enduring relationships with local communities; (iv) ineffective cooperation with the public authorities and local entities; and (v) lack of respect for social, economic, cultural and linguistic environments.

These risks are fully integrated in the Company's risk management and control system and the procedures and controls that are applied stem from the Corporate Social Responsibility Policy. The risk management and control system regularly monitors the compliance and effectiveness of the measures adopted.

CAF engages in activities that contribute to the wellbeing and improvement of local communities; certain of these are intrinsic to its activity, while others relate to collaborative and participatory initiatives that are categorised in four areas: the economic environment, knowledge generation, collaboration with educational and training institutions, and social and cultural matters.

The Company is committed to the local economy, which materialises on two fundamental, but not exclusive levels. The first of the levels is reflected in the generation of quality employment wherever it carries on its activities. The quality of employment results in appropriate general conditions and a vocation of employment stability. More than 90% of CAF's employees have permanent contracts.

The second level is related to specific initiatives and activities that might affect the economy of the locations where it operates, thereby contributing to fostering the growth of the business fabric with a different intensity and scope. CAF participates in this last line at regional and international level.

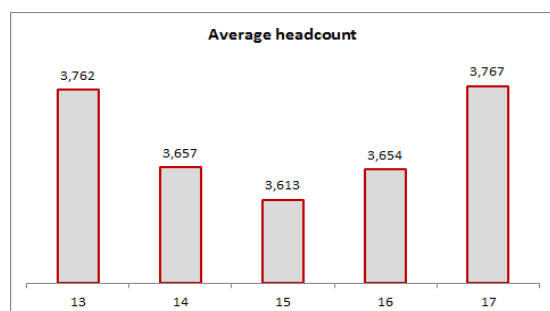
As in previous years, CAF continues to collaborate in order to generate knowledge where it carries on its activities. In 2017 the Company had various initiatives in progress that can be categorised into three types: Participation in governing or management bodies of research centres; long-term collaboration to develop knowledge with universities and research centres; and participation in public or private entities focusing on innovation.

Similarly, the Company remains committed to training future professionals and with this in mind establishes agreements to collaborate with educational institutions or entities that foster youth employment in the area in which it operates. It has in-force agreements with the main universities and professional schools. It highlights, within the international activity in 2017, the Company's promotion of internships for graduates at CAF Group headquarters in countries such as England and Scotland in the UK, Hungary, Italy, Germany, the Netherlands, Luxembourg, France and Chile, among others.

Lastly, CAF collaborates with public and/or private entities to support social, knowledge and cultural projects that have a positive impact on the communities where it is located. Among these activities, mention should be made of the use of Basque in the Beasain and Irún workplaces; noting that in 2017 the Silver Bikain certificate was obtained. This certificate recognises the quality of the use of Basque in a professional environment.

For more information on Social matters, see Chapter 6 "The Social Value of Our Activity" in the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

Human resources



The people who are part of CAF are key to develop a sustainable project as is expressed explicitly in the Corporate Social Responsibility policy and Code of Conduct.

CAF promotes the professional development of the people taking into account the balance between the Company's objectives and the employees' needs and expectations, encouraging the adaptation and improvement of competencies and capabilities. The employees' experience, knowledge and motivation are

reflected in each of the Company's products and services.

In addition, CAF is committed to use the necessary resources to eliminate or reduce the occupational hazards of all persons, as reflected in the current occupational risk prevention policy.

In his area are identified the followings risk related to the prevention of occupational hazards and the appropriate professional development of employees: (i) rotation of staff; (ii) insufficient training and professional development; (iii) lack of diversity and equal opportunities; and (iv) accidents and health effects.

These risks are fully integrated into the Group's risk management and control system; and the procedures and controls that apply derive from the policy of Corporate Social Responsibility, Policy of Prevention of Occupational Hazards and Code of Conduct of the Company. Within the control and risk management system, the compliance and effectiveness of the measures taken are periodically monitored.

In 2017 a significant programme for the incorporation resources was launched to respond to the growth initiatives of the various businesses. In this sense, CAF, S.A. has increased its headcount during 2017 to reach 3,929 employees. The average headcount of CAF S.A. in 2017 amounted to 3,767.

CAF, S.A. in figures	31/12/17	31/12/16
College graduates	1,064	909
Middle managers and administrative personnel	558	531
Production and Services	2,307	2,242
Total	3,929	3,682

In order to adapt the template to the Company's challenges, the relative weight of the group of university graduates has increased.

It is worth noting the permanent communication between employees, trade unions and the Company in order to understand their interests and expectations, which should allow reaching agreements beneficial to all. In the employment-law area, of note in 2017 was the agreement to sign the collective agreements for all the Parent's head offices applicable to 2017 and 2018.

With regard to training, the training process is key to structuring this activity and CAF demonstrates this. The indicator of activity and effectiveness of the training process at the end of 2017 show positive figures. More than 73,000 hours of training have been received, with 99% of the planned training activities being carried out, and the assistance has increased at 91%.

In CAF it is actively promoted freedom for discrimination, either direct or indirect, especially in terms on gender and the defense and effective implementation of the principle for employment equality among men and women, making progress in the establishment of measures that favour the work-life balance. The 12% out the total employees of CAF are women, a percentage that exceeds the one on the previous period.

In 2017 an audit of the maintenance of the certificate regarding management framework, based on the requirements expressed in standard OHSAS 18001:2007 for the plants located in Beasain and Irún, an audit for the renewal of the certificate OHSAS 18001:2007 and a regulatory audit for the plant in Zaragoza have been performed. Additionally, and in order to make an internal tracking of the management framework implemented according to the requirements of the standard one, internal audits were performed in each one of them.

The Occupational Risk Prevention Plans of each CAF head office define the prevention activities schedule and the annual targets in terms of occupational risk prevention.

With regard to the aim of accident rates, three indicators are mainly measured: the frequency rate, severity rate and absolute frequency rate.

Prevention of occupational hazards in figures (2017)	Rolling stock business Main Manufacturing plants Rolling stock/components business			Railway Services business Headquarters
	Beasain	Irún	Zaragoza	
<p>Frequency Index</p> $FR = \frac{\text{Number of injuries with leave} * 1,000,000}{\text{Hours worked}}$	23.83	32.6	32	39.67
<p>Severity Index</p> $SR = \frac{\text{Number of lost Journeys} * 1,000}{\text{Worked hours}}$	0.56	0.5	0.51	1.44
<p>Absolute Frequency Index</p> $AF2 = \frac{\text{Total injuries} * 1,000,000}{\text{Worked hours}}$	160.45	293.3	288	73

For more information on human resources matters, see Chapter 4 "Our Team's excellence" in the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

Respect for human rights

CAF is committed to scrupulously respecting fundamental rights, the principles of equality and non-discrimination, protecting children from exploitation and any other principle included in the Universal Declaration of Human Rights and the United Nations Global Compact. These commitments are expressed both in the Code of Conduct and in the Corporate Social Responsibility Policy.

The following risks have been identified that might jeopardise the fulfilment of these commitments: (i) violation of the principles of equality and/or non-discrimination in the workplace; (ii) a lack of freedom of association or the right to collective bargaining at own and/or third-party workplaces; (iii) child exploitation at own and/or third-party workplaces; (iv) forced labour at own and/or third-party workplaces; (v) violation of the rights of indigenous peoples; (vi) psychological harassment; and (vii) insufficient integration of people with disabilities.

These risks are fully integrated in the Company's risk management and control system and the procedures and controls that are applied stem from the Company's Code of Conduct, Psychological Harassment Prevention Protocol, Compliance Manual and the Corporate Social Responsibility policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

CAF has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 95% of the personnel included in the training plan established to this end have participated in these activities.

In addition, CAF is committed to maintaining the highest standards of professionalism and integrity in its commercial relationships. Specifically, as part of the supplier approval process CAF requires compliance with the ethical principles contained in the Code of Conduct.

CAF has certain measures to assess and guarantee compliance with the Code of Conduct in the supply chain, inter alia supplier approval audits, which include the assessment of human-rights related matters such as certification in this area or the verification of compliance with the Code of Conduct. Also, in 2017 an assessment of compliance with the Corporate Social Responsibility Policy was performed on 15 significant suppliers, whose importance was based both on the type of product they supply and their geographical location. All of the assessments carried out in this process were satisfactory.

Lastly, mention should be made of the existence in this area of the Psychological Harassment Prevention Protocol, which is integrated in the occupational risk prevention system. The purpose of this Protocol is to define situations of psychological harassment in the workplace, establish preventive measures to prevent and avoid these situations, and establish procedures so that, should they arise, the Company's personnel know how to act.

For more information on Human Rights matters, see the "2017 Corporate Social Responsibility Report", which is available on CAF's website.

Fighting corruption and bribery

Good corporate governance system

CAF carries on its activity by bearing in mind the importance of appropriate, transparent management as an essential factor for generating value, enhancing economic efficiency and strengthening the trust of its shareholders and investors, which is implemented through a Corporate Governance System based on the "Good Corporate Governance" concept.

This system is based on the commitment to ethical principles, best practices and transparency, and is organised around the defence of the corporate interests and the creation of sustainable value for CAF's stakeholders.

Fighting corruption and bribery is part of the primordial Good Governance and Corporate Social Responsibility objectives, and has given rise to the establishment of preventive measures to ensure strict compliance with the legislation in force in the territories in which CAF carries on its activities, including the approval and implementation of a Code of Conduct and a Corporate Compliance Manual.

Since 2011 CAF's Code of Conduct has defined the series of general rules and principles of corporate governance and professional conduct applicable to all the Company's professionals and any other entity or party that, as part of their professional activity, collaborates or has a professional relationship with the Company.

The Code of Conduct is available on CAF's corporate website (www.caf.net) and has been distributed to all employees via CAF's portal.

In implementing the Code of Conduct, a corporate compliance programme was established, which materialised in the Corporate Compliance Manual that was approved by CAF's Board of Directors on 29 April 2015; the Manual complies with the provisions of the recent changes introduced in the Spanish Criminal Code and the Code of Conduct forms part thereof. The Manual is reviewed periodically and the most recent version, in force in 2017, was approved by the Board of Directors on 27 July 2016.

This Manual responds to the need to verify the sufficiency and the effective establishment of the procedures and controls at the Company to prevent, as far as possible, the risk of significant offences being committed in relation to CAF's activities and the consequences of such offences.

Risks and activities related to fighting corruption and bribery

As indicated above, the analysis of criminal risks enabled the definition, from the catalogue of offences that can be committed by legal persons, of the "significant offences", which are those that to a greater or lesser extent can be related to the purpose of CAF's activity and, consequently, are the offences that warrant greater attention from a corporate compliance perspective.

Of the above list, the following are specifically related to fighting corruption and bribery: (i) corruption between individuals; (ii) bribery; and (iii) corruption in international transactions.

CAF's activities that warrant particular attention for the aforementioned purposes can be summarised as follows: (i) public calls for tender, (ii) performance of public and private contracts; and (iii) integrated projects. However, the Corporate Compliance Manual provides a detailed analysis of each of the risk activities and how to manage them.

Management of specific risks related to fighting corruption and bribery

Specific management of the risks identified in the Corporate Compliance Manual is performed: (i) by applying specific conduct policies; (ii) by raising awareness among all individuals of CAF to whom the Manual applies through training and dissemination activities; (iii) by managing a whistleblowing channel that enables detection of behaviour that violates the Code of Conduct or the aforementioned Manual; and (iv) by implementing the Manual at CAF's subsidiaries to ensure that it is applied at all the Group's companies.

The Compliance Committee or Unit is CAF Group's body, which has independent powers of oversight and control, that is responsible for overseeing the compliance programme implemented through the Manual.

Specific conduct policies

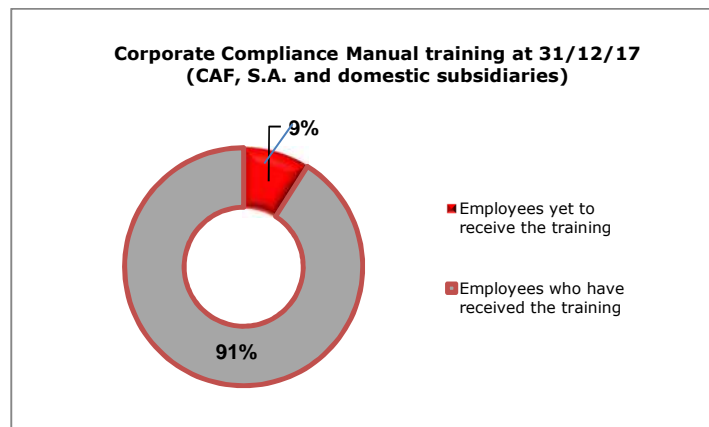
The Corporate Compliance Manual specifies the risk activities that the Group carries on and links them to potential criminal conduct that might be committed and assigns certain conduct policies that must be observed to avoid the commission of offences.

The classification of an activity as a "risk" does not mean that it is unlawful or criminal, but rather that it is an activity from which, if due precaution is not taken, situations with potential criminal implications might arise.

Also, the conduct policies are protocols or procedures to be followed that are established by CAF Group to prevent the commission of criminal conduct in the performance of risk activities.

Corporate Compliance Manual dissemination and training

In 2017 CAF continued to provide to its personnel the training activities commenced in 2016 aimed at raising awareness of, disseminating and applying the Corporate Compliance Manual. At the end of the 2017, training had been provided to 91% of the personnel at the Parent and Spanish subsidiaries, in accordance with the Corporate Compliance Manual. More than 2,000 people have received training in this connection. Similarly, a system has been established to provide training to new employees.



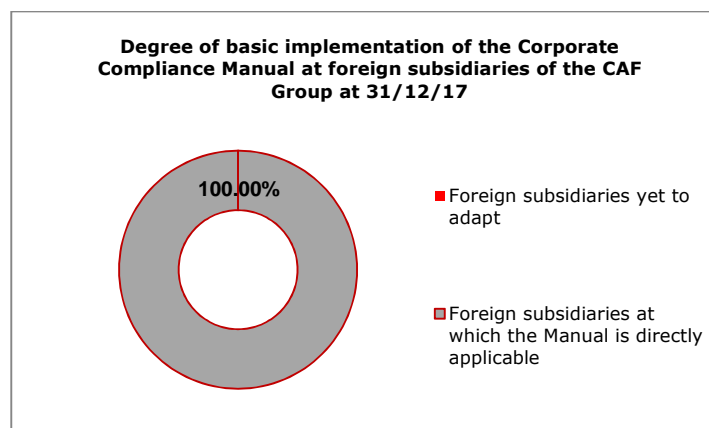
Whistleblowing channel

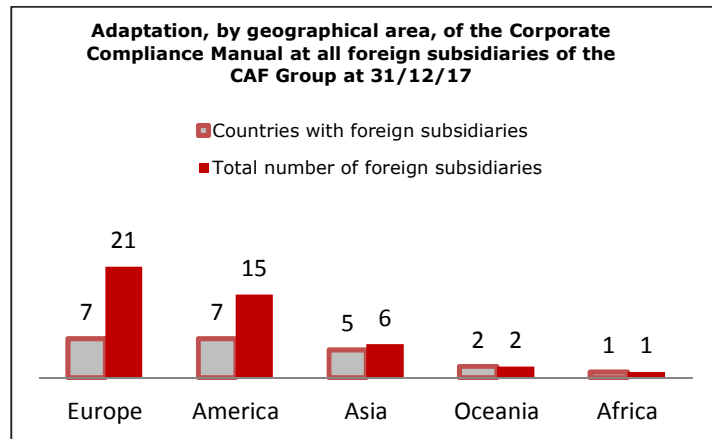
The Manual also establishes a single whistleblowing channel to report complaints, which is supervised by the Compliance Committee. This body regularly analyses the complaints received and, where applicable, takes the appropriate steps based on the specific circumstances of each complaint. If it considers that the complaint warrants greater attention, the Compliance Committee can send the documentation to the relevant department in order to perform a joint assessment of the facts and determine the measures to be adopted. An appropriate record is kept of all the complaints received, which ensures the confidentiality of the whistleblower and the content thereof.

Adaption of the Corporate Compliance Manual at subsidiaries

The Corporate Compliance Manual was immediately applicable to Spanish subsidiaries from the date of its approval, and a deadline of 31 December 2017 was established for its adaptation for foreign CAF Group subsidiaries.

The adaptation process was completed within the deadline at CAF’s 45 foreign subsidiaries. These subsidiaries are located in 22 countries on the five continents.





For more information on combating corruption and bribery matters, see Chapter 2 "Good Corporate Governance" in the "2017 Corporate Social Responsibility Report", which is available on CAF Group's website.

EVENTS AFTER THE REPORTING PERIOD

At 31 January 2018, the Group had a firm backlog of EUR 6,158,860 thousand.

ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2017 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 2017 was 81.30 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Company will 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 statement of profit or loss. An order is considered firm only where obligations between CAF 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).

EBITDA: the Company's EBITDA is calculated by deducting from "Profit from Operations" 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".

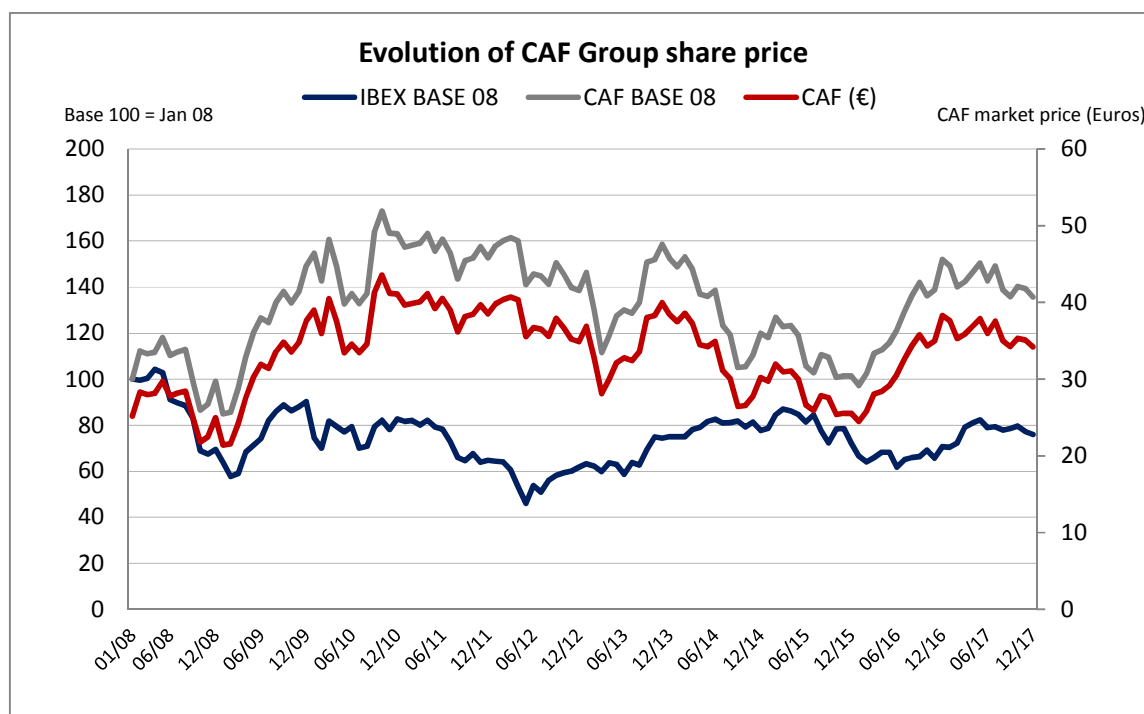
Cash flow: the Company's cash flow is calculated by deducting from "Profit for the Year" in the statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

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 traded securities with 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.9.bis).

STOCK MARKET INFORMATION

	2017	2016	2015	2014	2013
Market price-					
Market capitalisation at year-end (millions of euros)	1,172	1,313	876	1,036	1,317
Closing price (euros)	34.18	38.30	25.55	30.23	38.43
Low (euros)	32.22	20.66	23.45	23.01	26.11
High (euros)	39.50	38.39	34.39	39.70	40.62
Data per share (euros)-					
Earnings per share (EPS)	1.24	1.02	1.20	1.74	2.63
Dividend per share	0.66	0.58	0.525	0.525	1.05
Market ratios-					
PER (average market price/EPS)	29.06	30.30	23.76	18.53	12.53
Market price/EBITDA	6.84	7.84	5.87	7.55	5.07
PBV (average market price/BV)	1.64	1.37	1.39	1.50	1.57
Dividend yield	1.84%	1.87%	1.85%	1.63%	3.18%
Pay-out ratio (Dividend/EPS)	53.4%	56.8%	43.9%	30.2%	39.9%
Liquidity ratios-					
Free-float rotation	71%	89%	99%	123%	109%
Traded volume (millions of shares)	11.8	15.6	16.2	21.2	15.8



2017
ANNUAL
CORPORATE GOVERNANCE
REPORT

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER'S PARTICULARS

END OF FISCAL YEAR DATE

31/12/2017

TAX ID. NO.:

A20001020

COMPANY NAME

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

REGISTERED OFFICE

JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital.

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

Indicate whether different types of shares exist with different associated rights:

Yes

No

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
INVESCO LIMITED	0	350,070	1.02%
CARTERA SOCIAL, S.A.	8,727,191	0	25.46%
INDUMENTA PUERI, S.L.	0	1,721,528	5.02%
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0	4,818,523	14.06%
TEMPLETON INVESTMENT COUNSEL, LLC	0	1,030,590	3.01%
EDM GESTIÓN, S.A. S.G.I.I.C.	0	1,035,107	3.02%

Name or company name of indirect holder of ownership interest	Via: Name or company name of direct holder of ownership interest	Number of voting rights
INVESCO LIMITED	GROUP COMPANIES	350,070
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	1,721,528
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	4,818,523
TEMPLETON INVESTMENT COUNSEL, LLC	GROUP COMPANIES	1,030,590
EDM GESTIÓN, S.A. S.G.I.I.C.	EDM INVERSIÓN FI	1,035,107

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
TEMPLETON INVESTMENT COUNSEL, LLC	21/08/2017	Ownership interest has risen above 3% of share capital
BESTINVER GESTIÓN S.A., S.G.I.I.C.	01/09/2017	Ownership interest has fallen below 3% of share capital
EDM GESTIÓN, S.A. S.G.I.I.C.	21/12/2017	Ownership interest has risen above 3% of share capital

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

Name or company name of director	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
MR. JUAN JOSÉ ARRIETA SUDUPE	1,000	0	0.00%
MS. ANE AGIRRE ROMARATE	750	0	0.00%

Total % of voting rights held by the Board of Directors	0.00%
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Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company

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

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the company and/or its group, unless they are insignificant or arise from ordinary trading activities:

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

Type of relationship: Contractual

Brief description:

Employees' share instrument in CAF's share capital

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

Type of relationship: Corporate

Brief description:

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

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

Yes

No

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

Yes

No

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

Not applicable

A.7 Indicate whether any natural or legal person currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Act. If so, identify:

Yes

No

Comments

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

At year-end:

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

(*) Through:

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

Explain significant changes

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

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

A.9.bis Estimated free float:

	%
Estimated free float	48.41

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

Yes

No

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

Yes

No

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

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

Yes

No

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

B GENERAL MEETING

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

Yes

No

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes

No

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

B.3 Indicate the rules governing amendments to the company's Bylaws. Specifically, the required majorities for amending the bylaws shall be informed, as well as the provisions set forth for safeguarding the rights of the shareholders during the bylaw amendments, as the case may be.

The General Shareholders' Meeting shall be competent to agree on the amendments to the bylaws. 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 domicile abroad and, in general, any amendment to the Bylaws, a Shareholders' Meeting must be held and have a quorum of at least 50% of the subscribed capital with voting rights at 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 during the debates, as well as vote. Those holding less than a hundred shares may group together and give their representation 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 Indicate the data on attendance at the General Meetings held in the year to which this report refers and those related to the previous year:

Date of Annual General Meeting	Attendance data				
	% attendance in person	% attendance by proxy	% remote voting		Total
			Electronic vote	Other	
11/06/2016	45.10%	27.92%	0.00%	0.00%	73.02%
10/06/2017	27.60%	43.52%	0.00%	0.00%	71.12%

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

Yes

No

Number of shares required to attend a General Meeting	1,000
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B.6 Section repealed.

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

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

This link includes, in a structured format, the information required by Royal 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 13 June, on technical and legal specifications and information to be contained in the websites of listed companies and savings banks issuing securities admitted for trading in official secondary stock markets.

Apart from the current by-laws, specifically, the subsection on "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; structure of the Board of Directors and its committees; the Corporate Governance Annual Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, and other regulations and codes, By-Laws, Report on the Auditor's Independence 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 Spanish Capital Companies Act, at the moment of 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 MANAGEMENT STRUCTURE OF THE COMPANY

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	7

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

Name or corporate name of director	Representative	Director's condition	Board office	Date of first appoin	Date of last appoin	Procedure for election
MR. ANDRÉS ARIZKORRETA GARCIA		Executive	CHAIRMAN AND CEO	26/12/1991	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING

Name or corporate name of director	Representative	Director's condition	Board office	Date of first appointment	Date of last appointment	Procedure for election
MR. JUAN JOSÉ ARRIETA SUDUPE		Independent	COORDINATOR DIRECTOR	07/06/2008	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JAVIER MARTÍNEZ OJINAGA		Independent	DIRECTOR	13/06/2015	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	28/10/2015	COOPTION
MR. LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
MS. MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR-SECRETARY OF THE BOARD	22/01/2016	22/01/2016	COOPTION
MS. CARMEN ALLO PÉREZ		Independent	DIRECTOR	11/06/2016	11/06/2016	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JULIÁN GRACIA PALACÍN		Independent	DIRECTOR	10/06/2017	10/06/2017	APPOINTED AT THE ANNUAL GENERAL MEETING
MS. ANE AGIRRE ROMARATE		Independent	DIRECTOR	19/12/2017	19/12/2017	COOPTION

Total number of directors	10
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Indicate any removals of directors during the reporting period:

Name or corporate name of director	Director's condition upon termination	Date of termination
MR. XABIER GARAIALDE MAIZTEGI	Other External	11/12/2017

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

EXECUTIVE DIRECTORS

Name or corporate name of director	Office per Company organisation chart
MR. ANDRÉS ARIZKORRETA GARCIA	Chairman and CEO
MS. MARTA BAZTARRICA LIZARBE	Director-Secretary of the Board

Total number of executive directors	2
% of the board	20.00%

EXTERNAL PROPRIETARY DIRECTORS

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

Total number of proprietary directors	1
% of the board	10.00%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director:

MS. CARMEN ALLO PÉREZ

Background:

With a Degree in Exact Sciences from the University of Zaragoza and Master in Business Management from the Instituto de Empresa, she has spent most of her professional career in the financial sector, working as Senior Relationship Manager at the Rabobank Bank and formerly Corporate Bank Head for Spain and Portugal at the Royal Bank of Scotland, among others.

Name or corporate name of director:

MR. JAVIER MARTÍNEZ OJINAGA

Background:

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

Name or corporate name of director:

MR. JUAN JOSÉ ARRIETA SUDUPE

Background:

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

Name or corporate name of director:

MR. JULIÁN GRACIA PALACÍN

Background:

Industrial engineer and MBA from ICADE. He has developed his professional career in industries such as telecommunications, logistics and consulting, acting as General Manager and Director at Hagen Batterien and Project Manager in Airtel S.A., among others. He is sole director of Samuelson Consulting, S.A. and Samuelson Logistics, S.A.

Name or corporate name of director:

MS. ANE AGIRRE ROMARATE

Background:

Degree in Business and Economics and Master in Advanced Management from Deusto University. She has performed, among others, the functions of Knowledge Management Director, Training and Development Director at BBVA Group, and Talent Director at EITB. She is the founder of Vesper consulting project, in which she currently performs her activity.

Total number of independent directors	5
Total % of the Board	50.00%

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

No independent director has received any amount or benefit other than the directors' remuneration, nor has established a business relationship with the Company or with any Group company.

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

OTHER EXTERNAL DIRECTORS

Other External directors will be identified and reasons will be provided on why these Other External directors cannot be considered either proprietary or independent members and their relations, whether with the company or its officers, or with its shareholders:

Name or company name of director:

MR. LUIS MIGUEL ARCONADA ECHARRI

Company, officer or shareholder with whom relation is maintained:

MR. LUIS MIGUEL ARCONADA ECHARRI

Reason:

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

Name or company name of director:

MR. ALEJANDRO LEGARDA ZARAGÜETA

Company, officer or shareholder with whom relation is Maintained:

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

Reason:

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

Total number of Other External directors	2
Total % of the Board	20.00%

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

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

	Number of female directors				% of total directors of each type			
	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Executive	1	1	0	0	50.00%	50.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	1	0	0	40.00%	33.33%	0.00%	0.00%
Other External	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	3	2	0	0	30.00%	22.22%	0.00%	0.00%

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

Explanation of measures

CAF has a Directors' Selection Policy aimed at, among others, favouring gender diversity in nominating the members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quincecies of the Companies Law. Particularly, the express purpose of the Directors' Selection Policy is that the number of female directors represent at least thirty percent of all Board of Directors' members by year 2020. Board of Directors.
In particular, by way of the nomination of a third female Director, this goal has been achieved.

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

Explanation of measures

CAF's Nomination 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. Such role appears in Point 3 of the Company's Nomination and Remuneration Policy and is approved by the Board of Directors.
The Nomination and Remuneration Committee selected and issued the favourable reports for the appointment of the three female directors mentioned in section C.1.5 above during the fiscal years 2016 and 2017 respectively.

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

Explanation of reasons

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C.1.6.bis Explain the Nomination Committee's conclusions on compliance verification of the directors' selection policy. In particular, how the policy is promoting the objective that by 2020 the number of female directors represents at least 30% of total board members.

Explanation of conclusions

Directors' nominations and ratifications approved since the entry into force of CAF's Directors Selection Policy have taken place in strict compliance with its provisions, and in particular with regard to the specific purpose that, in 2020, women Directors represent at least thirty per cent of the Board of Directors' members. In particular, the Directors Selection Policy was followed, both in the candidates' selection process and in the final decision in terms of competence, experience, qualification, professional profile and availability of time necessary to fulfil the commitments and dedication required by the director's position. Likewise, in the event that three female Directors are appointed as described in sections C.1.5 and C.1.6 above, their contribution to the diversity of experiences, knowledge and gender was taken into account within the Board. During the 2017 fiscal year, the Nomination and Remuneration Committee presented proposals for the appointment of two new independent board members. This Committee had concluded that for both cases the requirements established in the Directors Selection Policy and approved by the Board of Directors had been met. In particular, the objective envisaged for 2020 in the Directors Selection Policy was achieved through the appointment of a third female Director during this fiscal year, since at least thirty percent of the total number of directors on the Board of Directors are women.

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

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

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

State if formal requests for a presence of the Board have been rejected from shareholders with a shareholding equal to or greater than that of others who have been successfully appointed proprietary directors. If so, explain why these requests have not been entertained:

Yes

No

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

Name of board member:

MR. XABIER GARAIALDE MAIZTEGI

Reasons for resignation:

He has stepped down for voluntary and personal reasons reported in written to the Board of Directors.

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

Name or company name of director:

MR. ANDRÉS ARIZKORRETA GARCIA

Brief description:

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

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

Name or corporate name of director	Corporate name of the group entity	Position	Does he hold any executive
MR. ANDRÉS ARIZKORRETA GARCIA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Natural person representing the Sole Director CAF, S.A.	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF DEUTSCHLAND GMBH	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF SISTEME FERROVIARE, S.R.L.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF NEW ZEALAND LIMITED	Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF CHILE, S.A.	Chairman	NO
MR. ANDRÉS ARIZKORRETA GARCIA	CAF ARGELIA EURL	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF FRANCE SAS	Chairman	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF HUNGARY Korlátolt Felelősségű Társaság	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF INVESTMENT PROJECTS, S.A.U.	Joint Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF INDIA PRIVATE LTD	Managing Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF TURNKEY & ENGINEERING, S.L.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF NETHERLANDS B.V.	Sole Director	YES
MR. ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS S.A.P.I. DE C.V.	Chairman Non Executive	NO
MS. MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇÃO, S.A.	Director	NO
MS. MARTA BAZTARRICA LIZARBE	PROVETREN, S.A. de C.V.	Director	NO

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

Name or corporate name of director	Corporate name of the group entity	Position
MR. ALEJANDRO LEGARDA ZARAGÜETA	VISCOFAN, S.A.	DIRECTOR
MS. CARMEN ALLO PÉREZ	NATRA, S.A.	DIRECTOR

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

Yes

No

Explanation of rules

Article 23.2.b) of the Board of Directors' Regulations 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.1.14 Section repealed.

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

Board remuneration (thousands of euros)	1,721
Amount of the pension rights accumulated by current directors (in thousands of euros)	230
Amount of the pension rights accumulated by former directors (in thousands of euros)	0

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

Name or corporate name	Position
MR. JESUS ESNAOLA ALTUNA	GENERAL CHIEF SALES OFFICER
MR. AITOR GALARZA RODRIGUEZ	CHIEF FINANCIAL, CONTROLLING AND STRATEGY OFFICER
MR. JOSU VILLAR ELORZA	CHIEF OPERATING OFFICER
MR. JUAN GASTESI IRIARTE	CHIEF HUMAN RESOURCES OFFICER
MR. JOSU IMAZ MURGUIONDO	CHIEF CORPORATE OFFICER, BUSINESS AND TECHNOLOGY
MR. IÑIGO ONA LARUMBE	CHIEF CORPORATE DIGITAL OFFICER
MR. IBON GARCIA NEILL	CHIEF RAIL SERVICES OFFICER
MR. FELIX FERNANDEZ LOPETEGUI	CHIEF PROJECT OFFICER
MR. EDUARDO GALVEZ LISON	CHIEF QUALITY, SAFETY AND HOMOLOGATION OFFICER
MS. IRUNE LOPEZ FERNANDEZ	INTERNAL AUDITOR

Total remuneration of senior executives (thousand Euros)	2,075
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C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

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

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

Yes

No

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

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 cooption. The director does not need to be a shareholder. Disqualification on the grounds of conflict of interest or any other legal grounds shall apply (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 that the Board membership of non-executive directors be greater than that of the executive directors, that the number of independent directors be at least one third of the total Board membership and that the relation between proprietary directors and independent directors should match the ratio of the capital represented on the board by proprietary directors to the remainder of the Company's capital. However, this last condition may be relaxed by recognising more significance to proprietary directors, upon existence of a plurality of shareholders represented in the Board with no links between them (Article 7 of the Board Regulations).

Additionally, Board Regulations establishes the following rules related to appointment of Directors: Any appointment or re-election proposal submitted by the Board of Directors to the General Meeting for approval and any appointments made by the Board by its legally stipulated powers of cooption shall be preceded by the corresponding proposal by the Nomination and Remuneration Committee, in the case of Independent Directors and by the Board for the rest of the cases. The proposal shall be accompanied with an explanatory report issued by the Board of Directors, assessing the competence, experience and merits of the proposed candidate, to be attached to the General Meeting or Board of Directors' Meeting minutes. The proposed appointment or re-election of any non-independent director shall also be preceded by a report from the Nomination and Remuneration Committee. The abovementioned shall also apply to natural persons appointed representatives of an artificial person acting as director. The natural person proposed to be a representative shall be subject to the report from the Nomination and Remuneration Committee. Should the Board decide not to follow the proposals of the Nomination and Remuneration Committee, it shall submit and minute its reasons for such decision. The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Likewise, Directors should also be offered refresher programmes when circumstances so advise (Article 15 of the Board Regulations).

With regard to the appointment of Non-Executive Directors, the Board of Directors shall ensure that candidates be individuals of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. The Board of Directors may not propose or appoint as Independent Directors any individuals who are or have been related to the Company or Group companies' management, or to a significant shareholder, or with family ties up to the second degree of kinship and blood relatives up to the third degree, professional or commercial relations with Executive Directors or any other senior executive, or significant shareholders of the Company or Group companies. Specifically, individuals matching the descriptions below shall not be proposed or appointed as Independent Directors: a) If they have been employed or acted as executive directors in Group companies, unless 3 or 5 years have elapsed since the termination of such a relationship, respectively. b) Individuals who are paid by the Company or the Group itself any amount or benefits other than the director compensation, unless they are not significant. Dividends or pension supplements received by the Director for his/her former professional or labour relationship shall not be taken into account, for the purposes of the paragraph above, insofar as such supplements be unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company. c) Individuals who are or have been in the last 3 years partners to the external auditor or person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company.

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

Description of changes

The Board of Directors and the independent external consultant participating in the annual evaluation process have both positively assessed the performance of the Board, its Board members and its Committees during 2017 and have ensured that all the Action Plans outlined for 2017 have been achieved.

Furthermore, within the scope of this evaluation process, the Board of Directors has established various Action Plans for the 2018 fiscal year, however, they have not led to any significant changes to the internal organisation or in the procedures concerning its activities.

C.1.20.bis Describe the assessment process and the areas evaluated by the Board of Directors assisted, if necessary, by an external consultant, regarding diversity in its composition and powers, operation and composition of its committees, performance of the Board of Directors' Chairman and the company's chief executive, as well as performance and contribution of each director.

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 Nomination and Remuneration Committee, it is based on the Board's evaluation.

As for the 2017 fiscal year, and while being in line with the membership numbers determined in Recommendation 36 of the Good Governance Code of Listed Companies, assistance was outsourced through an independent external consultant to conduct this annual evaluation. Within the scope of this process, the Company provided the consultant the minutes of the Board and its Committees along with other corporate documentation. Additionally, the consultant held interviews with the various Directors. This was for the purpose of independently analysing a series of elements that determine the performance of the Board and its Committees, along with the compliance with legal standards and with the recommendations of good governance.

The following core areas were examined:

- a) The quality and effective performance of the Board of Directors.
- b) The performance and membership of its committees.
- c) The diversity of the structure and competences of the Board.
- 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 the results of this examination, the Board of Directors evaluated its performance and that of its Committees in a positive light for the 2017 fiscal year, being in line with the favourable opinion disclosed by the independent external consultant in its report.

C.1.20.ter Break down, if any, business relationships between the consultancy firm or any company in its group and the company or any company in its group.

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

Directors must tender their resignation to the Board of Directors and, if the latter sees fit, resign in the following cases: a) The Proprietary Director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of Proprietary Directors. b) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.22 Section repealed.

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

Yes No

If applicable, describe the differences.

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

Yes No

C.1.25 Indicate whether the Chairman has the casting vote.

Yes No

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

Yes No

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors other than the one established by law.

Yes No

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been set forth regarding the right delegating conditions beyond the limitations established by law. If so, give brief details.

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 instructions 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.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	8
Number of board meetings held without the Chairman's attendance	0

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

Number of meetings	0
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Indicate the number of meetings of the various board committees held during the year:

Committee	Number of Meetings
AUDIT COMMITTEE	7
NOMINATION AND REMUNERATION COMMITTEE	8

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

Number of meeting with the attendance of all directors	8
% of attendances of the total votes cast during the year	100.00%

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

Yes No

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

Name	Positio
MR. ANDRÉS ARIZKORRETA GARCIA	CEO
MR. AITOR GALARZA RODRIGUEZ	Financial and Strategy Manager

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The Board of Directors delegates on the Audit Committee the monitoring of financial balances and auditing services in order to avoid any qualifications. Financial statements for the year ended 31 December 2017 and previous years were approved without qualifications.

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

Yes No

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

C.1.34 Section repealed.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The Company has regulated the relationships with Markets and Auditors. The CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for: (A) Regarding relations with Markets (Article34): (i) The Board shall guarantee the fulfilment of the obligation to deliver information to Markets pursuant to the legislation in force at each given time. (ii) The Board shall also guarantee that periodic financial information, other than Financial Statements and, in general, any other information disclosed to the Markets, is prepared pursuant to the same professional principles, criteria and practices applied to the Financial Statements and that such information is as reliable as the latter. (iii) The Board shall include information about the Company's rules of governance in its annual public report. (B) Regarding relations with Auditors (Art.35): (i) Company relations with external auditors shall be channelled through the Audit Committee, pursuant to the Audit Committee Bylaws and Regulations. (ii) The Board shall inform in the Financial Statements the remuneration paid to the audit firm in each period for services other than auditing. (iii) The Board shall prepare the Financial Statements in order to avoid auditor's qualifications. However, in case the Board considers its criteria should be maintained, the content and scope of the discrepancy shall be explained.

In addition, according to the Company's Bylaws, the Audit and Compliance Committee is responsible for managing the relationships with the external auditors in order to gather information on matters that may call the auditor's independence into question, 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 bis 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 Regulation (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. (ii) Establishing the appropriate relations with the external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit 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 in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. 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 detailed 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. (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 services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. (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. Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same. 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 (Article3 of the Audit Committee Bylaws and Regulations).

In 2017 the favourable report on the auditor's independence was issued.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes

No

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

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

Yes No

	Company	Group	Total
Amount paid for non-audit work (in thousands euros)	0	275	275
Amount paid for non-audit work as a % of the total amount billed by the audit firm	0.00%	33.00%	33.00%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	28	17
Number of years audited by current firm/number of years the company has been audited (as a %)	70.00%	100%

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

Yes No

Details of the procedure

Directors have access to the hiring of advising services through the Audit Committee. Additionally, Article 21 of the Board Regulations grants Non-Executive Directors the power to seek expert advice at the Company's expense, if deemed necessary in furtherance of their duties.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

Yes No

Details of the procedure

The Board approves, at its December meetings, the Board calendar for next year, so that the Directors know the dates of meetings early enough to prepare some of the subjects to be dealt with on them as a guiding plan is established on the subjects to be addressed in every Board Meeting. Normally, a schedule is approved containing eight sessions per year, spread out with sufficient time in between them to study and prepare the necessary information. Ordinary Board meetings shall be convened at least 5 days in advance, although in practice this is done earlier and shall include the meeting's agenda, 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.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the company's name or reputation, tendering their resignation as the case may be.

Yes

No

Explain the rules

As established in Article 18, 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 disciplinary proceedings for serious or very serious misconduct instructed by the supervisory 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. Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

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

Yes

No

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

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

There are no such agreements.

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

Number of beneficiaries: 1

Type of beneficiary:

Managing Director

Description of resolution:

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

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

	Board of Directors	Annual General Meeting
Body approving clauses	Yes	No

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

C.2 Board of Directors' Committees

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

AUDIT COMMITTEE

Name	Positio	Category
MR. JAVIER MARTÍNEZ OJINAGA	CHAIRMAN	Independent
MR. JUAN JOSÉ ARRIETA SUDUPE	MEMBER	Independent
MR. ALEJANDRO LEGARDA ZARAGÜETA	MEMBER	Other External

% of proprietary directors	0.00%
% of independent directors	66.67%
% of Other External directors	33.33%

Explain the functions assigned to this Committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.

Organization:

The Audit Committee shall be made up of at least three directors, appointed by the Company's Board of Directors; At least two of them shall be independent directors and one of them shall be appointed considering their knowledge and experience on accounting, auditing or both. The Board of Directors shall also appoint the Chairman among members acting as independent directors of the Committee. The Chairman shall be replaced every four years and may be re-elected after stepping down for one year. In addition, the Audit Committee 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 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 adequate definition of the consolidation scope, and the correct application of accounting policies. ii. Monitor the independence and efficacy of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic financial information on its activities; and check that senior management is considering its recommendations and conclusions. iii. 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. 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 Regulation (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. f) Establishing the appropriate relations with the

external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit 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 in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. 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. 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 services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing.

Identify the directors in the Audit Committee assigned as per their skills and expertise in accounting, auditing or both areas, and report on the number of years the current Chairman of this Committee has been in this position.

Name of the experienced director	MR. JAVIER MARTÍNEZ OJINAGA
Number of years of chairman in office	2

NOMINATION AND REMUNERATION COMMITTEE

Name	Positio	Category
MR. JUAN JOSÉ ARRIETA SUDUPE	CHAIRMAN	Independent
MR. LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other External
MS. CARMEN ALLO PÉREZ	MEMBER	Independent

% of proprietary directors	0.00%
% of independent directors	66.67%
% of Other External directors	33.33%

Explain the functions assigned to this committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.

Organization:

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 (Articles 4 and 5 of the Nomination 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 Nomination and Remuneration Committee Regulations).

Functions:

The Nomination and Remuneration Committee has the following basic responsibilities: a) Evaluate the balance of skills, knowledge and experience on the Board. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. b) 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. c) Submit to the Board proposals for Independent Directors' appointment through cooption 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 cooption or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. e) Report the proposal for appointment and removal of high executives and the basic conditions of their contracts. f) Examine and organise 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. 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 Nomination and Remuneration Committee Regulations).

In addition, the Committee is responsible for the following tasks: (i) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives. (ii) Ensure that potential conflicts of interests do not compromise the independence of the external advice received by the committee and (iii) Verifying the information on the compensation provided to directors and high executives, as contained in the different corporate

documents, including the annual report on directors' compensation.

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.

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 be chaired by the most senior member among them.

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

	Number of female directors							
	Fiscal year 2017		Fiscal year 2016		Fiscal year 2015		Fiscal year 2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
NOMINATION AND REMUNERATION COMMITTEE	1	33.33%	1	33.33%	0	0.00%	0	0.00%

C.2.3 Section repealed

C.2.4 Section repealed.

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

AUDIT COMMITTEE: 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 been no amendments on the Audit Committee Bylaws and Regulations in 2017. In the fiscal year 2017 an annual report has been prepared on the activities performed by this Committee.

NOMINATION 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 been no amendments on the Nomination and Remuneration Committee Bylaws and Regulations in 2017. In the fiscal year 2017 an annual report has been prepared on the activities performed by this Committee.

C.2.6 Section repealed.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

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

Procedure to notify the approval of related-party transactions

As established in Articles 5 and 29 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to maintain confidential any Company transaction with a significant shareholder after it has received a report from the Audit Committee approving such. Furthermore, the Board of Directors has been attributed, but without the capacity to delegate, the duty to approve (subject to a prior report from the Audit Committee approving such) the transactions made by the Company or group companies for the Directors, for 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 persons related thereto, in accordance with the provisions of the Spanish Capital Companies Law. 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 3.^o they contain amounts not exceeding one percent of the Company's annual revenue.

General authorisation of the operations line and its implementation conditions suffice for all other transactions that are considered to be related-party transactions (those not made for Directors, Significant Shareholders or related persons) that are conducted during the ordinary course of the company business or that are regular or recurrent in nature.

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

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

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

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

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

207,806 (in thousands of euros).

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

Section 229 of the Capital Companies Law 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 such rules. 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 more than one group company listed in Spain?

Yes

No

Identify the listed subsidiaries in Spain:

Listed Subsidiary

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

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

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

Mechanisms to resolve possible conflicts of interest

E RISK CONTROL SYSTEMS

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

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 centralized 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 corporate procedures of the different businesses/projects are consistent with this Group's General Control and Risk Management Policy and Comprehensive Control and Risk Management System.

For the 2017 fiscal year, the Board of Directors approved the Corporate Fiscal Policy that 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.

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 responsible for preparing and implementing the risk management system, including the fiscal system.

Pursuant to Section 5 of the Regulations of the Board of Directors 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 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 Comprehensive Risk Management and Control System implemented and the procedures designed for its monitoring. This will be supported by the Internal Risk Management Function 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:

- 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,
- Participate actively in the risk strategy preparation and in the important decisions regarding its management and
- Ensure that 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 includes, 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) the definition of the Fiscal Strategy or Policy; (ii) the definition of the fiscal risk management framework; (iii) the design of the fiscal risk management and control system, and (iv) making available the internal mechanisms required for the control and management of fiscal risk.

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

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 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, criminal law, regional, national and international tax regulations, among others.

E.4. Identify if the company has a risk tolerance level, including the tax 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, cybersecurity and regulation, there is a zero tolerance level.

With regard to tax risks, the Board of Directors approved the Fiscal Policy that 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.

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

During 2017 no material or extraordinary risks were materialised, beyond those included in the Directors' Report and in 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 for its operation in the international sphere is managed in accordance with the Company's guidelines, which foresee, fundamentally, the establishment of financial or natural hedges, the constant monitoring of fluctuations in the exchange rates and other measures designed to mitigate this risk. However, during this year, the depreciation of the Brazilian real has had a negative impact on the Company's equity.

Lastly, it should be noted that the mechanisms that allow anticipating and managing adequately the consequences derived from Brexit have continued, both in the portfolio contracts and in future tenders.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

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.

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

Describe the mechanisms which comprise the risk control and management systems in relation to the financial reporting process (ICFR) at the company.

F.1 Company's control environment

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

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

CAF's Board of Directors is the body responsible for having and maintaining a proper and effective Financial Information Internal Control System. According to the duties assigned by the Board of Directors, the Audit Committee is the body responsible for overseeing the regulated financial reporting preparation and presentation process and the efficiency of the company's internal control, internal audit services and risk management systems, as well as discussing with account auditors or audit companies the most relevant internal control system weaknesses detected during the audit. These functions are described in the Board's Audit Committee Regulation.

The Internal Audit Department is mandated by the Audit Committee to effectively supervise the Financial Information Internal Control System through its single and independent oversight role, in line with the professional quality regulations and standards, which shall contribute to good corporate governance and ensure that the financial information has been prepared in a reliable manner.

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

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

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

The 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 area of the ICFR, the processes defined as critical for financial reporting information include the main tasks and controls to be performed and the people responsible for both their implementation and supervision, clearly defining responsibility and authority lines. The breakdown of functions of the tasks considered incompatible is also documented for these processes.

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

CAF Group has a Code of Conduct that was approved by CAF's Board of Directors on 27 July 2011 and which is available on the website, disclosing the set of general standards and principles on corporate governance and professional conduct that are applicable to all professionals of CAF, S.A. and subsidiaries which belong to CAF Group.

The Code of Conduct defines the ethical structural principles that serve as a basis to establish the behavioural criteria that are mandatory for CAF professionals and the agents they interact with as part of their Company business. These ethical structural principles refer to strict compliance with lawfulness, quality, reputation, protection of human resources, the respect for and commitment to the community and environment and the duty of transparency.

Particularly, with regard to the Financial Information, the Code of Conduct sets forth that the information conveyed to the shareholders shall be truthful, complete and current and shall adequately reflect the Company's position. Adherence to this maxim shall be especially scrupulous with regard to the financial information. CAF acts with total transparency, adopting specific procedures to ensure the financial documentation is correct and truthful. CAF pays special attention to the fact that the abovementioned information is recorded and conveniently disclosed to the market.

The Compliance Committee is in charge of ensuring compliance with the Code of Conduct to the Board of Directors. Its duties include analysing possible breaches and proposing corrective actions and penalties.

The Code of Conduct is an essential and integral part of the Crime Prevention Manual, a document approved by the Board of Directors during its meeting held on 29 April 2015, identifying (i) a policy and procedure system to prevent the commission of material crimes as much as possible. Such Crime Prevention Manual has been updated and revised by the Board of Directors on 27 July 2016.

In 2017, a training plan has been followed for this Crime Prevention Handbook aimed at raising awareness, dissemination and application by CAF personnel. At the end of the year, a total of 91% of employees from the parent company and its national subsidiaries received training in accordance with the Crime Prevention Handbook. More than 2,000 staff have received training on this matter. Also, a training system has been implemented for new employees.

Furthermore, the Crime Prevention Handbook was immediately applicable to national subsidiaries the moment it was approved and it was to be implemented no later than 31 December 2017 for foreign subsidiaries belonging to the CAF Group. The 45 foreign subsidiaries comprising the CAF Group have adhered to the Handbook within the established timeframe. These subsidiaries are distributed throughout 22 countries around the world.

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

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 corresponding actions in response 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.

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 update courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Group has a corporate training budget and a training plan designed biannually. Training needs are detected and activities for each department are scheduled as part of this plan.

Staff performance assessments are held every year and an individual development and training plan is set out for every employee included in the Training Plan.

In addition, refresher courses taught by external specialist are held at least on an annual basis so as to ensure staff remains up-to-date on regulatory changes that can affect the preparation of the financial statements.

With regard to learning programmes for CAF S.A.'s economic and financial subjects, in order to support the different businesses in fiscal year 2017, the main reference indicators of this activity have been as follows:

- Number of participants in the training actions on this matter: 109
- Number of training hours received: 687.75 hours

The main training activities are focused on the technical updates within the economic and financial area, (regulatory, taxes, risks, treasury ...)

F.2 Financial information risk assessment

Report at least:

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

- The process exists and is documented.

The identification of risks within the financial information sphere is a continuous and documented process carried out by the Company's Management as part of the risk 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.

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

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

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

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

- Whether the process considers the effects of other kinds of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

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

- Finally, which of the company's governing bodies is responsible for overseeing the process.

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

F.3 Control tasks

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

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

Certification of financial statements: The financial statements are certified by the Chairman and Managing Director and the Financial Manager. There has been a prior supervision process of submitted data conducted by senior staff involved in preparing these financial statements, as well as control activities designed to mitigate risks of error that may affect financial reporting.

The main financial reporting generation processes significantly affecting financial statements are documented and programmed. The financial reporting processes that are covered include the following:

- Consolidation and Reporting
- Accounting closing
- Employee compensation
- Treasury management
- Income and expense recognition (for every business unit)
- Invoicing and trade receivables
- Inventories and Supplies (for every business unit)
- Investments
- Taxes
- Provisions
- Information systems

The risks of error that may affect the reliability of the financial information (including risks of error in relevant judgements, estimates, assessments and projections) have been identified for each of these processes, as have the control activities to mitigate those risks. A person is appointed for each control activity, in charge of implementing and overseeing the activity, the timing of implementation, as well as the evidence necessary to execute the activity.

This system is updated on a continual basis and is adapted according to the risks identified.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

There is an Internal Information and Communication and Information Technology Management and Control Policy which defines the guidelines that are to inspire the management and control procedures on Communication and Information Technology. This policy is applicable to management of the ICT divisions of CAF Group.

The Policy establishes the scope and the guidelines for the following matters:

- Licences and regulatory requirements: Activities aimed at ensuring that the hardware and software installed complies with signed agreements.
- Access to information: Procedures that ensure that users only have access to the resources and tools they need to perform their duties (segregation of duties).
- Business continuity:
 - Procedures to backup and recover critical data and to protect personal equipment units and servers
 - Physical and environmental security of data processing centres
 - Contingency plans
- Operating and monitoring: Procedures that ensure that all incidents are logged, identified, defined and resolved.
- Change management: procedures aimed at learning the impacts of new developments and reducing the risk of transferring elements to the production environment that should not be transferred, which jeopardise the data systems.

Applicable control activities have been identified for each one of these areas, with a person in charge of execution and oversight, a given timing, as well as the proper evidence that the activity has been performed.

In 2017, in accordance with ISO 27001, the rolling out of an Information Security Management System (ISMS) was implemented as one of the activities of the strategic plan for "Information systems supporting the CAF corporate processes and 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. For the following fiscal year, a third-party certification for the system and its scope within a corporate setting has been considered which is dependent upon the development of other initiatives, such as the adaptation to Regulation 2016/679 of the European Parliament and of the Council, dated 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation).

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

There is a Manual of Accounting and Financial Procedures and Policies applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing financial statements.

The main activities identified as having been subcontracted to third parties include the preparation of the payroll and tax returns of certain subsidiaries (areas considered to be low-risk and in subsidiaries that cannot materially affect the Group's financial statements) and the subcontracting of services in the IT department (the effectiveness of which is regularly monitored). Assessments by independent experts have been specifically requested (impairment tests). In these cases, the Company's policy is to resort to firms of renowned background and independence.

F.4 Information and communication

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

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

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

The Manual is available on CAF's website.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Every year a schedule is drawn up of the information required to prepare the financial information for the following year.

The financial information of each subsidiary is reported directly to CAF, S.A.'s Economic Department, through a web-based tool with consistent reporting formats which is used to gather the information supporting the consolidated financial statements, as well as the consolidated information in the financial statement notes and which is also used to roll up and consolidate the reported information.

CAF, S.A.'s Economic Department is responsible for establishing the formats on the web application (chart of accounts, reporting package). Those who have been designated for each subsidiary and are in charge of control supervise the process used to harmonise the information of each subsidiary with the Group standards.

F.5 System operation supervision

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

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

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 perimeter of consolidation, as well as to oversee the proper internal controls risk management systems, including ICFR.

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.
- Is competent and has 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 2017 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. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. Likewise, it will report on the availability (or not) of an action plan aimed at correcting or mitigating any weakness observed.

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 2017, six Audit Committee meetings were held in which the Internal Audit Manager has reported on the Annual Work Plan's evolution and the existing action plans to implement recommendations for internal control improvement.

Likewise, in 2017 the external auditors have twice appeared before the Audit Committee to report on the results of the financial statements audit and the semi-annual financial statements limited review, and on regulatory developments (new accounting report and standards). During 2017, auditors have not revealed significant internal control weaknesses.

Additionally, the external auditors attended a Board of Directors meeting to report on the progress of the audit for 2017, and on the Audit report according to the Law 22/2015 on Account Auditing.

F.6 Other disclosures

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

F.7 External auditor report

State whether:

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

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

G- DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

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

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

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

Complies

Explain

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

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies

Partly complies

Explain

Not Applicable

3. During the General Annual Shareholders' Meeting, in addition to the written dissemination of the annual corporate governance report, the Chairman of the Board of Directors orally informs the shareholders, in sufficient detail, of the most relevant aspects of the company's corporate governance and, in particular:

a) Any changes that have taken place since the last annual general meeting.

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

Complies

Partly complies

Explain

4. The company establishes and furthers a policy of communication and contact with the shareholders, institutional investors and proxy advisors that is fully in line with the rules on market abuse and provides for equal treatment of shareholders in the same position.

In addition, the company makes said policy publicly available on its website, including information concerning the way in which it has been implemented in practice, identifying the representatives or authorities responsible for executing that policy.

Complies Partly complies Explain

5. The board of directors does not submit to the shareholders for discussion at a general meeting a proposed delegation of powers, to issue stock or convertible securities without pre-emptive rights for a sum exceeding 20% of the capital at the time of such delegation.

In addition, when the board of directors approves any issue of stock or convertible securities without pre-emptive rights, the company immediately posts the reports on such exclusion provided for in commercial laws on its website.

Complies Partly complies Explain

6. Any listed companies that prepare the following reports, either mandatorily or voluntarily, post them on their websites sufficiently in advance of the annual general shareholders' meeting, even if the disclosure of such reports is not a mandatory requirement:

a) Report on the auditor's independence.

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

c) Report from the Audit Committee on related transactions.

b) Report on corporate social responsibility policy.

Complies Partly complies Explain

7. The company provides a live broadcast of the general shareholders' meetings on its website.

Complies Explain

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

Complies Partly complies Explain

9. The company's website permanently features the requirements and procedures that will be accepted to establish shares ownership or the right attend the general shareholders' meeting and the exercise or delegation of voting rights.

In addition, such requirements and procedures favour attendance and the exercise of shareholder rights, and apply in a non-discriminatory manner.

Complies Partly complies Explain

10. When a recognized shareholder has, prior to the general shareholders' meeting, exercised the right to add to the agenda or submit new proposed decisions, the company:

- a) Immediately publicizes such additional agenda items and new proposed decisions.
- b) Publish the attendance card model or voting delegation or remote delegation form with the specific amendments to vote on the new items of the agenda and alternative proposals, under the same conditions as those proposed by the Board of Directors.
- c) Submits all such items and alternative proposals for voting and subjects them to the same voting rules as established by the board of directors, including, in particular, any presumptions or inferences on the direction of a given vote.
- d) After the general shareholders' meeting, it reports a breakdown of how such additional items or alternative proposals were voted on.

Complies Partly complies Explain Not applicable

11. If the company has decided to offer attendance fees for the general shareholders' meeting, it has established in advance a general policy on such fees, and such policy is stable.

Complies Partly complies Explain Not applicable

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

In its efforts to act in the company's best interest, in addition to abiding by the laws and regulations and behaving based on good faith, ethics and the observance of generally accepted conventions and good practices, it strives to reconcile its own corporate interests with, as the case may be, the legitimate interests of its employees, providers, customers and any other stakeholders that might be affected, as well as the impact of the company's activities in the life of the community as a whole and the environment.

Complies Partly complies Explain

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise from five to fifteen members.

Complies Explain

14. The Board should approve a director selection policy that:

- a) Is specific and verifiable;
- b) Ensures that proposals for appointment or reappointment are based on a previous analysis of the Board's needs;
- c) Favours diversity of knowledge, experience and gender.

The result of the previous analysis of the Board's needs should be rendered from the Nomination Committee's supporting report disclosed when convening the Annual General Meeting in which each Director will be ratified, appointed or reappointed.

The director selection policy should promote the objective that by 2020 at least 30% of the Board members will be female directors.

The Nomination Committee will monitor compliance with the director selection policy annually and will report on it in the Annual Corporate Governance Report.

Complies Partly complies Explain

15. Proprietary and independent directors should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies Partly complies Explain

16. The percentage of proprietary directors over all non-executive directors should be no greater than the proportion between the capital represented on the Board by said proprietary directors and the remainder of the Company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Complies Explain

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

However, when the company is not large cap or when, despite being so, it has one shareholder or shareholders acting concertedly controlling over 30% of share capital, the number of independent directors should represent at least one third of all Board members.

Complies Explain

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

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

Complies Partly complies Explain

19. The Annual Corporate Governance Report, upon verification by the Nomination Committee, should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when directors incur new obligations or hold new positions preventing them from dedicating the time needed to the proper performance of the directors' relevant duties; when they are in breach of their fiduciary duties or come under one of the disqualifying grounds for being independent directors.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 16.

Complies Explain

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

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

Complies Partly complies Explain

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

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

The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

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

And the Board Regulations should determine the number of directorships their Board members can hold.

Complies Partly complies Explain

26. The board should meet with the necessary frequency to properly perform its functions, and at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

Complies Partly complies Explain

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

Complies Partly complies Explain

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

Complies Partly complies Explain Not applicable

29. The company should establish suitable channels for directors to receive the advice and guidance they need to carry out their duties, including, if applicable, external advice at the company's expense.

Complies Partly complies Explain

30. Regardless of the knowledge directors' circumstances perform their duties, they should also be offered ongoing learning programs when circumstances so dictate.

Complies Explain Not applicable

31. The agenda of the meetings should clearly state the matters about which the Board shall make a decision or reach an agreement so directors may obtain or assess accurate information in advance for its application.

When, in urgent and exceptional cases, the Chairman wishes to submit for the approval by the Board decisions or agreements that were not included in the agenda, the prior express consent of the majority of the attending directors shall be required, which will be recorded in the minute book.

Complies Partly complies Explain

32. Directors should be informed on a regular basis about shareholding changes and about the opinion that significant shareholders, investors and rating agencies keep of the Company and the Group.

Complies Partly complies Explain

33. The Chairman, as the person responsible for the proper operation of the Board, in addition to carrying law or Bylaws and statutory duties, should prepare and submit to the Board a calendar and agenda; he should organize and coordinate the regular evaluations of the Board and, where appropriate, those of the company's chief executive; he should be responsible for the Board's direction and its proper operation; he should ensure enough time is devoted to discuss strategic matters, as well as accept and review ongoing learning programs for each director when circumstances so dictate.

Complies Partly complies Explain

34. When there is a coordinating director, in addition to powers conferred by law, the By-laws or the Board regulations should delegate the following duties to said director: to chair the Board of Directors when the chairman and deputy chairmen, if applicable, are not present; hearing the concerns of non-executive directors, to be in contact with investors and shareholders in order to learn their points of view and form an opinion about their concerns, especially about the Company's corporate governance; and to coordinate a succession plan for the chairman.

Complies Partly complies Explain Not applicable

35. The Secretary should take care to ensure that the Board's actions and decisions consider the good governance recommendations of the Unified Code that are applicable to the Company.

Complies Explain

36. The Board in full should evaluate and adopt, on an annual basis, if applicable, an action plan aimed at correcting deficiencies found regarding:

- a) The quality and effective performance of the Board of Directors.
- b) The performance and structure of its committees.
- c) The diversity of the structure and competences of the Board.
- d) The performance of the Board's Chairman and of the Company's chief executive.
- e) The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

The evaluation of the different committees will be based on the reports submitted by said committees to the Board, and the evaluation of the Board will be based on the report submitted by the Nomination Committee.

Every three years, the Board will perform the evaluation with the support of an external advisor, whose independence will be verified by the Nomination Committee.

Business dealings between the advisor or any company of his group and the company or any company of its group shall be detailed in the Annual Corporate Governance Report.

The process and the assessed areas will be described in the Annual Corporate Governance Report.

Complies Partly complies Explain

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

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain

40. Under the supervision of the Audit Committee, there should be a unit in charge of internal audit that ensures the proper operation of internal control and reporting systems, and the operation of this unit will be dependent on the non-executive chairman of the Board or of the Audit Committee.

Complies Partly complies Explain

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

Complies Partly complies Explain Not applicable

42. In addition to those established by law, the Audit Committee should have the following functions:

1. With regard to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence and efficacy of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic financial information on its activities; and check that senior management is considering its recommendations and conclusions.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

- a) In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation.
- b) Ensure that the external auditor's compensation for his work does not compromise its quality or independence.
- c) Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same.
- d) 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.
- e) Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.

Complies Partly complies Explain

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

Complies Partly complies Explain

44. The Audit Committee should 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.

Complies Partly complies Explain Not applicable

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

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

Complies Partly complies Explain

46. Under direct supervision of the Audit Committee or, if applicable, of a specialized committee of the Board, there should be an internal function of risk control and management carried out by a unit or internal department of the Company with the following functions:

- a) Ensure the proper operation of risk control and management systems and, specifically, that all important risks faced by the Company are properly identified, managed and quantified.

- b) Actively participate in the development of the risk strategy and in the important decisions about its management.
- c) Ensure that risk control and management systems mitigate risks adequately in accordance with the policy framework set forth by the Board.

Complies Partly complies Explain

47. The members of the Nomination and Remuneration Committee —or of the Nomination Committee and the Remuneration Committee, if they are separated— should be designated seeking to ensure that they have the knowledge, skills and experience required for the duties they will perform, and that the majority of said members are independent directors.

Complies Partly complies Explain

48. Large cap companies should have two separate committees, a Nomination Committee and a Remuneration Committee.

Complies Explain Not applicable

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

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

Complies Partly complies Explain

50. The Remuneration Committee should perform its duties independently, and in addition to those conferred by law, it should have the following functions:

- a) Proposing to the Board of Directors the basic conditions governing high-executive contracts.
- b) Verifying the compliance with the remuneration policy established by the Company.
- c) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives.
- d) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee.
- e) Check the information on the remuneration received by directors and senior officers contained in different corporate documents, including the Annual Report on Director's Remuneration.

Complies Partly complies Explain

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

Complies Partly complies Explain

52. The rules on structure and operation of the supervision and control committees should be established on the Regulations of the Board of Directors and should be consistent with those that are legally binding and applicable to committees, pursuant to previous recommendations, including:

- a) They must be exclusively made up of non-executive directors, with a majority of independent directors.
- b) Committees should be chaired by an independent director.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each Committee, and it should discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting.
- d) The Committees may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of meeting proceedings should be drawn up and a made available to all Board members.

Complies Partly complies Explain Not applicable

53. The job of supervising compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be entrusted to one or several committees of the Board, namely, the Audit Committee, the Nomination Committee, the Corporate Social Responsibility Committee, if applicable, or a specialized committee created by the Board, exercising its power to self-organize, which should have the following minimum functions:

- a) Supervising compliance with internal codes of conduct and the corporate governance rules of the Company.
- b) Supervising the strategies of communication and relation with shareholders and investors, including small and medium shareholders.
- c) 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.
- d) Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value.
- e) Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance.
- f) Supervising and evaluating the relations with the different stakeholders.
- g) Evaluating everything related to the Company's non-financial risks, including operational, technological, financial, legal, social, environmental, political and reputational risks.
- h) Coordinating the process of reporting non-financial and diversity information, according to the applicable regulations and the international standards of reference.

Complies Partly complies Explain

54. The corporate social responsibility policy should include the principles and commitments the Company takes on voluntarily in relation to the different stakeholders, and it should identify, at least:

- a) The objectives of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy related to sustainability, the environment and social affairs.

- c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social affairs, the environment, diversity, fiscal responsibility, related to human rights and the prevention of illegal behaviour.
- d) Methods or systems to monitor the results of the implementation of the specific practices detailed in the preceding item, the associated risks and their management.
- e) Mechanisms for the supervision of non-financial risks, ethics and business conduct.
- f) Channels for communication, participation and dialogue with groups of interest.
- g) Responsible communication practices that prevent information manipulation and protect integrity and honour.

Complies Partly complies Explain

55. The Company should report, in a separate document or in the directors' report, matters related to corporate social responsibility using some of the internationally accepted methods.

Complies Partly complies Explain

56. Directors remuneration should be sufficient to attract and retain directors with the desired profile and to compensate them for the dedication, abilities and responsibility that the position entails; but should not be so high as to compromise the independence of criterion of non-executive directors.

Complies Explain

57. Variable remuneration linked to the Company's performance, individual performance, and remuneration comprising the delivery of shares, share options or other share-based instruments, and long-term saving systems such as pension plans, retirement systems or other systems of social provision should be confined to executive directors.

The delivery of shares for the remuneration of non-executive directors may be considered when they are obliged to retain them until the end of their tenure. The foregoing will not be applicable to shares that the director needs to sell in order to afford the expenses related to their acquisition.

Complies Partly complies Explain

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

And, specifically, variable components of remuneration should:

- a) Be linked to predetermined and measurable performance criteria that consider the risk incurred to obtain a result.
- b) Promote the Company's sustainability and include non-financial criteria adequate for the creation of long term value, in addition to compliance with the Company's rules and internal procedures, and its risk management and control policies.
- c) Be designed based on a balance between the accomplishment of short, medium and long term objectives that allow for the remuneration of continuous performance over a period that is sufficiently long to appreciate their contribution to the creation of value, in a way that the measurement elements of that performance do not only revolve around specific, occasional or extraordinary events.

Complies Partly complies Explain Not applicable

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

been fulfilled.

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

61. A relevant percentage of the variable remuneration of non-executive directors should be linked to the delivery of shares or other share-based financial instruments.

Complies Partly complies Explain Not applicable

62. Once shares, share options or rights over shares of remuneration systems have been attributed, directors cannot transfer ownership of a number of shares equal to twice their fixed annual remuneration and cannot make use of said options or rights for, at least, three years after they are attributed.

The foregoing will not be applicable to shares that the director needs to sell in order to afford the expenses related to their acquisition.

Complies Partly complies Explain Not applicable

63. Contractual agreements should include a clause allowing the company to ask for a reimbursement of the variable components of remuneration when payment was not adjusted to performance conditions or when payment was made pursuant to data that is later deemed inaccurate.

Complies Partly complies Explain Not applicable

64. Payments due to the termination of the agreement should not exceed the established amount equivalent to two years of the total annual remuneration and should not be paid until the company can verify that the director has fulfilled the performance criteria that were previously established.

Complies Partly complies Explain Not applicable

H OTHER INFORMATION OF INTEREST

1. If the Company or Group companies are dealing with any relevant matters in terms of corporate governance that have not been addressed in the rest of the sections in this report, but which must be included so as to provide more complete and reasoned information on the structure and governance practices of the entity or that of its group, please provide a brief description.

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

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

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If so, please state the code in question and the date of adherence.

A.3. As the system only allows for two 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%.

C.1.19. d) Executive Directors or senior management of a different company where a Company Executive Director or Senior Manager is Non-Executive. e) Individuals who maintain or have maintained in the last year an important business relation with the Company or Group companies, whether on his/her behalf or as significant shareholder, director or senior executive of an entity maintaining such relation either at present or in the past. Business relations shall be those of supplier of goods or services, including financial ones, or of advisor or consultant. f) Individuals who may be significant shareholders, executive directors or senior executives of an entity who receives or may have received any major donations from the Company or its Group over the past 3 years. Mere owners of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the Nomination Committee. i) Individuals who had been directors during a continuous term exceeding 12 years. j) Individuals falling under any of the assumptions mentioned in subsections a), e), f) or g) above with respect to any significant shareholder or any shareholder represented on the Board. In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company (Article 16 of the Board Regulations).

Proprietary Directors forced to resign after their shareholders sell their shareholding may only be re-elected as Independent Directors when the shareholder they represented up to that moment sold his/her entire shareholding in the Company. A Director with Company shares may be an Independent Director provided he/she meets all the requirements pursuant to this Article and does not hold a significant shareholding.

RE-ELECTION Directors shall hold office for 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 Nomination and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Nomination and Remuneration Committee has the following basic responsibilities: 1.- Evaluate the balance of skills, knowledge and experience on the Board. 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 cooption 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 the proposal for appointment of the remaining directors by cooption or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. 5.- Report on proposals for appointment and removal of senior managers and the basic terms of their contracts. 6.- Examine and organize 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. (Article 3 of the Nomination 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 of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement. Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any 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 report and, if applicable, resign if they are involved in a situation that may be detrimental to the Company's name and reputation (Article 18 of the Board Regulations).

The Directors' Selection Policy, approved by CAF's Board of Directors during this fiscal year, repeats the functions applicable to the

Nomination and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, and the conditions to be met by candidates, putting special emphasis on the essential purpose of favouring gender diversity in appointing members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quidecies of the Companies Law.

C.2.1. AUDIT COMMITTEE

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 the reasons for the same. 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 the 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: 1.^o The financial information that the Company must make public on a periodic basis. 2.^o 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 Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. Report on any other proposal for amending the above said Regulations. The provisions of sections e), f) and g) will be understood notwithstanding the regulatory standards of account auditing. (Article 3 of the Audit Committee Bylaws and Regulations).

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.- The Committee shall at any time request, through the Chairman of the Board, personal collaboration or reports from any member of the Company or Group companies' executive team when deemed necessary or convenient for the furtherance of the Committee's duties, as well as the presence of any of them, or any employee, at the meetings thereof convened and even require their presence in the absence of any other officer. (Article 9 of the Audit Committee Bylaws and Regulations).

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 the strategies of communication and relation with shareholders and investors, including small and medium shareholders and ii) Evaluating everything related to the Company's non-financial risks, including operational, technological, financial, legal, social, environmental, political and reputational risks.

Operation:

The Committee shall convene upon the Chairman's decision to perform its functions. The Committee shall convene at least twice a year. The Committee shall also convene upon request of, at least, one of its members. The request shall be submitted to the Committee Chairman and shall include the agenda with the matters to be addressed by the Committee. (Article 5 of the Audit Committee Bylaws and Regulations). The Chairman of the Committee is responsible for summoning it. The notice call, except for special emergency reasons considered by the Chairman, shall be issued to Committee members at least five calendar days in advance by post, fax, telegram or electronic mail. The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss matters not included in the cited agenda. (Article 6 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 the absence or inability, the Secretary shall be replaced by the member of the Committee of less age. (Article 7 of the Audit Committee Bylaws and Regulations). Resolutions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Secretary shall record the minutes of each meeting which, once approved either at the end of the meeting or in the following one, shall be signed by the Chairman and the Secretary. (Article 8 of the Audit Committee Bylaws and Regulations).

During 2017, the Audit Committee held seven meetings. Most important actions in the year:

The main activities undertaken by the Committee during the fiscal year may be grouped into the following areas: Activities concerning financial and non-financial information and the associated internal control mechanisms:

- (i) 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 2016 fiscal year.
- (ii) The examination of the individual and consolidated quarterly and half-yearly financial statements, prior to being submitted before the Board of Directors for its approval,
- (iii) 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. In this sense, the analysis of the public documentation required for the implementation of a Euro-Commercial Paper Program (ECP), prior to its submission and approval by the Board of Directors.
- (iv) Ongoing monitoring with the Manager of Internal Audit, the Economic-Financial Department and that of Strategy on the proper performance of the internal control systems, including the ICFR, whereby identifying any significant weaknesses therein, where appropriate. Activities associated with related-party transactions: (i) Review of these related transactions within the scope of the financial reports that the Company approves and submits to the National Securities Market Commission (CNMV). Review of significant related-party transactions, for their inclusion in the Annual Corporate Governance Report. (ii) Regular information for the Board of Directors concerning related-party transactions carried out by the Company. Activities relating to the corporate social responsibility policy and its terms of implementation during the year: corporate social responsibility activities correspond entirely to the Nomination 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. Activities relating to risk management and control: (i) Ongoing evaluation of the internal control system of financial information (ICFR) and the analysis of the recommendations and improvement plans thereof, proposed by Internal Audit. (ii) Periodic risk map supervision for the risks identified and evaluated during the various processes throughout the Organisation. (iii) Monitoring and supervision of the work entrusted to external advisors with regard to high-level corporate risk diagnosis. (iv) Supervision of the risk management models implemented by the Company, both during the tendering phase and in the execution phase. (v) Supervision of the development and exercise of the internal risk department. (vi) Supervision of the actions of the Company's Internal Fiscal Department, which is accountable for the control and management of the Group's fiscal risks. (vii) Supervision of the Corporate Fiscal Policy, which is proposed by the Fiscal Department and submitted before the Board of Directors. (viii) Analysis on the request for the creation of an entity, domiciled in a country that could be considered a tax haven, to undertake local works for an international project for its presentation and approval by the Board of Directors. (ix) Prior review of the corporate acquisitions and other corporate operations conducted by the Company. 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: (i) Supervision of the Internal Audit Work Plan compliance for the year 2016. (ii) Approval of the 2017 Internal Audit Work Plan. (iii) Monitoring of the development of the Internal Audit Work Plan and the degree of compliance with the issued recommendations. Activities of the external auditor: (i) Meetings held with the external auditor to reveal the most significant aspects following the review of the financial statements and the findings of the audit work relating to the financial statements. (ii) Meetings held with the external auditor regarding the reports on the limited review of accounts and semi-annual financial statements, and on the supervision of the internal control and risk management systems. (iii) In conjunction with the external auditors, the analysis of regulatory changes impacting on the Company, especially in matters relating to accounting and to the Audit Report. (iv) Preparation of the external auditor independence report. (v) Preparing the proposal for renewal of the external auditor for its submission before the Annual General Meeting. (vi) Approval of the budget for outsourcing non-audit services in 2018. (vii) Approval of a percentage threshold on non-audit service fees that is stricter than the maximum allowed by the legislation on account auditing. (viii) Call for an external auditor to appear before the plenary session of the Board of Directors for the purpose of reporting on the audit work and the accounting and risk situation of the Company. Monitoring activities of the Committee's own action plans: Throughout the current year, the Committee has continuously monitored the 2017 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 20 December 2016, where it declared that all of such had been satisfactorily completed.

NOMINATION AND REMUNERATION COMMITTEE

The Chairman shall organise the debate ensuring and promoting the participation of all Committee members during the body's deliberations. At the Committee's request, its meetings may be attended by any executive or worker, the Executive Director, the Board of Director's Chairman or any other director. The Board of Director's Chairman or the Executive Director may indistinctly request the Committee to hold special informative meetings. Resolutions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Chairman of the Committee has the casting vote in the event of a tie. Adopted resolutions shall be minuted, reported by the Secretary and approved during such meeting or at the beginning of the next one immediately after.

During fiscal year 2017, the Nomination and Remuneration Committee held eight meetings.

Most important actions in the year: The main activities undertaken by the Committee during the fiscal year may be grouped into the following areas:

Activities regarding appointments: (i) Analysis of the Board of Directors' needs and the evaluation of nominations so as to provide advice on any vacancies that could arise in its membership. (ii) Propose the appointment of a new independent Director to the Board of Directors, to be later submitted before the General Meeting. (iii) Propose the co-opted appointment of an independent Director before the Board of Directors. (iv) Directors Selection Policy compliance. Activities regarding remuneration: (i) Proposal of the 2016 Directors Remuneration Report to be presented before the General Shareholders' Meeting. (ii) Proposal and favourable opinion of the Directors Remuneration Policy and presented at the Board of Directors to be raised before the General Shareholders' Meeting. (iii) Proposal of the Directors Remuneration before the Board of Directors in their capacity as directors for the 2017 fiscal year. (iv) Analysis of the amounts and remuneration concepts of senior executives and executive directors so as to present the corresponding proposal to the Board of Directors. Activities regarding corporate governance: (i) Appointment of an independent external consultant responsible for assisting the Board of Directors in conducting the annual evaluation of its performance during the 2017 fiscal year, pursuant to Recommendation 36 of the Good Governance Code of Listed Companies. (ii) Approving the Report on the annual evaluation of its own performance, in compliance with the provisions of Recommendation 36 of the Good Governance Code of Listed Companies. (iii) Reporting on the evaluation of the Board of Directors, with regard to the findings and recommendations of the evaluation process carried out by the external advisor. Monitoring activities of the Committee's own action plans: The Committee has continuously monitored the 2017 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 20 December 2016, where all of such had been satisfactorily completed. Other activities: (i) Review of the situation regarding liability insurance for Company directors and executives. Comparative analysis of the current policy with other offers provided by various companies, where the conditions of the current liability insurance conditions for directors and executives have been improved, and their coverage limit has also been extended. (ii) Submission of the proposed redistribution the Executive Committee roles before the Board of Directors.

D.5

The transactions performed with other related parties amount to EUR 207,806 thousand. The abovementioned transactions are broken down in Note 10 to the Group's consolidated financial statements.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on 27/02/2018.

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

Yes

No

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

Auditor's Report on the "Information Relating
to the System of Internal Control over Financial
Reporting (ICFR)" for the year ended 31
December 2017

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

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 2017

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 18 October 2017, 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 2017, 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 2017 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.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Group in relation to the ICFR system -disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report established in CNMV Circular no. 7/2015, of 22 December 2015.
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 of CNMV Circular no. 7/2015, of 22 December 2015, for the purposes of the description of the ICFR system in annual corporate governance reports.

Deloitte, S.L.



Pablo Múgica
27 February 2018

Construcciones y Auxiliar de Ferrocarriles, S.A.

Balance Sheets as at 31 December 2017 and 2016 (Notes 1 to 3)
(Thousands of euros)

Assets	31/12/17	31/12/16 (*)	Equity and liabilities	31/12/17	31/12/16 (*)
Non-current assets:			Equity (Note 13):		
Intangible assets (Note 6):			Shareholders' equity		
Other intangible assets	22,601	15,857	Share capital:		
	22,601	15,857	Registered share capital	10,319	10,319
				10,319	10,319
Property, plant and equipment (Note 7)	119,926	112,108	Share premium	11,863	11,863
Non-current investments in Group companies and associates (Notes 9, 10 & 15)	761,198	674,817	Reserves	648,916	672,024
Non-current financial assets (Notes 8 & 15)	25,743	22,017			
Deferred tax assets (Note 16)	71,791	66,250	Profit for the Year	10,333	1,546
Total non-current assets	1,001,259	891,049		681,431	695,752
			Valuation adjustments (Note 15):		
			Hedges	(1,586)	(142)
				(1,586)	(142)
			Grants, donations and legacies received	74	240
			Total equity	679,919	695,850
			Non-current liabilities:		
			Long-term provisions (Note 17)	2,039	1,626
			Non-current payables (Notes 14 & 15):		
			Bank borrowings	356,779	306,378
			Other financial liabilities	54,266	41,285
				411,045	347,663
			Non-current payables to Group companies and associates (Note 10)	-	-
			Deferred tax liabilities (Note 16-f)	208	2,735
			Total non-current liabilities	413,292	352,024
			Current liabilities:		
			Short-term provisions (Note 17)	184,826	177,491
			Current payables (Notes 14 & 15):		
			Bank borrowings, debt instruments and other marketable securities	10,298	15,784
			Other financial liabilities	71,222	80,222
				81,520	96,006
			Current payables to Group companies and associates (Note 10)	18,048	8,960
			Trade and other payables:		
			Payable to suppliers (Note 10)	399,164	344,091
			Other payables (Notes 10, 11, 14 & 16)	484,317	567,499
				883,481	911,590
			Other current liabilities (Note 14)	22,155	17,680
			Total current liabilities	1,190,030	1,211,727
Total current assets	1,281,982	1,368,552	Total equity and liabilities	2,283,241	2,259,601
Total assets	2,283,241	2,259,601			

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the balance sheet as at 31 December 2017.

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 2017 and 2016

**(Notes 1 to 3)
(Thousands of euros)**

	(Debit) Credit	
	2017	2016 (*)
Continuing operations:		
Revenue (Notes 10 & 19-a)	1,012,918	857,788
+/- Changes in inventories of finished goods and work in progress	(56,882)	(80,745)
In-house work on non-current assets	3,966	3,139
Procurements (Notes 10 & 19-b)	(486,758)	(413,755)
Other operating income (Notes 3-j, 10 & 15)	2,714	11,808
Staff costs (Note 19-d)	(256,002)	(233,009)
Other operating expenses (Notes 10, 17 & 19-e)	(188,411)	(135,134)
Depreciation and amortisation charge (Notes 6 & 7)	(20,427)	(23,530)
Allocation to profit or loss of grants related to non-financial non-current assets and other grants (Note 13-h)	230	354
Impairment and gains or losses on disposals of non-current assets (Note 7)	-	4,431
Profit (loss) from operations	11,348	(8,653)
Finance income (Notes 8 & 10)	34,253	40,313
Finance costs (Notes 10, 14 & 15)	(26,833)	(23,632)
Exchange differences (Note 18)	(3,124)	640
Impairment and gains or losses on disposals of financial instruments (Notes 8 & 9)	(3,097)	(6,583)
Financial profit	1,199	10,738
Profit before tax	12,547	2,085
Income tax (Note 16)	(2,214)	(539)
Profit for the year from continuing operations	10,333	1,546
Profit for the year	10,333	1,546
Earnings per share (in euros)		
Basic	0.301	0.045
Diluted	0.301	0.045

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part
of the statement of profit or loss for 2017.

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 2017 and 2016

(Notes 1 to 3)

(Thousands of euros)

	2017	2016 (*)
A) Profit for the year per statement of profit or loss	10,333	1,546
B) Income and expense recognised directly in equity	(6,311)	651
Arising from cash flow hedges (Note 15)	(2,138)	(86)
Arising from actuarial gains and losses and other adjustments (Note 3-k)	(5,525)	990
Tax effect (Notes 16-c & 16-f)	1,352	(253)
C) Transfers to profit or loss	(70)	(151)
Arising from cash flow hedges (Note 15)	133	144
Grants, donations and legacies received (Note 13-h)	(230)	(354)
Tax effect (Notes 16-c & 16-f)	27	59
Total recognised income and expense (A+B+C)	3,952	2,046

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the statement of recognised income and expense for 2017.

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 Changes in Total Equity for 2017 and 2016 (Notes 1 to 3) (Thousands of euros)

	Shareholders' equity				Valuation adjustments	Grants, donations and legacies received	Total equity
	Share capital	Share premium	Reserves	Profit for the year			
Ending balance at 31 December 2015 (*)	10,319	11,863	659,221	30,088	(184)	494	711,801
Total recognised income and expense	-	-	712	1,546	42	(254)	2,046
Transactions with shareholders - dividends paid (Note 13)	-	-	12,091	(30,088)	-	-	(17,997)
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

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part of the statement of changes in total equity for 2017.

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 2017 and 2016 (Notes 1 to 3) (Thousands of euros)

	2017	2016 (*)
CASH FLOWS FROM OPERATING ACTIVITIES (I)	41,541	323,994
Profit for the year before tax	12,547	2,085
Adjustments for:		
- Depreciation and amortisation charge (Notes 6 & 7)	20,427	23,530
- Impairment losses (Note 7)	-	2,555
- Changes in provisions (Notes 12 & 17)	8,399	(2,891)
- Recognition of grants in profit or loss (Note 13)	(230)	(354)
- Gains/Losses on derecognition and disposal of non-current assets (Note 7)	-	(6,986)
- Gains/Losses on derecognition of and valuation adjustments to financial instruments (Notes 8 & 9)	3,097	6,583
- Finance income	(34,253)	(40,313)
- Finance costs	26,833	23,632
- Exchange differences (Note 18)	1,189	(640)
- Other income and expenses	2,699	4,091
Changes in working capital		
- Inventories (Note 11)	(8,290)	37,343
- Trade and other receivables	30,184	(46,869)
- Other current assets	(256)	1,471
- Trade and other payables	(31,780)	302,846
- Other non-current assets and liabilities	(795)	(1,164)
Other cash flows from operating activities		
- Income tax recovered (paid) (Note 16)	(889)	(286)
- Other amounts received (paid) (interest and dividends) (net)	12,659	19,361
CASH FLOWS FROM INVESTING ACTIVITIES (II)	(125,894)	(154,543)
Payments due to investment		
- Group companies and associates (Notes 9 & 10)	(114,204)	(162,580)
- Intangible assets (Note 6)	(13,305)	(7,444)
- Property, plant and equipment (Note 7)	(15,934)	(5,672)
- Other financial assets (Note 8)	(1,183)	(4,592)
Proceeds from disposal		
- Group companies and associates (Notes 9 & 10)	17,148	5,496
- Property, plant and equipment (Note 7)	-	13,500
- Other financial assets (Note 8)	1,584	6,749
CASH FLOWS FROM FINANCING ACTIVITIES (III)	15,605	(142,387)
Proceeds and payments relating to financial liability instruments		
- Proceeds from issue of borrowings from Group companies and associates (Note 10)	1,620	971
- Proceeds from issue of bank borrowings (Note 14)	69,917	99,487
- Proceeds from issue of other borrowings (Note 14)	519	7,539
- Repayment of bank borrowings (Note 14)	(25,737)	(196,020)
- Repayment of other borrowings (Note 14)	(8,114)	(11,124)
- Repayment of borrowings from Group companies and associates (Nota 10)	(2,717)	(25,243)
Dividends and returns on other equity instruments paid		
- Dividends (Note 13)	(19,883)	(17,997)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)	(172)	1,370
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)	(68,920)	28,434
Cash and cash equivalents at beginning of year	248,109	219,675
Cash and cash equivalents at end of year	179,189	248,109

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 are an integral part
of the statement of cash flows for 2017

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 2017

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 2017 were formally prepared by its directors at the Board of Directors Meeting held on 27 February 2018. The consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting of Construcciones y Auxiliar de Ferrocarriles, S.A. on 10 June 2017, 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 2017, 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 2017. 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 2016, which were formally prepared by the directors, were approved by the shareholders at the Annual General Meeting on 10 June 2017 (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 2017 there were no significant changes in accounting policies with respect to those applied in 2016.

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 2017 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 2016 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 2017 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 2017.

The main aggregates in the consolidated financial statements of the CAF Group for 2017 and 2016, 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:

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

2016 consolidated financial statements

	Thousands of euros
Total assets	3,233,437
Equity-	783,677
Of the Parent	771,971
Of non-controlling interests	11,706
Revenue	1,318,200
Profit for the year-	37,280
Of the Parent	35,013
Of non-controlling interests	2,267

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 2016.

3. Accounting policies

The principal accounting policies used by the Company in preparing its financial statements as at 31 December 2017 and 2016, 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 five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (see Note 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 2017 and 2016 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

Trade and other receivables

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

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph.

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 2017, the Company had factored without recourse receivables amounting to EUR 46,055 thousand (31 December 2016: EUR 89,728 thousand).

Financial assets

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

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

In the case of equity investments in Group companies affording control over the subsidiary, since 1 January 2010 the fees paid to legal advisers and other professionals relating to the acquisition of the investment have been recognised directly in profit or loss.

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.

Cash and cash equivalents

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

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).

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 2,272 thousand and EUR 944 thousand in 2017 and 2016, 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 2017 for various groups of employees amounted to EUR 6,777 thousand (2016: EUR 3,809 thousand). The impact of these obligations on the statement of profit or loss for 2017 amounted to EUR 4,085 thousand (2016: EUR 4,799 thousand) with a charge to "Staff Costs". In 2017 a net actuarial loss of EUR 5,525 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2016: a net actuarial gain of EUR 990 thousand).

In accordance with the accrual basis of accounting, at 31 December 2017 the Company recognised a liability of EUR 2,833 thousand under "Current Liabilities" and a current asset of EUR 268 thousand under "Current Assets" in the balance sheet, calculated by an independent valuer. The sum of these amounts is 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 2016: an asset of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (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, 20 and 21).

l) Early retirements and termination benefits

At 31 December 2017, "Non-Current Payables - Other Financial Liabilities" and "Current Payables - Other Current Liabilities" in the accompanying balance sheet included approximately EUR 5,892 thousand and EUR 3,113 thousand, respectively (31 December 2016: EUR 3,165 thousand and EUR 2,529 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 2017. The net provision for 2017 was recognised with a charge of EUR 6,272 thousand to "Staff Costs" (2016: EUR 3,041 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 2017 and 2016, 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 2017, the Company had various outstanding operating leases for which it had recognised an expense of EUR 2,258 thousand in 2017 (2016: EUR 1,165 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 2017 amounted to EUR 4,394 thousand over the next few years, of which EUR 1,460 thousand are due in 2018 (31 December 2016: EUR 1,874 thousand committed).

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 2017 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	10,333
Voluntary reserves	12,292
	22,625
Distribution	
Dividends	22,625
	22,625

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 the global risk management policies established by the Board of Directors.

a) Market risk

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

The Company's interest rate risk arises on borrowings. The Company's policy for working capital financing transactions is to resort to third-party borrowings in the form of debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure (see Note 14). For long-term financing transactions, the Company sets an objective, to the extent permitted by the markets, of maintaining a borrowing cost structure balanced between fixed and floating interest rates the goal of which is to maintain an adequate balance between the cost of long-term financing and the risk of changes in interest rates.

At 31 December 2017, the Company has a liability exposure of EUR 103 million in relation to changes in market interest rates (31 December 2016: EUR 62 million) and of EUR 263 million in relation to fixed interest rates (31 December 2016: EUR 260 million), of which EUR 13.3 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 Hungarian forint, among others).

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

The Company's standard practice is to hedge, provided that the cost is reasonable, the market risk associated with 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 2017 and 2016, 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 reais against the euro at 31 December 2017 would have a negative impact of EUR 2,354 thousand, although exposure to other currencies would not be significant (31 December 2016: this had a negative impact of EUR 2,725 thousand in relation to the Brazilian real and the Mexican peso).

At 31 December 2017 and 2016, 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 2017 and 2016, 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

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Company's financial obligations fully and effectively (see Notes 8 and 14).

The Company manages liquidity risk using the following mechanisms:

- Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not be 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 2017 and 2016 were as follows:

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

2016

	Thousands of euros				
	31/12/15	Additions or charge for the year	Disposals or reductions	Transfers to inventories	31/12/16
Cost:					
Development expenditure	81,515	5,989	-	(1,305)	86,199
Computer software	14,450	1,455	-	-	15,905
Total cost	95,965	7,444	-	(1,305)	102,104
Accumulated amortisation:					
Development expenditure	52,955	4,110	-	-	57,065
Computer software	11,828	734	-	-	12,562
Total accumulated amortisation	64,783	4,844	-	-	69,627
Impairment:					
Development expenditure	16,620	-	-	-	16,620
Total impairment	16,620	-	-	-	16,620
Intangible assets, net	14,562	2,600	-	(1,305)	15,857

The additions to "Development Expenditure" in 2017 and 2016 correspond to the costs incurred in the development of new products, including most notably, among others, the high-speed train, the development of critical safety platforms and the development of highly automated signalling systems.

As discussed in Note 3-a, in 2017 the Company transferred to inventories approximately EUR 1,384 thousand of the development costs that it had charged to various contracts it had won that incorporated the technology developed (2016: EUR 1,305 thousand).

Research and development expenditure incurred in 2017 and recognised in profit or loss amounted to EUR 3,895 thousand (2016: EUR 2,569 thousand).

At 2017 year-end the Company had fully amortised intangible assets in use and/or whose technology was still being applied, amounting to EUR 54,447 thousand (31 December 2016: EUR 37,638 thousand).

Impairment losses

The Company did not recognise any impairment losses on its intangible assets in 2017 and 2016.

7. Property, plant and equipment

The changes in the years ended 31 December 2017 and 2016 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

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

2016

	Thousands of euros			
	31/12/15	Additions or charge for the year	Disposals or reductions	31/12/16
Cost:				
Land	15,660	-	(2,178)	13,482
Buildings	144,603	3,366	(9,770)	138,199
Plant and machinery	222,395	6,708	(1,798)	227,305
Other fixtures, tools and furniture	12,714	277	(68)	12,923
Other items of property, plant and equipment	33,861	457	(180)	34,138
Total cost	429,233	10,808	(13,994)	426,047
Accumulated depreciation:				
Buildings	82,655	5,332	(5,475)	82,512
Plant and machinery	189,327	10,591	(1,798)	198,120
Other fixtures, tools and furniture	10,027	650	(26)	10,651
Other items of property, plant and equipment	18,169	2,113	(181)	20,101
Total accumulated depreciation	300,178	18,686	(7,480)	311,384
Impairment	-	2,555	-	2,555
Property, plant and equipment, net	129,055	(10,433)	(6,514)	112,108

The main additions in 2017 and 2016 relate to the new technical office building, the new wheel sets and components division offices and certain facilities and machinery for the improvement and automation of the machining processes.

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 1,483 thousand (2016: EUR 2,173 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 2017 and in prior years amounted to approximately EUR 1,593 thousand and EUR 11,697 thousand, respectively (2016 and prior years: EUR 2,297 thousand and EUR 10,128 thousand).

At 31 December 2017, the Company recognised EUR 13,542 thousand (31 December 2016: EUR 6,408 thousand) under "Current Payables - Other Financial Liabilities" in relation to non-current asset suppliers (see Note 14).

At 2017 year-end the Company had firm investment commitments amounting to EUR 3,096 thousand in relation mainly to the new automatic axle machining line (2016 year-end: EUR 7,892 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 2017 and 2016 the property, plant and equipment were fully insured against these risks.

At 31 December 2017, the gross cost of fully depreciated property, plant and equipment still in use amounted to approximately EUR 246,841 thousand (31 December 2016: approximately EUR 220,974 thousand), of which at 31 December 2017 EUR 45,789 thousand related to "Buildings" (2016: EUR 41,516 thousand), EUR 180,855 thousand to "Plant and Machinery" (2016: EUR 160,370 thousand) and EUR 20,197 thousand to "Other Fixtures, Tools and Furniture" and "Other Items of Property, Plant and Equipment" (2016: EUR 19,088 thousand).

In 2017 no gains or losses arose in relation to disposals of items of property, plant and equipment (2016: gains of EUR 6,986 thousand).

The Company has no future dismantling or restoration commitments and, accordingly, no asset was recognised in this connection.

At 31 December 2017 and 2016, the Company did not have any investments in property, plant and equipment located abroad for significant amounts.

In prior years the Company transferred to "Property, Plant and Equipment" the estimated recoverable amount of locomotives manufactured for a customer the contract for which was subsequently cancelled. Following an impairment test performed on the locomotives, the Company's directors considered that they were not impaired. At 31 December 2017, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand (31 December 2016: EUR 9,155 thousand). At 31 December 2017, a portion of these locomotives had been leased to third parties.

Of the Company's property, plant and equipment, at the end of 2017 and 2016 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 (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 2017 and 2016 is as follows (in thousands of euros):

Classes Categories	Non-current financial assets					
	Equity instruments		Loans, derivatives and other		Total	
	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16
Held-to-maturity investments	-	-	367	114	367	114
Loans and receivables	-	-	9,536	10,757	9,536	10,757
Available-for-sale financial assets- Measured at cost	1,438	1,450	-	-	1,438	1,450
Financial derivatives (Note 15)	-	-	14,402	9,696	14,402	9,696
Total	1,438	1,450	24,305	20,567	25,743	22,017

The detail of loans and receivables is as follows (thousands of euros):

	31/12/17	31/12/16
Non-current trade receivables	4,932	6,015
Loans to employees	4,604	4,686
Share ownership scheme obligations	-	56
Total	9,536	10,757

Non-current trade receivables

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 4,932 thousand at long term (31 December 2016: EUR 6,015 thousand) and EUR 1,245 thousand at short term (31 December 2016: EUR 1,173 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 2017 EUR 1,500 thousand (2016: EUR 1,500 thousand) were received and EUR 490 thousand (2016: 564 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 scantily material.

Share ownership scheme

The share ownership scheme was set up in 1994 to promote permanent employees' ownership of CAF's share capital through the creation of Cartera Social, S.A. This company is the owner of CAF's shares and eight employees of the Company act as trustees thereat. Since that date, Cartera Social has sold the rights on the shares it owns in CAF to the Company. At 31 December 2017, all the rights had been transferred to the employees.

At 31 December 2017, Cartera Social, S.A. owned 8,727,191 CAF, S.A. shares, equal to 25.46% of its share capital (see Note 13). At 31 December 2016, the percentage was 25.58% of the capital.

"Other Receivables - Sundry Accounts Receivable" in the balance sheet as at 31 December 2017 includes an account receivable from Cartera Social, S.A. amounting to EUR 145 thousand (31 December 2016: EUR 115 thousand).

Available-for-sale financial assets (measured at cost)

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. At 31 December 2017, there were no capital payments payable. The ownership interest has been written down by EUR 2,085 thousand (31 December 2016: EUR 2,073 thousand) and impairment of EUR 12 thousand was recognised in 2017 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 2017, the par value of the shares subscribed amounted to EUR 398 thousand.

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

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

2016

	2018	2019	2020	2021 and subsequent years	Total
Held-to-maturity investments	114	-	-	-	114
Loans and receivables	1,929	1,907	1,918	5,003	10,757
Financial derivatives	6,527	2,656	513	-	9,696
Total	8,570	4,563	2,431	5,003	20,567

Impairment losses

In 2017 and 2016 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 2017 and 2016 is as follows (in thousands of euros):

	31/12/17	31/12/16
Held-for-trading financial assets	55,120	54,732
Loans and receivables	-	476
Financial derivatives (Note 15)	22,697	33,560
Total	77,817	88,768

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 2017 the Company recognised income in this connection amounting to approximately EUR 696 thousand (2016: approximately EUR 138 thousand).

9. Group companies and associates

The detail of "Non-Current Investments in Group Companies and Associates" at 31 December 2017 and 2016 is as follows (in thousands of euros):

	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.

	31/12/15	Change	31/12/16
Ownership interests	451,149	40,920	492,069
Impairment losses on ownership interests	(88,515)	(3,546) (*)	(92,061)
Non-current loans (Note 10)	183,528	91,281	274,809
Total	546,162	128,655	674,817

(*) Including a net amount recognised of EUR 6,261 thousand under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying statement of profit or loss for 2016 and a net reversal of EUR 2,715 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 2017 and 2016 is as follows (in thousands of euros):

2017

Name	Location	Line of business	Percentage of ownership			Carrying amount at CAF, S.A.	Basic financial data (1)			
			Direct	Indirect			Share capital	Reserves and accumulated profits or losses	Profit (Loss) from operations	Profit (Loss) for 2017
Industrial										
CAF USA, Inc.	Delaware	Manufacturing	100%	-		53,221 (13)	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)		1,756 (18)	181,758	(29,998)	(8,964)	(30,089)
CAF Argentina, S.A.	Buenos Aires	Repairs and maint.	97.61%	2.39% (3)		1,143 (14)	2	952	223	(14)
CAF Rail UK, Ltda.	Belfast	Manufacturing and maint.	100%	-		108	108	868	700	493
CAF Italia, S.R.L.	Rome	Repairs and maint.	100%	-		100	100	417	713	353
CAF Chile, S.A.	S. 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)		715 (10)	2,659	(1,822)	166	(121)
CAF Argelia, E.U.R.L.	Algiers	Manufacturing and maint.	100%	-		1,978 (19)	2,171	(114)	(270)	(310)
Trenes CAF Venezuela, C.A.	Caracas	Manufacturing and maint.	100%	-		16 (20)	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% (12)		110	3,917	4,818	55	57
Trenes de Navarra, S.A.U.	Navarre	Manufacturing	100%	-		4,874 (7)	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 engineering	100%	-		1,396 (9)	1,521	(495)	155	117
Tradinsa Industrial, S.A.	Lleida	Repairs and maint.	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 Hungary, 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% (17)		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%	-		13,076 (11)	11,000	4,692	(1,579)	(2,600)
BWB Holdings, Ltd. (2) (22)	Nottingham	Engineering	60%	-		18,434	229	1,834	223	52

Name	Location	Line of business	Percentage of ownership		Carrying amount at CAF, S.A.	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%	-	241,536 (8)	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)	- (15)	16,301	(8,997)	10,025	(7,398)	
Ennera Energy and Mobility, S.L. (2)	Guipúzcoa	Power generation	39.7%	60.3% (5)	1,960 (16)	4,282	1,411	(731)	(216)	
Rail Line Components, S.L.U.	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%	-	11,926 (21)	11,968	(66)	(40)	(49)	
Rifer S.R.L. (22)	Milan	Component maintenance	51%	-	4,713	20	428	500	270	
Other investments					1,255	-	-	-	-	
					429,571					

- 1) After adjustments and unifying entries for consolidation purposes. 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) Including impairment losses of EUR 11,296 thousand, with total of EUR 240 thousand reversed in 2017.
- 8) Formerly Inversiones en Concesiones Ferroviarias, S.A., this includes impairment losses of EUR 3,113 thousand relating to the impact of derivatives related to net investments in foreign operations.
- 9) Including impairment losses of EUR 3,866 thousand, with a total of EUR 306 thousand reversed in 2017.
- 10) Including impairment losses of EUR 1,942 thousand, of which a total of EUR 289 thousand were recognised in 2017.
- 11) Including impairment losses of EUR 15,985 thousand, of which a total of EUR 2,444 thousand were recognised in 2017.
- 12) Through CAF Investment Projects, S.A.U. (96.73%) and Urbanización Parque Romareda, S.A (0.16%).
- 13) Including a balance payable of EUR 1,062 thousand relating to the impact of derivatives related to net investments in foreign operations.
- 14) Including impairment losses of EUR 2,874 thousand, of which a total of EUR 83 thousand were recognised in 2017.
- 15) Including impairment losses of EUR 60,925 thousand.
- 16) Including impairment losses of EUR 641 thousand of which EUR 338 thousand were recognised in 2017.
- 17) Through CAF Turnkey & Engineering, S.L.U, CAF México, S.A. de C.V. and CAF Signalling, S.L.U.
- 18) Including impairment losses of EUR 1,009 thousand, of which EUR 263 thousand were recognised in 2017.
- 19) Including impairment losses of EUR 193 thousand recognised in full in 2017.
- 20) Including impairment losses of EUR 9 thousand recognised in full in 2017.
- 21) Including impairment losses of EUR 43 thousand recognised in full in 2017.
- 22) Profit or loss since the obtainment of control of these companies by the Group in 2017. The options described in Note 9 to these financial statements are not included.

2016

Name	Location	Line of business	Percentage of ownership			Carrying amount at CAF, S.A.	Basic financial data (1)				
			Direct	Indirect			Share capital	Reserves and accumulated profits or losses	Profit (Loss) from operations	Profit (Loss) for 2016	
Industrial											
CAF USA, Inc.	Delaware	Manufacturing	100%	-		61,005	(13)	54,283	9,967	1,966	216
CAF México, S.A. de C.V. (2)	Mexico City	Manufacturing and maint.	99.94%	0.06%	(3)	6,755		6,773	785	(1,315)	2,092
CAF Brasil Industria e Comercio, S.A. (2)	Sao Paulo	Manufacturing and maint.	1.41%	98.59%	(5)	2,019	(18)	154,858	3,202	(3,225)	(15,935)
CAF Argentina, S.A.	Buenos Aires	Repairs and maint.	97.61%	2.39%	(3)	1,225	(14)	2	1,174	127	113
CAF Rail UK, Ltda.	Belfast	Manufacturing and maint.	100%	-		108		108	510	538	400
CAF Italia, S.R.L.	Rome	Repairs and maint.	100%	-		100		100	199	393	218
CAF Chile, S.A.	S. de Chile	Manufacturing and maint.	99%	1%	(3)	1		1	706	876	824
CAF Turquía, L.S.	Istanbul	Manufacturing and maint.	99.94%	0.06%	(3)	1,003	(10)	2,659	(1,517)	306	(129)
CAF Argelia, E.U.R.L.	Algiers	Manufacturing and maint.	100%	-		2,171		2,171	172	57	53
Trenes CAF Venezuela, C.A.	Caracas	Manufacturing and maint.	100%	-		25		18	(13)	69	4
CAF Rail Australia Pty. Ltd.	Sydney	Manufacturing and maint.	100%	-		74		74	185	36	(37)
CAF India Private Limited	Delhi	Manufacturing and maint.	3.11%	96.89%	(12)	110		3,917	5,504	(44)	(83)
Trenes de Navarra, S.A.U.	Navarre	Manufacturing	100%	-		4,635	(7)	4,270	1,686	(1,193)	(1,321)
Construcciones Ferroviarias de Madrid, S.L.U.	Madrid	Manufacturing	100%	-		2,500		2,500	429	476	358
Construcciones Ferroviarias - CAF Santana, S.A.	Jaén	Manufacturing and engineering	83.73%	-		923	(9)	2,130	(572)	(714)	(531)
Tradinsa Industrial, S.A.	Lleida	Repairs and maint.	82.34%	17.66%	(4)	3,215		3,850	793	317	114
CAF New Zealand, Ltd.	Auckland	Manufacturing and maint.	100%	-		48		48	420	546	282
CAF Sisteme Feroviare, S.R.L.	Bucharest	Manufacturing and maint.	100%	-		-		-	82	50	30
CAF Colombia, S.A.S.	Medellín	Manufacturing and maint.	100%	-		456		36	427	5	24
CAF Arabia, Co.	Riyadh	Manufacturing and maint.	95%	5%	(3)	301		316	449	(14)	(398)
CAF Deutschland GmbH	Munich	Manufacturing and maint.	100%	-		25		25	42	86	48
CAF Hungary, K.F.T.	Budapest	Manufacturing and maint.	100%	-		160		24	130	85	2
Ferrocarril Interurbano, S.A. de C.V.	Mexico City	Manufacturing and equip.	17.20%	32.43%	(17)	68		385	(15)	20	159
Technology											
CAF I+D, S.L. (Sole-Shareholder Company)	Guipúzcoa	R&D	100%	-		5,734		4,705	7,383	7	(112)
CAF Power & Automation, S.L.U. (2)	Guipúzcoa	Electronic and power equipment	100%	-		18,530		6,090	13,025	(2,920)	(534)
CAF Turnkey & Engineering, S.L.U. (2)	Vizcaya	Engineering	76.85%	23.15%	(5)	7,250		5,703	2,643	345	918
Centro de Ensayos y Análisis Cetest, S.L.	Guipúzcoa	Tests	58.55%	41.45%	(5)	5,650		9,650	2,337	174	(866)
Geminys, S.L.	Guipúzcoa	Operating manuals	100%	-		172		150	147	445	427
CAF Signalling, S.L.U. (2)	Guipúzcoa	Signalling	100%	-		10,520	(11)	10,200	3,242	(1,814)	(2,917)

Name	Location	Line of business	Percentage of ownership		Carrying amount at CAF, S.A.	Basic financial data (1)			
			Direct	Indirect		Share capital	Reserves and accumulated profits or losses	Profit (Loss) from operations	Profit (Loss) for 2016
Services									
Actren, S.A.	Madrid	Maintenance	51%	-	1,530	3,000	1,198	6,957	6,133
Sermanfer, S.A. (2)	Madrid	Maintenance	100%	-	301	301	1,140	(57)	(55)
Inversiones en Concesiones Ferroviarias, S.A. (2)	Guipúzcoa	Business development	100%	-	241,536 (8)	179,056	81,415	108,415	31,350
Urbanización Parque Romareda, S.A.	Zaragoza	Holding company	100%	-	60	60	200	(1)	4
Ferrocarriles Suburbanos, S.A. de C.V.	Mexico City	Transport services	28.05%	15.3% (5)	- (15)	16,303	(152)	2,286	(14,527)
Ennera Energy and Mobility, S.L. (2)	Guipúzcoa	Power generation	39.7%	60.3% (5)	2,299 (16)	4,282	1,952	(520)	(445)
Rail Line Components, S.L.U.	Guipúzcoa	Marketing	100%	-	60	60	2,984	948	669
Consortio Traza, S.A. (6)	Zaragoza	Holding company	25%	-	18,184	575	49,136	7,929	968
Other investments					1,255	-	-	-	-
					400,008				

- 1) After adjustments and unifying entries for consolidation purposes. 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 2016 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 Inversiones en Concesiones Ferroviarias, S.A.
- 6) Consortio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
- 7) Including impairment losses of EUR 11,535 thousand, of which a total of EUR 1,321 thousand were recognised in 2016.
- 8) Including impairment losses of EUR 3,113 thousand relating to the impact of derivatives related to net investments in foreign operations.
- 9) Including impairment losses of EUR 4,172 thousand, of which a total of EUR 440 thousand were recognised in 2016.
- 10) Including impairment losses of EUR 1,654 thousand, of which a total of EUR 302 thousand were recognised in 2016.
- 11) Including impairment losses of EUR 13,542 thousand, of which a total of EUR 3,114 thousand were recognised in 2016.
- 12) Through Inversiones en Concesiones Ferroviarias, S.A. (96.73%) and Urbanización Parque Romareda, S.A. (0.16%).
- 13) Including a balance payable of EUR 6,721 thousand relating to the impact of derivatives related to net investments in foreign operations.
- 14) Including impairment losses of EUR 2,792 thousand, of which a total of EUR 105 thousand were recognised in 2016.
- 15) Including impairment losses of EUR 60,925 thousand.
- 16) Including impairment losses of EUR 302 thousand, of which EUR 232 thousand were recognised in 2016.
- 17) Through CAF Turnkey & Engineering, S.L.U., CAF México, S.A. de C.V. and CAF Signalling, S.L.U.
- 18) Including impairment losses of EUR 746 thousand recognised in 2016.

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. The Company acquired 60% of the shares representing the share capital of BWB Holdings, Ltd. for EUR 9,301 thousand. Also, there are 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) for an estimated amount of EUR 9,133 thousand. The amount was recognised with a charge to "Non-Current Investments in Group Companies and Associates". Based on their maturity, EUR 2,825 thousand were recognised with a credit to "Current Payables - Other Financial Liabilities" and EUR 6,308 thousand were recognised with a credit to "Non-Current Payables - Other Financial Assets" in the balance sheet as at 31 December 2017 (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) for an estimated amount of EUR 4,063 thousand, and which were recognised with a charge and credit, respectively, to "Non-Current Investments in Group Companies and Associates" and "Non-Current Payables - Other Financial Liabilities" in the accompanying balance sheet as at 31 December 2017 (see Note 14).

In 2016 various fully paid capital increases amounting to EUR 35,920 thousand and EUR 5,000 thousand were performed at CAF USA, Inc. and CAF Signalling, S.L.U., respectively (including a share premium of EUR 4,900 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.

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 2017 and 2016 is as follows:

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 Systeme Ferroviare, S.R.L.	2	-	592	-	-
CAF Deutschland GmbH	6	-	1,650	-	-
CAF Taiwan, Ltd	308	(5,964)	-	-	-
CAF Hungría, 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 Manutenção, 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.

2016

Company	Thousands of euros (*)				
	Finance income	Services provided or sales recognised	Services received or purchases recognised	Dividends received	Finance costs
Industrial					
CAF USA, Inc.	1,339	2,240	2,246	-	-
CAF México, S.A. de C.V.	101	44,290	1,763	-	258
CAF Brasil Industria e Comercio, S.A.	-	16,078	13	-	-
CAF Rail UK, Ltda.	-	806	2,997	-	11
CAF Italia, S.R.L.	14	1,199	3,923	2,000	-
CAF Chile, S.A.	-	2,473	-	-	-
CAF Turquía, L.S.	213	1,301	1,417	-	-
CAF Argelia, E.U.R.L.	-	717	-	-	-
CAF India, Private Limited	-	-	542	-	-
Trenes de Navarra, S.A.	42	-	850	-	-
Construcciones Ferroviarias de Madrid, S.L.	-	1	9,400	1,088	-
Construcciones Ferroviarias - CAF Santana, S.A.	-	457	3,029	-	-
Tradinsa Industrial, S.A.	150	58	2,865	-	-
CAF Rail Australia, Pty. Ltd.	9	-	1,051	-	-
Trenes CAF Venezuela, C.A.	-	-	234	-	-
CAF Arabia, Co.	499	3,005	5,210	-	-
CAF New Zealand, Ltd.	25	3,835	1,317	-	-
CAF Colombia, S.A.S.	-	-	16	-	-
CAF Systeme Ferroviare, S.R.L.	3	-	645	-	-
CAF Deutschland GmbH	14	-	1,225	-	-
CAF Taiwan, Ltd	387	(4,069)	132	-	-
CAF Hungary, K.F.T.	25	37	1,769	-	-
CAF France, S.A.S.	92	11,028	1,568	-	-
CAF Argentina, S.A.	-	60	41	-	-
Technology					
CAF I+D, S.L.	-	264	4,321	-	3
CAF Power & Automation, S.L.U.	-	259	39,643	5,000	1
Nuevas Estrategias de Mantenimiento, S.L. (NEM, S.L.)	-	-	1,245	-	-
CAF Turnkey & Engineering, S.L.U.	-	-	8,054	-	-
Centro de Ensayos y Análisis Cetest, S.L.	-	330	4,453	-	4
Lander Simulation and Training Solutions, S.A.	-	-	840	-	2
Geminys, S.L.	-	-	1,393	900	2
CAF Signalling, S.L.U.	66	1	4,240	-	-
Services					
Actren, S.A.	-	20,789	2,246	1,904	-
Sermanfer, S.A.	-	-	4,956	800	-
Inversiones en Concesiones Ferroviarias, S.A.	17,106	-	-	-	-
Ennera Energy and Mobility, S.L.	2	-	(38)	-	-
Rail Line Components, S.L.	-	72	2,795	-	-
Plan Metro, S.A.	-	11,594	-	-	-
Ctrens Companhia de Manutenção, S.A.	-	56	-	200	-
Construction					
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	-	-	-	89
Total	20,087	116,881	116,401	11,892	370

(*) 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 2017 and 2016, were as follows:

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 Investment 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 Manutenção, 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).

2016

	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.	-	37,585	14,078	7,460	-	656	-
CAF México, S.A. de C.V.	-	-	5,702	(27,276)	-	1,625	258
CAF Brasil Ind. C., S.A.	-	-	860	(9,396)	-	12	-
CAF Argentina, S.A.	-	-	1,238	-	-	47	-
CAF Rail UK, Ltda.	-	-	779	-	-	1,349	1,845
CAF Italia, S.R.L.	-	1,513	774	126	-	2,194	306
CAF Chile, S.A.	-	-	1,019	-	-	-	-
CAF Turquía, L.S.	-	1,542	357	1	-	802	-
CAF Argelia, E.U.R.L.	-	-	834	-	-	1,497	-
Trenes CAF Venezuela, C.A.	-	-	-	-	-	5	-
CAF India, Private Limited	-	-	-	-	-	259	-
Trenes de Navarra, S.A.	-	910	-	-	-	129	-
Construcciones Ferroviarias de Madrid, S.L.	-	-	1	-	-	757	-
Construcciones Ferroviarias-CAF Santana, S.A.	-	-	-	30,783	-	378	3
Tradinsa Industrial, S.A.	-	3,297	70	-	81	1,227	-
CAF Rail Australia Pty. Ltd	-	354	-	-	-	159	7
CAF New Zealand, Ltd.	-	9	3,715	-	-	486	901
CAF Arabia, Co.	-	10,722	958	-	-	4,090	-
CAF Sisteme Feroviare, S.R.L.	-	71	-	-	-	89	-
CAF Deutschland, GmbH	-	407	-	-	-	259	-
CAF Colombia, S.A.S.	-	-	-	-	-	10	-
CAF Taiwan, Ltd	-	12,981	2,460	8,443	-	5	-
CAF France, S.A.S.	-	742	2,668	5,804	-	351	-
CAF Hungría, K.F.T.	-	759	24	-	-	715	-
Technology							
CAF I+D, S.L.	-	69	54	-	-	1,291	9
CAF Power & Automation, S.L.U.	-	6,416	13	-	7,676	15,704	21
Nuevas Estrategias de Mantenimiento, S.L.	-	110	-	-	-	395	-
CAF Turnkey & Engineering, S.L.U.	-	410	-	-	-	2,126	337
Centro de Ensayos y Análisis Cetest, S.L.	-	469	104	-	-	1,506	76
Lander Simulation and Training Solutions, S.A.	-	-	-	-	-	158	40
Geminys, S.L.	-	1,196	-	-	-	860	85
CAF Signalling, S.L.U.	-	3,377	-	-	3,314	2,657	202
Urbanización Parque Romareda, S.A.	-	-	-	-	-	-	180
Services							
Actren, S.A.	-	-	5,285	4,807	-	3,100	-
Subgrupo Sermanfer	-	-	-	-	-	491	229
Inversiones en Concesiones Ferroviarias, S.A.	274,809	5,169	-	-	-	-	1,417
Ennera Energy and Mobility, S.L.	-	94	2	-	-	-	227
Rail Line Components, S.L.	-	272	5	-	-	1,244	30
Plan Metro, S.A.	-	-	3,745	(321)	-	-	-
Ctrens Companhia de Manutenção, S.A.	-	107	-	-	-	-	-
Provetren, S.A. de C.V.	-	-	-	-	-	-	-
Construction							
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	-	-	-	-	-	-	2,787
Total	274,809	88,581	44,745	20,431	11,071	46,633	8,960

(*) The stage of completion net billings at 31 December 2016 included EUR 83,834 thousand in deferred billings (asset) (see Note 12) and EUR 63,403 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 2017, EUR 331,627 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 274,809 thousand drawn down at 31 December 2016). 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 2017, the Company had recognised EUR 4,364 thousand and EUR 11,325 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 3,124 thousand receivable and EUR 1,884 thousand payable at 31 December 2016).

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 2016 and 2017 is as follows:

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

2016

Name	Ownership interest	Jointly controlled assets (Thousands of euros)	Jointly controlled liabilities (Thousands of euros)
UTE CSM	61.79%	14,793	14,787
UTE Suncover	50%	592	547
UTE Valencia	39.35%	5,587	5,581

11. Inventories and construction contracts

The detail of "Inventories" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 19-b)	12,442	832
Advances to suppliers (Note 10)	25,553	27,488
Total	37,995	28,320

At 31 December 2017 and 2016, the Company had firm raw material expenditure commitments amounting to approximately EUR 540,940 thousand and EUR 318,983 thousand (see Note 15).

The Company takes out insurance policies to adequately insure its inventories. At 31 December 2017 and 2016, 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 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Deferred billings (asset) (Notes 3-g & 12)	433,962	495,055
Prebillings (liability) (Note 3-g)	(451,451)	(536,887)
Net balance	(17,489)	(41,832)
Costs incurred plus profits and losses recognised based on stage of completion	1,423,404	1,412,852
Billings made excluding advances	(989,442)	(917,797)
Advances received	(451,451)	(536,887)
Net balance	(17,489)	(41,832)

12. Trade and other receivables

At 31 December 2017 and 2016, the detail of "Trade and Other Receivables" was as follows:

	Thousands of euros	
	31/12/17	31/12/16
Trade receivables for sales and services (Note 11)	706,470	758,886
Trade receivables from Group companies and associates (Notes 10 & 11)	156,971	128,579
Sundry accounts receivable (Notes 8 & 14)	10,294	4,108
Employee receivables	2,604	5,114
Tax receivables (Note 16-a)	12,839	17,803
Total	889,178	914,490

Classes Categories	Thousands of euros			
	Trade receivables from Group companies and associates		Trade receivables for sales and services	
	31/12/17	31/12/16	31/12/17	31/12/16
Trade receivables - in euros	20,593	70,444	416,509	481,371
Trade receivables - in foreign currency	136,378	58,135	289,961	277,515
Total	156,971	128,579	706,470	758,886

These accounts receivable include the deferred billing indicated in Note 11 amounting to EUR 433,962 thousand (2016: EUR 495,055 thousand). Deferred billings under "Trade Receivables from Group Companies and Associates" amounts to EUR 115,887 thousand (2016: EUR 83,834 thousand).

At 31 December 2017, the balances billed included EUR 137,790 thousand (31 December 2016: EUR 137,790 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 2017, 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 2017 and 2016, the Company had balances billed to Metro de Caracas amounting to EUR 36,767 thousand (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty as to their collectability.

At 31 December 2017, 74.82% of the billed receivables related to the top five customers (31 December 2016: 73%). "Trade Receivables for Sale and Services" includes retentions at 31 December 2017 amounting to EUR 524 thousand (31 December 2016: EUR 585 thousand).

The amount of the net past-due balances receivable from third parties at 31 December 2017 and 2016, 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	
	31/12/17	31/12/16
Past due > 90 days	39,174	17,036
Past due > 180 days	89,271	91,128
Total	128,445	108,164

82% 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 2017 there were balances that posed a collection risk totalling EUR 1,437 thousand (31 December 2016: EUR 1,581 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 a reversal of EUR 102 thousand under "Other Operating Expenses" in the accompanying statement of profit or loss (2016: a reversal of EUR 463 thousand, see Note 19-e).

13. Equity and shareholders' equity

a) Share capital

At both 31 December 2017 and 2016, the Parent'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 Parent's share capital at 31 December 2017 and 2016 were as follows:

	%- 2017	%- 2016
Cartera Social, S.A. (Note 8) (i)	25.46%	25.58 %
Kutxabank, S.A. (ii)	14.06%	14.06 %
Indumenta Pueri S.L. (iii)	5.02%	5.02 %
Bestinver Gestión S.A. S.G.I.I.C.	-	3.09 %
Templeton Investment Counsel, LLC. (iv)	3.01%	-
EDM Gestión, S.A. S.G.I.I.C. (v)	3.02%	-

i. The shareholders of this company are employees of the Parent (see Note 8).

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 8 June 2013, 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.

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.

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.

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 2017 and 2016 is allocated to the following accounts:

	Thousands of euros	
	31/12/17	31/12/16
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 2017 and 2016, 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 2017 and 2016, 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 2017 and 2016, 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 2017 EUR 18,010 thousand (end of 2016: EUR 12,514 thousand) of the balance of "Other Reserves" were restricted (Note 6).

g) Dividends

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.

On 11 June 2016, the Annual General Meeting resolved to distribute dividends amounting to EUR 17,997 thousand out of 2015 profit.

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 31/12/15	494
Amount taken to profit or loss	(254)
Balance at 31/12/16	240
Amount taken to profit or loss	(166)
Balance at 31/12/17	74

(*) These amounts are net of the related tax effect (see Note 16-c).

At the end of 2017 and 2016 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 2017 and 2016 the Company did not receive any grants for investments in non-current assets.

In 2017 the Company transferred EUR 230 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 (2016: EUR 354 thousand).

14. Non-current and current liabilities

The detail of "Non-Current Payables" at the end of 2017 and 2016 is as follows (in thousands of euros):

Classes Categories	Non-current financial instruments					
	Non-current bank borrowings		Other non-current financial liabilities		Total	
	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16
Accounts payable	356,779	306,378	37,600	30,929	394,379	337,307
Financial derivatives (Note 15)	-	-	16,666	10,356	16,666	10,356
Total	356,779	306,378	54,266	41,285	411,045	347,663

The detail of "Current Payables" at the end of 2017 and 2016 is as follows (in thousands of euros):

Classes Categories	Current financial instruments					
	Current bank borrowings		Other current financial liabilities (Note 7)		Total	
	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16
Accounts payable	10,298	15,784	25,670	16,559	35,968	32,343
Financial derivatives (Note 15)	-	-	45,552	63,663	45,552	63,663
Total	10,298	15,784	71,222	80,222	81,520	96,006

Bank borrowings

In 2017 the Company arranged three new loans with banks for a total of EUR 65 million. These loans had been drawn down in full at 31 December 2017. Also, in 2017 the Company renegotiated certain loans for a total of EUR 75 million with a principal increase of EUR 5 million, an extension of the maturity date and a reduction in their cost.

In addition, in 2017 the Company repaid EUR 12 million on maturity and a loan for EUR 14 million early.

At 31 December 2017, total bank borrowings included EUR 263 million tied to a fixed interest rate (EUR 13.3 million through an interest rate swap, see Note 15).

In 2016 the Company arranged three new loans for a total of EUR 64,487 thousand (one of which amounts to USD 10,000 thousand) which have been paid in full, and drew down EUR 35,000 thousand against loans arranged in 2015. Also, nine loans totalling EUR 152,608 thousand were paid-off early and EUR 6,658 thousand were repaid on schedule. These loans were arranged on an arm's length basis. Of the amount drawn down, EUR 259,987 thousand are tied to a fixed interest rate (EUR 20,000 thousand through an interest-rate swap, see Note 15).

In relation to transactions performed prior to 31 December 2017, the Company had arranged loans and credit facilities with various banks up to a limit of approximately EUR 515,775 thousand (31 December 2016: EUR 511,595 thousand for loans, credit facilities and factoring arrangements), against which EUR 366,000 thousand had been drawn down at that date (31 December 2016: EUR 321,820 thousand).

Also, 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.

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.

In 2017 the borrowing costs were incurred amounting to EUR 8,304 thousand (2016: EUR 8,610 thousand).

Other financial liabilities - Accounts payable

The changes in the items composing "Other Non-Current Financial Liabilities - Accounts Payable" are as follows (thousands of euros):

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

2016

	31/12/15	Increase/Decrease	Transfers to short term	31/12/16
Refundable advances	26,291	9,941	(9,227)	27,005
Employee benefit obligations (Notes 3-l and 19-d)	3,005	3,041	(2,881)	3,165
Other	700	59	-	759
Total	29,996	13,041	(12,108)	30,929

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 three years and are repaid in a period of over ten 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 2017, the Company recognised balances receivable totalling EUR 1,920 thousand under "Trade and Other Receivables - Other Receivables" (31 December 2016: EUR 2,360 thousand). Also, the Company had recognised EUR 1,282 thousand under "Trade and Other Payables - Other Payables", in relation to the amount payable to third parties arising from joint projects (31 December 2016: EUR 1,142 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 3,113 thousand were recognised under "Other Current Liabilities" in the accompanying balance sheet as at 31 December 2017 (31 December 2016: EUR 2,529 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 2017 and 2016, is as follows (see Note 3-k):

	Thousands of euros	
	31/12/17	31/12/16
Present value of the obligations assumed	45,315	32,424
Less – Fair value of plan assets	(42,750)	(32,692)
Other current (assets) liabilities	2,565	(268)

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	2017	2016
Discount rate	1.68% - 2.47%	1.77% - 1.82%
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):

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

2016

	2018	2019	2020	2021	2022 and subsequent years	Total
Bank borrowings	15,453	137,005	17,920	121,000	15,000	306,378
Other financial liabilities - Accounts payable	7,812	3,026	4,056	3,728	12,307	30,929
Other financial liabilities - Financial derivatives	6,563	3,280	513	-	-	10,356
Total	29,828	143,311	22,489	124,728	27,307	347,663

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 2017 and 2016 is as follows:

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.

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

2016

Currency put options at 31/12/16 (fair value hedges)	Maturity (in currency)		
	2017	2018	2019 and subsequent years
Hedges-			
USD currency forwards (*)	432,324,757	79,234,468	55,313,750
GBP currency forwards	36,442,339	138,283,706	94,422,445
BRL currency forwards	143,348,888	-	-
SEK currency forwards	224,317,236	19,185,635	-
AUD currency forwards	14,789,903	55,404,595	9,806,539
TWD currency forwards	323,955,063	-	-
SAR currency forwards	490,954,194	-	-
MXP currency forwards	2,336,850,126	-	-
CAD currency forwards	880,705	-	-
HUF currency forwards	975,898,338	-	-

(*) Including the hedge of the net investment in CAF USA, Inc.

Currency call options at 31/12/16 (fair value hedges)	Maturity (in currency)		
	2017	2018	2019 and subsequent years
Hedges-			
USD currency forwards	29,587,681	-	34,109,000
MXP currency forwards	59,767,000	-	-
BRL currency forwards	11,654,562	-	-
GBP currency forwards	5,677,835	-	-

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 2017, the notional amount on which the interest rate swap is based amounted to EUR 13.3 million. In this transaction, the Company pays a fixed rate and receives a floating rate tied to Euribor to hedge the interest rate risk of a loan 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	
	31/12/17	31/12/16	31/12/17	31/12/16
USD currency forwards	5,055	(9,723)	-	-
GBP currency forwards	(581)	(6,014)	(38)	-
MXP currency forwards	(17,208)	(8,223)	(1,789)	-
BRL currency forwards	(6,409)	(9,115)	-	-
AUD currency forwards	24	47	-	-
SEK currency forwards	(1,066)	(439)	-	-
TWD currency forwards	666	984	-	-
SAR currency forwards	(2,733)	2,047	-	-
HUF currency forwards	-	2	-	-
JPY currency forwards	(532)	-	(288)	-
Currency forwards in other currencies	(132)	(131)	-	-
Forward rate agreements	-	-	(88)	(198)
Measurement at year-end (*) (Notes 8 and 14)	(22,916)	(30,565)	(2,203)	(198)

(*) 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 2017 amounted to EUR 633 thousand (2016: EUR 121 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):

	31/12/17	31/12/16
Non-current assets (Note 8)	14,402	9,696
Current assets (Note 8)	22,697	33,560
Non-current liabilities (Note 14)	(16,666)	(10,356)
Current liabilities (Note 14)	(45,552)	(63,663)
Balance sheet net total	(25,119)	(30,763)
Fair value	(22,916)	(30,565)
Cash flow	(2,203)	(198)
Total derivatives, remeasured	(25,119)	(30,763)

In 2017 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 1,677 thousand (2016: expense of EUR 5,952 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 20,558 thousand in 2017 (2016: expense of EUR 8,952 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. At 31 December 2017, the measurement of hedges of highly probable transactions, mainly in Japanese yen and Mexican pesos, amounted to EUR 2,115 thousand (31 December 2016: there were none).

16. Tax matters

a) Current tax receivables and payables

The detail of the current tax receivables and payables at 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	Assets (Note 12)		Liabilities	
	31/12/17	31/12/16	31/12/17	31/12/16
Accrued social security taxes	-	-	5,175	5,450
Regular taxes-				
VAT	12,163	17,060	1,628	349
Other	-	-	5	660
Personal income tax withholdings	-	-	5,771	5,130
Income tax	676	743	-	-
Total	12,839	17,803	12,579	11,589

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	
	2017	2016
Accounting profit (before tax)	12,547	2,085
Permanent differences-		
Sundry obligations to employees (Note 14)	1,058	3,439
Subsidiary dividends, litigation and other	(3,199)	(15,142)
Intellectual and industrial property	(1,204)	(1,670)
Increases and decreases due to temporary differences and accelerated depreciation and amortisation-		
Accelerated depreciation and amortisation	8,669	4,504
Sundry obligations to employees (Note 14)	3,373	1,183
Provisions for reliability, guarantees and other (Note 17)	7,389	11,755
Impairment losses on investments, results of joint ventures and other (Note 9)	(365)	(32)
Depreciation due to asset revaluation - Guipúzcoa Regulation 1/2013 (Note 7)	(447)	(1,580)
Taxable profit/Tax loss	27,821	4,542
Tax consolidation adjustments (impairment) and elimination of dividends of consolidated tax group	2,782	(2,263)
Adjusted taxable profit	30,603	2,279

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.

Under the legislation in force, the income tax rate applied in 2017 and 2016 was 28%. The Company's tax liability with 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	
	31/12/17	31/12/16
Arising in the year-		
Actuarial gains and losses (Note 3-k)	754	(277)
Grants (Note 13-h)	64	99
Hedges (Note 15)	561	(16)
Arising in prior years-		
Grants (Note 13-h)	(93)	(193)
Hedges (Note 15)	55	71
Total tax recognised directly in equity	1,341	(316)

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	
	2017	2016
Accounting profit before tax	12,547	2,085
Tax charge at 28%	3,513	584
Impact of permanent differences and tax consolidation adjustments	(158)	(4,378)
Differences - previous year's tax return	(292)	42
Other (taxes paid abroad)	564	769
Recognition of tax assets and deferred tax assets (Note 3-m)	(1,413)	3,522
Total income tax expense recognised in profit or loss	2,214	539
Current tax expense	8,844	1,432
Deferred tax benefit	(6,630)	(893)

The differences between the estimated income tax for 2016 and the tax return ultimately filed gave rise to EUR 292 thousand being credited to "Income Tax" in the accompanying statement of profit or loss.

In 2017 the Company expects to report tax credits amounting to EUR 9,661 thousand (2016: EUR 5,737 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 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Temporary differences (deferred tax assets)	24,227	20,620
Tax credit carryforwards and other (Note 3-m)	17,365	15,431
Tax losses (Note 3-m)	30,199	30,199
Total deferred tax assets	71,791	66,250

In 2017 the Company earned taxable profit of EUR 30,603 thousand, which was offset by tax losses incurred by other Group companies. The corresponding account payable was recognised in this connection (see Note 10).

The Company has tax credit carryforwards earned between 2009 and 2017 amounting to EUR 72,583 thousand, of which EUR 17,365 have been recognised in the accompanying balance sheet as at 31 December 2017 (31 December 2016: EUR 61,483 thousand earned between 2009 and 2016, of which EUR 15,431 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 15 years. 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						
	31/12/15	Additions	Disposals	31/12/16	Additions	Disposals	31/12/17
Tax assets recognised	19,693	862	(5,124)	15,431	2,182	(248)	17,365
Tax effect of tax losses	29,790	409	-	30,199	-	-	30,199
Recognised temporary differences-							
Contractual and reliability liability	76	227	-	303	14	(1)	316
Provision for construction work not deductible in the year	9,587	831	-	10,418	1,829	-	12,247
Impairment losses on investments	222	6	(28)	200	269	(195)	274
Hand-over contracts	1,483	852	(742)	1,593	1,862	(935)	2,520
Warranties and maintenance	267	2,233	-	2,500	226	-	2,726
Asset revaluation	910	33	(441)	502	-	(130)	372
Hedges	-	-	-	-	647	(31)	616
Other	4,768	646	(310)	5,104	1,154	(1,102)	5,156
	66,796	6,099	(6,645)	66,250	8,183	(2,642)	71,791
Unrecognised temporary differences-							
Provisions for post-employment obligations	6,168	1,027	(610)	6,585	1,953	(552)	7,986
Impairment losses on equity investments	2,636	70	(1,256)	1,450	3	-	1,453
Other	137	157	(257)	37	-	(37)	-
	8,941	1,254	(2,123)	8,072	1,956	(589)	9,439

The amount of the recognised tax credits and tax loss carryforwards and their last year for deduction by the Company is as follows:

	Thousands of euros			
	31/12/17		31/12/16	
	Amount	Last year for deduction	Amount	Last year for deduction
Tax credits recognised-				
Earned in 2009	1,699	2024	1,699	2024
Earned in 2010	2,110	2025	2,590	2025
Earned in 2012 (no limit)	2,562	2027	2,562	2027
Earned in 2013 (no limit)	5,464	2028	5,464	2028
Earned in 2014 (no limit)	3,112	2029	1,194	2029
Earned in 2014 (International double taxation tax credit)	720	2029	720	2029
Earned in 2015 (International double taxation tax credit)	341	2030	341	2030
Earned in 2016 (International double taxation tax credit)	800	2031	861	2031
Earned in 2017 (International double taxation tax credit)	557	2032	-	-
Tax loss carryforwards-				
Earned in 2014	24,330	2029	24,330	2029
Earned in 2015	5,869	2030	5,869	2030
	47,564		45,630	

f) Deferred tax liabilities

The detail of and changes in the deferred tax liabilities of the Company are as follows:

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

2016

	Thousands of euros			
	31/12/15	Additions	Disposals	31/12/16
Grants (Note 13-h)	192	-	(99)	93
Unrestricted and accelerated depreciation and amortisation	3,683	-	(1,261)	2,422
Goodwill	18	2	-	20
Hedges	(71)	16	-	(55)
Other	163	94	(2)	255
Total	3,985	112	(1,362)	2,735

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 2017 the Company had all years since 2013 open for review for income tax and all years since 2014 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) 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. 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. In 2017 the stay of the appeal for judicial review filed by the Parent was lifted, with no other changes 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 Group'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 2017 the Company made payments amounting to EUR 795 thousand (2016: EUR 1,165 thousand) and recognised EUR 1,208 thousand (2016: EUR 1,071 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 2017 and 2016 were as follows:

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

2016

	Contractual liability (Note 3-f)	Warranty and support services (Note 3-f)	Litigation (Notes 3-f and 7)	Other (Note 3-m)	Total
31/12/15	108,416	70,745	3,052	1,902	184,115
Net charge for the year	8,328	19,664	1,664	(44)	29,612
Amounts used charged to profit or loss	(4,776)	(26,557)	(4,716)	(187)	(36,236)
31/12/16	111,968	63,852	-	1,671	177,491

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 7,746 thousand under "Other Operating Expenses" (2016: net reversal of EUR 6,486 thousand) relating to the difference between the provisions required in this connection at 2017 year-end and the provisions recognised at 2016 year-end. The expenses incurred to meet the various obligations in 2017, which amounted to approximately EUR 28,228 thousand (2016: EUR 26,557 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 2017 and 2016, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2017 the Company had recognised a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2016: EUR 66,535 thousand), which is recognised under "Contractual Liability" in the table above (see Note 12). There 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	
	2017	2016
Accounts receivable (Note 12) (*)	289,961	277,515
Group accounts receivable (Notes 10 and 12) (*)	136,378	58,135
Loans granted to Group companies (**) (Note 10)	37,296	38,048
Loans received from Group companies (Note 10) (***)	3,534	5,532
Accounts payable (*)	15,052	6,922
Bank borrowings	-	9,487
Sales	406,819	213,983
Purchases and services received	70,910	19,522

(*) Balance mainly in Brazilian reais and US dollars.

(**) Balance mainly in US dollars, pounds sterling and Mexican pesos.

(***) Balance mainly 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	
	2017	2016
Other	(3,124)	640
Total	(3,124)	640

19. Income and expenses

a) Revenue

The detail, by line of business, of the Company's revenue for 2017 and 2016 is as follows (in thousands of euros):

Line of Business	2017	2016
Vehicles	843,681	686,035
Wheel sets, repairs and integrated maintenance	169,237	171,753
Total	1,012,918	857,788

The detail of the Company's sales by geographical market (EU, OECD, rest of the world) is as follows (in thousands of euros):

	2017	2016
Spain	116,252	183,633
European Union	473,938	277,104
OECD	301,888	267,104
Rest of the world	120,840	129,947
Total	1,012,918	857,788

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 2017 and 2016 is as follows (in thousands of euros):

	2017	2016
Cost of raw materials and other consumables used-		
Purchases from and work performed by third parties	541,361	431,117
Changes in inventories	(54,603)	(17,362)
Total	486,758	413,755

c) Detail of purchases by origin

The detail, by origin, of the purchases made by the Company in 2017 and 2016 is as follows:

	2017			2016		
	Spain	EU countries	Imports	Spain	EU countries	Imports
Purchases	71%	18%	11%	74%	15%	11%

d) Staff costs

The average headcount in 2017 and 2016 was as follows:

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.

2016

Professional category	Average number of employees	Men	Women
Board members	2	1	1
Senior executives	11	10	1
Employees	1,367	1,052	315
Manual workers	2,274	2,214	60
Total (*)	3,654	3,277	377

(*) At 31 December 2016, the workforce comprised 3,601 permanent employees and 81 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 2017 and 2016 with a disability equal to or greater than 33%, by category, was as follows:

Professional category	Average number of employees		
	2017	Men	Women
Employees	14	13	1
Manual workers	41	40	1
Total	55	53	2

Professional category	Average number of employees		
	2016	Men	Women
Employees	13	12	1
Manual workers	32	32	-
Total	45	44	1

At 31 December 2017, the Company's Board of Directors comprised seven men and three women. At 31 December 2016, it comprised seven men and two women.

The detail of staff costs is as follows (in thousands of euros):

	2017	2016
Wages and salaries (Notes 3-l, 14, 17, 20-a and 21)	190,379	170,850
Social security costs	53,092	49,639
Other expenses (Note 3-k)	12,531	12,520
Total	256,002	233,009

An expense of EUR 6,272 thousand (2016: EUR 3,042 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	
	2017	2016
Outside services	179,511	139,623
Taxes other than income tax	1,081	1,535
Change in operating provisions and allowances and other (Notes 12 and 17)	7,819	(6,024)
Total	188,411	135,134

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 838 thousand in 2017 (2016: EUR 778 thousand). Of this amount, in 2017 EUR 568 thousand related to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2016: EUR 524 thousand), EUR 134 thousand of which related to the audit fees corresponding to the Parent in 2017 (2016: EUR 122 thousand). In addition, fees for other professional services amounting to EUR 275 thousand were billed in 2017 (2016: EUR 387 thousand): EUR 41 thousand for audit-related attest services including six-monthly reviews (2016: EUR 58 thousand), EUR 2 thousand for tax services (2016: EUR 47 thousand) and the remainder for other services.

f) Information on the environment

In 2017 and 2016 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

At 31 December 2017 and 2016, 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 2017.

The final free allocation of CO₂ emissions for 2013-2020 was approved at the Spanish Cabinet meeting held on 15 November 2013, with the Parent allocated emission allowances of 151,537 tonnes of CO₂ for the aforementioned period. If the emissions exceed the volume of allowances allocated, emission allowances must be acquired in the market.

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.

In 2017 the Company emitted 1,425 tonnes of CO₂ (2016: 15,572 tonnes), whereas it had been allocated allowances for the emission of 18,770 tonnes (2016: 19,133 tonnes). As a result, the Company did not recognise any liability at year-end. In 2017, the Company sold emission allowances for 82,027 tonnes of CO₂, in relation to surpluses arising in prior years, for EUR 397 thousand (in 2016 no emission allowances were sold).

20. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 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 1,721 thousand (2016: EUR 1,495 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. Also, in 2017 the Company made contributions to long-term savings plans totalling EUR 140 thousand (2016: EUR 90 thousand). At 31 December 2017 and 2016, no advances, guarantees or loans had been granted to its current or former directors.

In 2017 EUR 47 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2016: EUR 33 thousand).

b) Information regarding situations of conflict of interest involving the directors

In 2017 and 2016 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 2,075 thousand in 2017 (2016: EUR 2,041 thousand).

In 2017 and 2016 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 2017, 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 2,463,816 thousand (31 December 2016: EUR 2,309,104 thousand). Of this amount, EUR 16,170 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology and other government agencies (31 December 2016: EUR 20,703 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 36,007 thousand (31 December 2016: EUR 109,804 thousand) (see Note 10).

At 31 December 2017, 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 2017, 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 2017, the amounts owed by the customer amounted to EUR 14.8 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 preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in 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 227 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.

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.

	2017	2016
	Days	Days
Average period of payment to suppliers	81.30	74.89
Ratio of transactions settled	85.26	79.86
Ratio of transactions not yet settled	67.75	58.16
	Thousands of euros	Thousands of euros
Total payments made	494,796	398,902
Total payments outstanding	144,823	118,739

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 2016 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 2017, the Group's firm backlog, net of progress billings, amounted to approximately EUR 6,264,780 thousand (31 December 2016: EUR 6,227,931 thousand) (see Note 11). At 31 January 2018, the total was EUR 6,158,860 thousand (31 January 2017: EUR 6,176,967 thousand).

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

ALEJANDRO LEGARDA ZARAGÜETA
DIRECTOR

JOSE ANTONIO MUTILOA IZAGUIRRE
DIRECTOR

LUIS MIGUEL ARCONADA ECHARRI
DIRECTOR

CARMEN ALLO PÉREZ
DIRECTOR

JUAN JOSE ARRIETA SUDUPE
DIRECTOR

JAVIER MARTINEZ OJINAGA
DIRECTOR

JULIÁN GRACIA PALACÍN
DIRECTOR

ANE AGIRRE ROMARATE
DIRECTOR

MARTA BAZTARRICA LIZARBE
DIRECTOR-SECRETARY

APPROVAL BY THE BOARD OF DIRECTORS

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JOSE ANTONIO MUTILOA IZAGUIRRE

LUIS MIGUEL ARCONADA ECHARRI

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JAVIER MARTINEZ OJINAGA

CARMEN ALLO PÉREZ

JULIÁN GRACIA PALACÍN

ANE AGIRRE ROMARATE

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 2017 by the Board of Directors at its meeting on 27 February 2018, the directors have signed this document, consisting of 140 sheets numbered sequentially from 6145 to 6284, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2018.

Approved by

THE CHAIRMAN

ANDRÉS ARIZKORRETA GARCÍA

Signed

THE SECRETARY OF THE BOARD

MARTA BAZTARRICA LIZARBE

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

Consolidated Financial Statements
for 2017 and Consolidated Directors' Report,
together with Auditor's Report

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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 Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 Group 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 consolidated 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 2017 by reference to the stage of completion amounted to EUR 933 million.

Determination of the stage of completion necessarily 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 number of hours incurred in each contract as a percentage of the total number of hours budgeted or the estimation of the margin taking into consideration the expected revenue and estimated costs to be incurred. Also, the stage of completion calculated by the Group 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

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the recognition of revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively, including the information system controls, for which we involved our internal technology and systems experts, and the performance of 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 and 12 to the accompanying consolidated financial statements contain the disclosures and information relating to the Group's revenue by reference to the stage of completion.

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 audit matter in our audit.

Provisions for delays in deliveries and other contractual commitments

Description

It is standard practice in the industry in which the Group 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 rolling stock material pursuant to the production schedule or other contractual commitments.

As described in Note 20 to the accompanying consolidated financial statements, the provisions recognised by the Group to meet these obligations amounted to EUR 129 million at 31 December 2017.

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 Group.

Accordingly, the situation described was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process for recognising provisions for delays in deliveries. In particular, the controls whereby management assesses the status of each project. We obtained the detail 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, the circumstances prevailing in those contracts and historical experience. We also carried out substantive tests relating to the obtainment of confirmations from third parties.

Lastly, we also assessed the appropriateness of the disclosures provided in the consolidated financial statements (see Notes 20 and 25).

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, 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 consolidated directors' report, or as the case may be, that the reference corresponding to the separate non-financial information report has been incorporated in it as provided under the regulations, and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated 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 the consolidated 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 in the preceding paragraphs, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

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

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix 1 to this auditor's report. This description, which is on page 7, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2018.

Engagement Period

The Annual General Meeting held on 10 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution/resolutions of the General Meeting for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2001, 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 de febrero 2018

Appendix 1 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 consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent'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 Parent'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 Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated 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.

**2017 DIRECTORS' REPORT
OF THE
CONSOLIDATED GROUP**

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, from integrated transport systems to wheel sets, components, infrastructure, signalling and services (maintenance, refurbishing and financial services). Within the wheel-sets segment, which represents its core business, CAF offers a wide range of products that includes, among others, high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

With more than 85% of revenue relating to the international market and a significant focus on western Europe, the CAF Group has production plants in Spain, France, the US, Mexico and Brazil, in addition to a new plant currently under construction in the UK that will start up in 2018. The Group also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

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 focus on furthering the development of prior years' lines of action and setting 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. The backlog, which represented 4.2 x sales in 2017, and business alliances will support the Group in its pursuit of this objective. In this regard, the efforts already underway aimed at equipping the Group with industrial capacity in the UK in various areas of activity are worth mentioning (services, engineering and manufacture), to improve its response to requirements in that market.
- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, operation of railway systems, leasing, maintenance and/or refurbishing of trains and locomotives, and various value propositions to customers that might arise from the marketing of digital services (condition based maintenance, fleet management, etc.). In this regard, in 2017 the Group acquired RIFER, a leader in Italy in the provision of wheel set and railcar maintenance services. Based in Milan, very close to the Swiss border, at an important rail and intermodal transport hub, this strategic location will enable CAF MiiRA to offer products and services to Central European countries. With a headcount of more than 60 employees and annual billings close to EUR 10 million, this company has experienced considerable growth over the last few years thanks to its commitment to modernising its facilities and production processes and methods.
- Significant growth in business related to the design and construction of turnkey transport systems and, when required by customers, the maintenance and operation thereof, by the Group on its own or through alliances, including capital investment depending on the circumstances.
- Continue making investments in technological development, in relation to technologies and high value-added marketable products at component, subsystem or material level, intended to be supplied to customers in all our lines of business (wheel sets, signalling, energy, data management, inspections, 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, Vectia, 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 ongoing strategy to gain a competitive advantage. The acquisition in July 2017 of the engineering company BWB, one of the UK's most prestigious consulting firms, forms part of this strategy. BWB has a headcount of around 300 people and has experienced significant growth in recent years thanks to the success of its business model.
- Make progress in the digitization of our operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0). These initiatives span innovative solutions for the services included in the Group's railway solutions, its production processes and IT systems, as a means to guarantee its long-term competitiveness.
- Systematic and recurring execution of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety and management of all the Group's business activities and areas, within a highly competitive environment. This includes:
 - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK, Urbos AXL, metro, etc.)
 - Gradual expansion of the Industrial Operations Transformation Plan.
 - Optimisation of the life cycle cost (LCC) of the product, an area that will increasingly define our competitiveness.
- Lastly, to make progress in fundamental areas of business management such as, corporate social responsibility, shareholder and investor attention, 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 clients' 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	2017	2016	Change (%)
Contracts-			
Backlog	6,265	6,228	0.6%
Contracts in the year	1,514	2,677	-43%
Contracts to Revenue ratio	1.03	2.03	-49%
Profit and cash flow-			
Revenue	1,477	1,318	12%
EBITDA	180	135	33%
Profit for the year attributable to the Parent	42	35	20%
Cash flow	77	58	33%
Investment in working capital	247	253	-2%
Investment in P, P & E and R&D+i	72	38	89%
Capital management and liquidity-			
Net financial debt	219	265	-17%
Equity attributable to the Parent	750	772	-3%
Available liquidity	606	677	-10%
Net financial debt to EBITDA ratio	1.21	1.96	-38%
Proposed dividend per share	0.66	0.58	14%

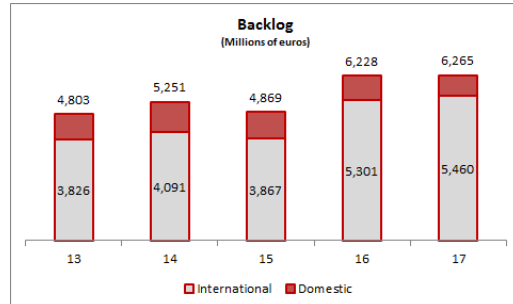
- The Company's backlog is at record highs and continues to guarantee the continuation of the Group's normal business activities.
- EBITDA as a percentage of the Group's revenue stood at 12% in 2017, thus remaining in double figures.
- In a year of increased activity, net financial debt was reduced by 17%, thereby strengthening the Group's solvency indices.
- The proposed distribution of profit consists in paying dividends of EUR 22.6 million.

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

Commercial activity

2017 ended with a new record for the volume of backlog, which amounts to EUR 6,265 million.

In addition to this landmark, the Group's vision for the future is also important, which translates into the development of new products and business lines to be able to maintain the growth trend in future years. In this connection we should highlight the agreement reached with Euskal Trenbide Sarea and EuskoTren to implement an autonomous driving system on Line 3 of the Bilbao metro, which is compatible with the ERTMS -European Rail Traffic Management System- signalling system. The Group will also collaborate with EuskoTren in the improvement of preventive maintenance of the 900 and 950 series in the "Study into predictive maintenance patterns" project.



Within the new business lines, mention should be made of the new ENEP car for transporting truck trailers by rail, thereby helping to reduce greenhouse gas emissions and heavy traffic on the roads. With this new car, which does not require investments in logistics terminals, and supported by the sound performance of the BITRAC locomotives, leased in recent years, the Group participated in the Expression of Interest launched simultaneously by the Spanish and French Governments for the operation of European rolling highways. Also, the ENEP car is capable of extending the rolling highway concept to all Iberian gauge tracks with a minimal investment in gauge-changing facilities.

Among the new projects obtained in 2017, mention should be made of the contract entered into at the beginning of the year with RATP - Régie Autonome des Transports Parisiens-, the Paris public transport operator, for twelve electric maintenance locomotives equipped with batteries to operate "catenary free", a solution aligned with the Company's commitment to environmental sustainability.

Tramway solutions were of notable importance in the backlog arranged in 2017; furthermore, the CAF Group was selected to supply new trams for Vitoria - Gasteiz.

Specifically, four public authorities have renewed the trust previously placed in the company by exercising various options to extend their contracts. Storstockholms Lokaltrafik AB, the company responsible for the Stockholm transport network, signed two extensions in 2017 and acquired 20 new trams: ten four-car trams and ten three-car trams; its fleet for the Swedish capital now boasts 42 Urbos trams. In the Netherlands, specifically in the province of Utrecht, a contract was entered into for the manufacture of 22 seven-car trams, in addition to the initial the supply for 27 trams arranged in 2015. BKK -Budapesti Közlekedési Központ-, which manages the transport services in Budapest, the Hungarian capital, formalised an agreement for 21 five-car trams and five nine-car trams, taking the total number of cars to 46 and 17, respectively. In the US, Kansas City decided to increase its fleet of trams with the addition of two new three-car units.

Four new clients chose the Urbos platform to provide tramway services to their respective populations. In the US, specifically Washington State, Seattle Department of Transport (SDOT) entered into a contract for ten three-car trams that can operate on "catenary-free" sections using the energy accumulation system developed in house by the CAF Group.

On the island of Mauritius, for the 26-km section connecting the island's main cities -Curepipe, Vacoas, Rose Hill, Quatre Bornes and the capital, Port Louis-, CAF will supply 18 seven-car Urbos trams and a signalling system, automatic vehicle location system and transit signal priority system, in addition to workshop equipment and a driving simulator. This is a turnkey project led by Larsen & Toubro Limited.

In Belgium, De Lijn -Flemish Transportation Company- entered into a contract for 48 trams that will operate in the provinces of Antwerp, West Flanders and East Flanders. In Italy, the Region of Calabria formalised a contract for the purchase of four five-car Urbos trams for the new tramway system in the city of Cosenza. In Germany, the public transport authority Zweckverband Schönbuchbahn arranged a contract for nine three-car light rail vehicles and maintenance over a 19-year period, to provide the essential structure for mobility within its network area.

CAF's light-rail vehicles will also operate in Manila, the capital of the Philippines, on Line 1 of the Manila Light Rail Transit System, as part of a project that the Department of Transport of the Philippine Republic arranged through Mitsubishi Corporation. 30 units of rolling stock will be supplied, strengthening the trust between the two companies by means of a new project, following previous successful collaborations on the Istanbul metro and the Canberra tram.

In the metro market, the city of Naples arranged a contract for the supply of ten six-car units for Line 1 of the metro of the capital of the Campania region of Italy. The relationship of trust between CAF and various Italian public authorities continues to grow with this new contract, which joins those entered into in the past with the Rome metro, Bari commuter trains, the Friuli-Venezia Giulia and Sardinia regions and Trenitalia.

We conclude this summary by analysing the diesel and electric units contracted in the UK and New Zealand. On the other side of the world, the city of Auckland has renewed its trust in our trains by a contracting an additional 15 electric units and maintenance over a period of eight years. These units are equipped with an on-board electricity storage device which enables them to operate on lines that are not electrified, as is the case of the Papakura-Pukekohe route, thereby avoiding the use of diesel trains that currently provide the service.

In the UK, the joint venture formed by Abellio, Japan East Railway Company and Mitsui & Co Ltd was awarded the operation of the West Midlands franchise and selected CAF for the manufacture and maintenance of 26 diesel multiple units (14 four-car units and twelve two-car units). The selection of CAF confirms the trust of UK operators in CAF's products, which enjoy a significant presence in the UK, as demonstrated by the tramway contracts in cities like Edinburgh and Birmingham, or wheel sets for the provision of services by operators such as First Group, Arriva and Serco.

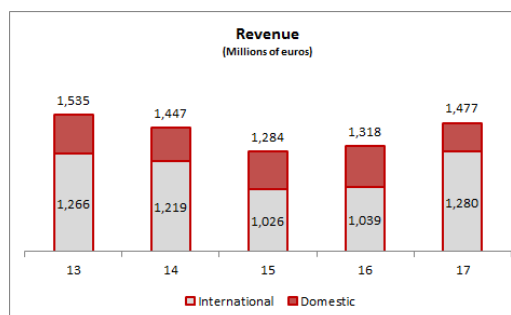
Last, but by no means least, mention should be made of the sound commercial performance of, and contracts contributed by, the wheel sets business (MiiRA) and the Group's other businesses, which increased the total annual contracts to around EUR 1,500 million.

The Group, which is now more than 100 years old, faces 2018 with a renewed sense of optimism in light of the forecast investments from various operators, which include opportunities in the domestic market such as those announced by the Ministry of Public Works relating to imminent tenders by Renfe for various types of material.

Industrial activity

Within 35 projects in the design, manufacture or delivery phase that were active in 2017, approximately 20 of them related to the manufacturing phase, which occupied the industrial activity of the Group's various plants.

Certain projects were completed in 2017, such as the project for twelve locomotives for the Saudi Arabian operator SAR, with the delivery of the remaining locomotive; or Euskotren's order for 28 units, the manufacture of the last six of which was completed; the eight trains for the Istanbul metro completing the order for 21 trains; the last of the 20 trains contracted by the Helsinki metro; and the six trams completing the contract for twelve arranged by the German city of Freiburg.



The manufacturing phase of other projects commenced in previous years continued, namely the order for 35 trains for the operator CPTM in the Brazilian city of Sao Paulo, of which nine units were manufactured, taking the total to 24 at the end of the year; or the project for the Santiago de Chile metro, with the manufacture of 18 units of the order for 41 trains; ten of the 16 trams under the contract arranged with the city of Saint Etienne; the 15 trains of the Civity platform for the city of Toluca (Mexico); eight trams for Utrecht; the first of the trams for Canberra; the first nine trams of the 21 arranged by Luxemburg and 15 trains for the Medellín city metro.

The first five trains for the Dutch operator Nederlandse Spoorwegen (NS) left the manufacturing plants. Four of the trains have four cars and the other train has three cars. This is the first delivery batch of the 118 trains of the aforementioned two types that make up the order.

As regards the other projects, which are in earlier phases of development, mention should be made of the projects arranged with the UK operators Arriva Northern and TransPennine, the first units of which were at different stages of completion at the end of 2017.

The most important products manufactured in 2017 were as follows:

	No. of vehicles
Long-distance Amtrak cars	11
Long-distance Caledonian cars	16
Locomotive for Saudi Railway Company (SAR)	1
Euskotren commuter trains	18
Commuter trains for CPTM	72
Commuter trains for Toluca	75
Commuter trains for NS (four-car units)	16
Commuter trains for NS (three-car units).....	3
Chile metro.....	90
Istanbul metro	48
Helsinki metro.....	4
Medellín metro	45
Trams for Freiburg	42
Trams for Saint Etienne	50
Trams for Utrecht	40
Trams for Luxemburg	63
Trams for Canberra	5
TOTAL	599

BOGIES

With welded chassis877

WHEEL SETS AND COMPONENTS UNITS (MiIRA)-

Assembled axles4,160
Loose axle bodies6,211
Monoblock wheels.....47,816
Elastic wheels867
Couplers451
Gear units2,482

Investments

Capital expenditure by the CAF Group in 2017 amounted to EUR 44,263 thousand. 2017 investments included:

At the Wheel Sets Business Unit (MiiRA), the investment for a new automatic axle machining and verification line was completed and the line came into service at the end of the year. Similarly, the adaptation of MiiRa's new offices was completed in early 2017 and they are now fully operational.

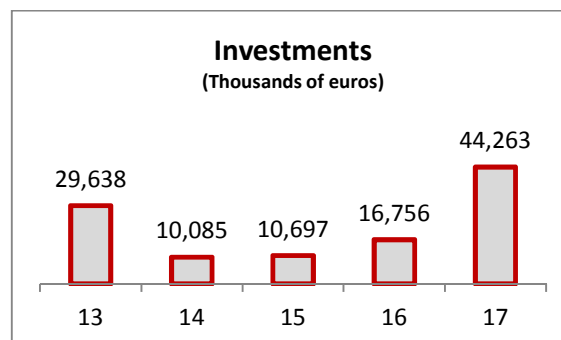
At the Rolling Stock Business Unit, a plan commenced in 2017 to improve the industrialisation model with the aim of equipping the Parent with the capacity and facilities required to provide an optimal response to the considerable number of projects awarded in 2016. These measures included most notably the new engineering and R&D building being constructed in Beasain and investment in manufacturing areas, such as the refitting and renovation of the finishing warehouses applying the lean manufacturing methodology, implementation of new vehicle-platform-specific lines, the conditioning and equipping of the new kitting areas, acquisition of a new paint shop and the construction of a new tram test track.

With regard to investments in the Parent's other departments, the existing offices were also reorganised and extended. The main departments affected by these investments were the Quality, Manufacturing Engineering, Purchasing and Planning departments.

Similarly in the IT area, the data warehousing system is currently being upgraded to provide a more modern hybrid infrastructure comprised of various types of data warehousing. A server consolidation process was also launched to equip servers with greater processing resources, thus minimising the number of incidents and reducing consumption.

The investments made by the Group's subsidiaries include most notably those carried out by CAF Power & Automation to extend the traction laboratory and the implementation of the new lean manufacturing model, and by CAF Signalling mainly in the validation and trials area of R&D laboratory.

Lastly, investments abroad included notably those at the Huehuetoca factory in Mexico, which commenced in 2016, geared towards upgrading its facilities and the acquisition of new painting and alumina coating shops, which were necessary to fulfil the projects the Group will develop in Mexico in the coming years. Mention should also be made of the commencement of the construction of the new manufacturing plant in the UK, specifically in Newport (Wales), completion and start-up of which is scheduled for the second half of 2018.



R&D+i activity

As regards CAF and CAF I+D, in 2017 the CAF Group's new Technology Plan for 2018-2019 was completed which, aligned with the Strategic Plan, will set in motion a total of 47 new projects for CAF and its subsidiaries, and continue another 67.

Similarly, the Product Plan for 2018-2019 was completed, which is focused on the basic development of new types of vehicle to extend CAF's product range and on improving its existing offering.

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

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

The 2017-2018 Technology Plan implemented in 2017 fostered a total of 134 projects involving CAF, CAF I+D and various subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The projects included in the 2017-2018 Technology Plan encompassed the following fields:

- Specific rolling stock products
- Basic railway technologies such as dynamics, aerodynamics, fluids, noise, EMC, etc., in addition to technologies such as Big Data, cybersecurity, communications and computer vision.
- Digital Train, which comprises projects using Big Data and Machine Learning, etc. technologies to gather and process data obtained in service for use in product and maintenance enhancements.
- Energy accumulation and management, comprising projects relating to the reduction and optimisation of energy consumption in trains (driving, ancillary systems, etc.) and in the railway system as a whole, capture and storage of energy in batteries and hydrogen, etc.
- Signalling (on-board and fixed)
- Traction
- Specific products and developments using wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

All of the above combined the execution of projects aimed at assimilating new 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, a project associated with the Digital Train developments funded by the strategic HAZITEK programme.
- SIP-SCIE, a project to develop energy capture technologies supported by the Spanish Centre for Industrial Technological Development (CDTI).
- ROLL2RAIL, a two-year project led by CAF on the technical side which precedes Shift2Rail, the aim of which is to develop a series of key technologies that will provide a significant leap in innovation in the rolling stock vehicle field.
- 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, PINTA, IMPACT, etc.) which are scheduled to continue until 2024.

The subsidiaries continued their normal technological development activity. The following activities are worthy of note:

- Development of proprietary, on-board ETCS DMI software in compliance with BL3 regulations, thereby eliminating the need to depend on software licensed from a third party.
- Certification of the generic on-board ETCS software for the Netherlands, including the country-specific CRs required by ProRail.
- ERTMS system L1 Infrastructure with temporary speed restrictions (PCE, L1EM, LEU) was completed. It is being installed in the Atlantic Axis, Vandellós -Tarragona and Pamukova - Kosekoy projects.
- ATO system for the Mexico-Toluca project integrated in Laboratory.
- Modularisation of the traction platforms, including software.
- Complete validation and application of Full-Litio technology in customer projects, which enables "catenary-free" rolling stock to operate and extends its battery life.
- Development of hybrid renewable energy (mainly photovoltaic) systems and battery storage systems.

In addition to the development, enhancement and expansion of CAF's existing vehicle platforms, the most significant engineering projects undertaken in 2017 were as follows:

- Oaris high-speed trains for Flytoget (Norway)
- Diesel and electric multiple units for Arriva Northern (UK)
- Electric multiple units for First TransPennine Express (UK)
- LRVs for the Boston and Maryland metros (US)
- Push-pull cars for Caledonian and First TransPennine Express (UK)
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)
- Metros for Mexico City Line 1 (Mexico), Algiers (Algeria) and Quito (Ecuador).

The following projects entered into service in 2017:

- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Naples metro (Italy)
- Trams for Cosenza (Italy), Seattle (USA) and De Lijn (Belgium)

Main risks and uncertainties

The CAF Group 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, the CAF Group'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 CAF Group with a controlled volatility;
- Providing the utmost level of guarantees to shareholders;
- Protecting the CAF Group's results and reputation;
- Defending the interests of shareholders, customers, other groups interested in the Parent's operations and that of society in general; and
- Ensuring the Company's stability and financial strength in a sustained way over time.

To do so, the General Risk Management and Control Policy is implemented throughout the entire CAF Group 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 Group is exposed;
- 3) analysis of the risks identified and what they entail for the CAF Group as a whole;
- 4) risk assessment based on the defined risk appetite;
- 5) the measures envisaged to address the identified risks; and
- 6) regular monitoring and control of current and potential risks.

The Integrated Risk Management System adopted by the CAF Group 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 the Group is facing 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 Group 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 Group'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 Group 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 Group'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 17, "Derivative financial instruments", in the consolidated financial statements. Liquidity risk is addressed further in the following section.

- Operational risks: these are the risks inherent to all the Group'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. They include the following: personnel/employment law, human, social and environmental rights, among others, and are further detailed in their related sections.

- 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 Group'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.

Due to its global risk scope, the Integrated Risk Management and Control System is continuously updated to include new risks that might affect the Group 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.

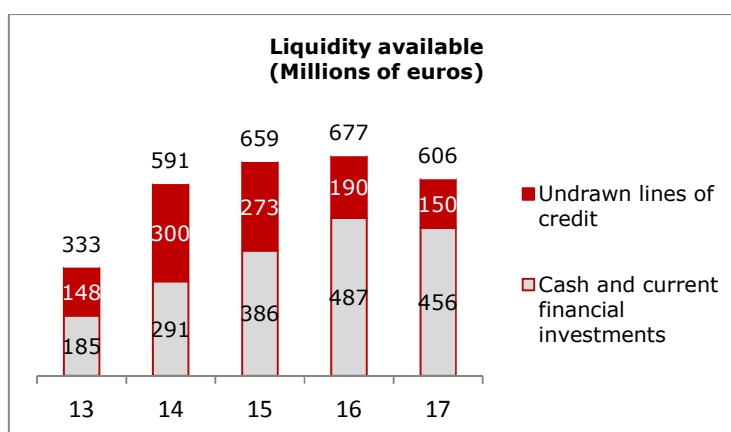
Liquidity and capital resources

Availability of liquidity at short term-

The CAF Group constantly assesses its available liquidity, including cash balances, short-term liquid investments, the availability of lines of credit, access to short-term capital market instruments and the generation of cash flows from operating activities, in order to meet the Group's liquidity needs at all times.

When assessing the CAF Group's short-term liquidity needs, the following factors, among others, are taken into consideration: the historic volatility of the Group's liquidity needs, their seasonality, the maturity profile of the non-current liabilities, the needs arising from investment plans, the expected level of customer advances and the evolution of working capital. To define target levels of available liquidity worse-than-base-case scenarios are taken into consideration.

Sources of short-term available liquidity include liquid assets, current financial assets and undrawn lines of credit. The evolution of the Group's available liquidity in recent years is as follows:



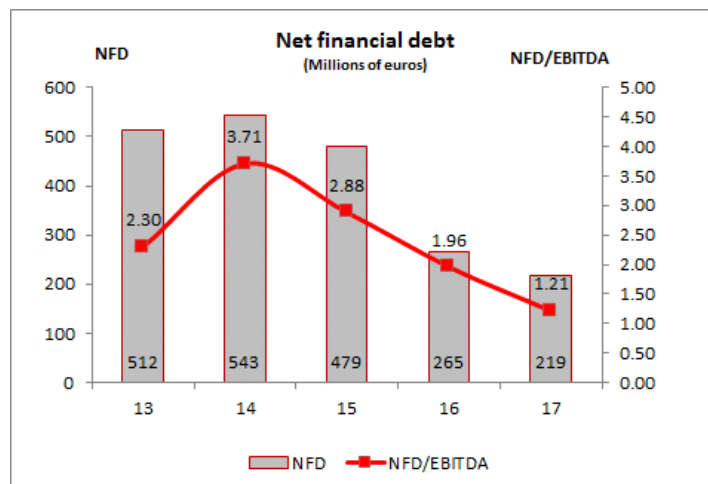
Also, on 21 December 2017 Construcciones y Auxiliar de Ferrocarriles, S.A. registered on the Irish Stock Exchange a Euro-Commercial Paper Programme for a maximum amount of EUR 200 million. Although in 2017 no placements were performed under this programme, the Group expects to use this capital-market product as a source of short-term financing alternative to existing credit lines, thereby diversifying the origin of sources of financing and adding an additional source of liquidity, the volume of which will depend on investor appetite for the Company's promissory notes.

Capital structure-

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital and ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

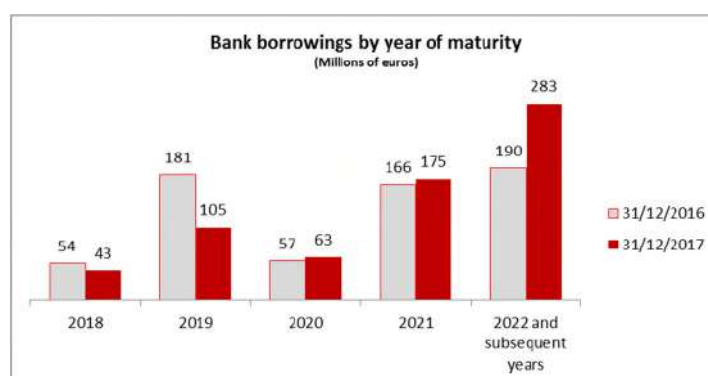
The Group sets as an objective maintaining a leverage ratio and creditworthiness in line with the profile of its businesses.

The CAF Group regularly assesses the appropriateness of its liability structure, and takes into consideration the projected cash flows, the maturity profile of its debt, the foreseeable evolution of its working capital and other future liquidity needs. The main aggregates of the Group's liability structure have performed as follows in recent years:



Millions of euros	2013	2014	2015	2016	2017
Gross debt - Concessions	446	421	346	364	283
Gross debt - Corporate	268	429	531	403	406
Total	714	850	877	767	689

The CAF Group is constantly renegotiating its financial liability structure, in order to minimise borrowing costs and bring maturities into line with its needs, within the possibilities offered by bond markets. As a result of these actions, in 2017 the maturities of the Group's debt were extended vis-à-vis the maturities at the end of 2016, as demonstrated below:



CONSOLIDATED NON-FINANCIAL INFORMATION AND CORPORATE SOCIAL RESPONSIBILITY STATEMENT

This section of the directors' report provides disclosures on the non-financial information as defined in the legislation in force "consolidated non-financial information statement", without prejudice to CAF also preparing an annual corporate social responsibility report that includes both the aforementioned non-financial information and also further develops additional matters relating to sustainability and corporate social responsibility.

In this connection and in accordance with CAF's Corporate Social Responsibility Policy, the central line of CAF's corporate strategy is that all persons that form part of the CAF Group base their actions on the ethical principles of good faith and integrity, and that its standards of conduct are governed by the values contained in the aforementioned policy.

The CAF Group's primary objective, as established in its Code of Conduct, is to build trust and drive value in the domestic and international markets for the items, equipment, materials, goods and services intended for transport and other related activities, for the benefit of customers' needs, shareholders' investment, competitiveness in the countries where it operates and the expectations of all the individuals who work at the organisation.

The Group also defines its social responsibility as a voluntary commitment to foster the achievement of its business objectives, complying with legal obligations and applying balanced criteria in dealings with stakeholders to create value on a sustainable basis.

The CAF Group's Corporate Social Responsibility Report for 2017 has been prepared in accordance with the Core option of the Global Reporting Initiative (GRI) G4.

For more information than that disclosed below, see the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

Environmental activity

The CAF Group is committed to combatting climate change and to being environmentally friendly mainly through two channels:

- Offering more efficient and environmentally friendly means of transport, as detailed in the current Corporate Social Responsibility Policy. To do this, CAF carries out numerous research and development activities included in the 2015-2017 Technology Plan in order to prioritise the demands of its customers and users: the quality, safety and eco-efficiency of its products.
- Preventing the environmental impact of the industrial activities carried out. CAF's Environmental Policy indicates that the efforts carried out in this area are geared towards adopting the necessary and economically viable measures to control and minimise important areas of environmental concern, such as atmospheric emissions, waste generation and energy consumption, among others.

The following environmental risks associated with both the products and services the Company provides and the industrial activities it carries on are identified in these two areas: (i) use of pollutants; (ii) sub-optimal energy consumption; (iii) impact on water sources; (iv) impact on biodiversity; (v) greenhouse gas emissions; (vi) generation of waste; (vii) environmental impact of products and services; (viii) non-compliance with applicable environmental regulations; and (ix) non-compliance with requirements set by customer specifications.

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Company's Environmental Policy and the CSR Policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

In relation to the first area, and with the aim of offering more efficient and environmentally friendly means of transport, the CAF Group is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout their lifecycle.

As a result of these activities, in 2011 the CAF Group developed the first verified Environmental Product Declaration (EPD) for a tram (the Urbos tram for Zaragoza) in the world under ISO 14025. This environmental impact study on the Zaragoza tram was quantified using a life cycle assessment (LCA) pursuant to ISO 14040 and ISO 14044. From 2011 the CAF Group has continued to certify products in various segments (tram, metro, regional trains) and in 2017 it was one of the rolling stock manufacturers with the largest number of EPDs registered.

Furthermore, as regards how to minimise the environmental impact of its activities, the Group has implemented an Environmental Management System at its most important manufacturing centres (Beasain, Irún and Zaragoza) which is certified under ISO 14001:2004. The most recent maintenance audit for ISO 14001:2004 certification was performed in June 2017. Similarly, other centres, such as CAF TE and CAF Signalling, have implemented an Environmental Management System that is certified under ISO 14001.

An audit was also carried out in order to identify gaps with respect to ISO 14001:2015 that will enable the establishment of an action plan to bring the system into line with the aforementioned standard and achieve certification. By doing so, in 2018 the Environmental Management Systems of all the centres will transition to the new version of ISO 14001:2015. CAF Signalling is already certified under this new standard.

As regards the environmental indicators obtained in 2017, mention should be made, due to its importance, of the energy intensity indicator (energy use per man-hours). At the CAF Group, the indicator that includes all domestic activities of all the main businesses taken as a whole stands at 0.32 Kwh per man-hour. This figure is down considerably on 2016 due to the discontinuation of the steelworks activities at the Beasain factory at the beginning of 2017.

For more information on environmental matters, see Chapter 5 "Contributing to the care of the environment" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

Social matters

The CAF Group, as explained in its Corporate Social Responsibility Policy, is committed to the local, national and international community, and implements and fosters initiatives focused on improving the quality of life of the people in the communities where it operates and the areas of its activity. The Group's objective is to participate in the various communities with which it interacts through development cooperation and supporting the various public authorities and leading public and private entities.

Associated with these undertakings, in addition to respecting the social, economic, cultural and linguistic environments in which it carries on its activity, are the following risks: (i) the adverse impact of its activities on local communities; (ii) lack of alignment between the corporate objectives of the CAF Group and the various communities; (iii) difficulty of establishing sustainable, enduring relationships with local communities; (iv) ineffective cooperation with the public authorities and local entities; and (v) lack of respect for social, economic, cultural and linguistic environments.

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Corporate Social Responsibility Policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

The CAF Group engages in activities that contribute to the wellbeing and improvement of local communities; certain of these are intrinsic to its activity, while others relate to collaborative and participatory initiatives that are categorised in four areas: the economic environment, knowledge generation, collaboration with educational and training institutions, and social and cultural matters.

The Group is committed to the local economy, which materialises on two fundamental, but not exclusive levels. The first of the levels is reflected in the generation of quality employment wherever it carries on its activities. The quality of employment results in appropriate general conditions and a vocation of employment stability. More than 90% of CAF's employees have permanent contracts.

The second level is related to specific initiatives and activities that might affect the economy of the locations where it operates, thereby contributing to fostering the growth of the business fabric with a different intensity and scope. The CAF Group participates in this last line at regional and international level.

As in previous years, the CAF Group continues to collaborate in order to generate knowledge where it carries on its activities. In 2017 the Group had various initiatives in progress that can be categorised into three types: Participation in governing or management bodies of research centres; long-term collaboration to develop knowledge with universities and research centres; and participation in public or private entities focusing on innovation.

Similarly, the Group remains committed to training future professionals and with this in mind establishes agreements to collaborate with educational institutions or entities that foster youth employment in the area in which it operates. It has in-force agreements with the main universities and professional schools. It highlights, within the international activity in 2017, the Group's promotion of internships for graduates at CAF Group headquarters in countries such as England and Scotland in the UK, Hungary, Italy, Germany, the Netherlands, Luxembourg, France and Chile, among others.

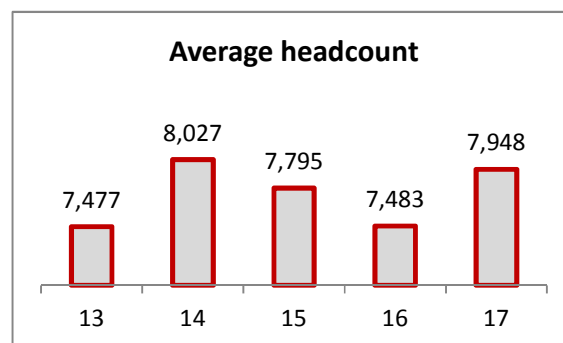
Lastly, the CAF Group collaborates with public and/or private entities to support social, knowledge and cultural projects that have a positive impact on the communities where it is located. Among these activities, mention should be made of the use of Basque in the Beasain and Irún workplaces; noting that in 2017 the Silver Bikain certificate was obtained. This certificate recognises the quality of the use of Basque in a professional environment.

For more information on Social matters, see Chapter 6 "The Social Value of Our Activity" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

Human Resources

The people who are part of CAF Group are key to develop a sustainable Project as is expressed explicitly in the Corporate Social Responsibility policy and Code of Conduct.

CAF Group promotes the professional development of the people taking into account the balance between the objectives of the company and the needs and expectations of employees, encouraging the permanent adaptation and improvement of competencies and capacities. The experience, the knowledge and the motivation of the people are reflected in each one of their products and services.



In addition, CAF Group is committed to use the necessary resources to eliminate or reduce the occupational hazards of all persons as reflected in the current occupational risk prevention policy.

In his area are identifies the following risks related to the prevention of occupational hazards and the appropriate professional development of employees: (i) Rotation of staff (ii) insufficient training and professional development (iii) lack of Diversity and Equal Opportunities (iv) Accidents and health issues.

These risks are fully integrated into the group's risk management and control system; and the procedures and controls that apply derive from the policy of Corporate Social Responsibility, Policy of Prevention of Occupational Hazards and the Code of Conduct of the Group. Within the control and risk management system, the compliance and effectiveness of the measures taken are periodically monitored.

In 2017, a significant programme for the incorporation of resources was launched to respond to the growth initiatives of the different businesses. In this sense, the CAF Group has increased its headcount during 2017 to reach 8,428 employees. The average headcount of the Group in 2017 amounted to 7,948.

CAF Group in figures	31.12.2017	31.12.2016
College graduates	2,783	2,232
Middle managers and administrative personnel	1,306	1,104
Production and Services	4,339	4,251
Total	8,428	7,587

In order to adapt the template to the company's challenges, the relative weight of the group of university graduates has increased. Part of the increase in this template is derived from the acquisition of BWB.

It is worth noting the permanent communication between employees, trade unions and the company to know their interests and expectations, which should allow reaching agreements beneficial to all. In the field of labor relations, the agreement for the signature of collective agreements of all headquarters of the parent company applicable to the 2017 and 2018 periods stands out in 2017.

With regard to training, the training process is key to structuring this activity and this can be seen both in the parent company and in the set of national subsidiaries linked to their main businesses (Rolling Stock, Services, Components, Signalling, Power and Traction Equipment's and Engineering). The indicators of activity and effectiveness of the training process, at the end of 2017, show positive figures. More than 115,000 hours of training have been received, 92% of the planned training activities have been carried out and the assistance has increased to 91%.

In the CAF Group it is actively promoted freedom for discrimination, either direct or indirect, especially in terms of gender, and the defense and effective implementation of the principle for employment equality among men and women, making progress in the establishment of measures that favor the work-life balance. The 14% out of the total amount of employees in the CAF Group are women, a percentage that exceeds the one on the previous period.

In 2017 an audit of the maintenance of the certificate regarding management framework, based on the requirements expressed in standard OHSAS 18001:2007 for the plants located in Beasain and Irún, an audit for the renewal of the certificate OHSAS 18001:2007 and a regulatory audit for the plant in Zaragoza, and an audit for the renewal of the certificate OHSAS 18001:2007 for CAF TE and CAF Signalling have been performed. Additionally, and in order to make an internal tracking of the management framework implemented according to the requirements of the standard one, internal audits were performed in each one of them.

The occupational risk prevention plans of the main offices and businesses of the Group define the prevention activities schedule and the annual targets in terms of occupational risk prevention.

With regard to the aim of accident rates, 3 indicators are mainly measured: the frequency rate, the severity rate and the absolute frequency rate. These indicators, regarding the most significant national activities in the CAF Group, are outlined in the table below:

Prevention of occupational hazards in figures (2017)	Rolling Stock Business			Railway Services business Headquarters
	Main Manufacturing Plants			
	Rolling Stock Business/ Components			
	Beasain	Irún	Zaragoza	
Frequency Index FI= $\frac{\text{Number of injuries with leave*1,000,000}}{\text{Worked hours}}$	23.83	32.6	32	39.67
Severity Index SI= $\frac{\text{Number of lost Journeys*1,000}}{\text{Worked hours}}$	0.56	0.5	0.51	1.44
Absolut Frequency Index AFI= $\frac{\text{Total injuries*1,000,000}}{\text{Worked hours}}$	160.45	293.3	288	73

Similarly, these indicators are calculated for the rest of the business and locations.

For more information on Human Resources matters, see Chapter 4 "Our Team's excellence" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

Respect for Human Rights

The CAF Group is committed to scrupulously respecting fundamental rights, the principles of equality and non-discrimination, protecting children from exploitation and any other principle included in the Universal Declaration of Human Rights and the United Nations Global Compact. These commitments are expressed both in the Code of Conduct and in the Corporate Social Responsibility Policy.

The following risks have been identified that might jeopardise the fulfilment of these commitments: (i) violation of the principles of equality and/or non-discrimination in the workplace; (ii) a lack of freedom of association or the right to collective bargaining at own and/or third-party workplaces; (iii) child exploitation at own and/or third-party workplaces; (iv) forced labour at own and/or third-party workplaces; (v) violation of the rights of indigenous peoples; (vi) psychological harassment; and (vii) insufficient integration of people with disabilities.

These risks are fully integrated in the Group's risk management and control system and the procedures and controls that are applied stem from the Company's Code of Conduct, Psychological Harassment Prevention Protocol, Compliance Manual and the Corporate Social Responsibility policy. The risk management and control system regularly monitors the compliance with and effectiveness of the measures adopted.

The CAF Group has implemented dissemination and training activities relating to commitments adopted in this connection to members of its workforce. 91% of the personnel included in the training plan established to this end have participated in these activities.

In addition, the CAF Group is committed to maintaining the highest standards of professionalism and integrity in its commercial relationships. Specifically, as part of the supplier approval process the CAF Group requires compliance with the ethical principles contained in the Code of Conduct.

The CAF Group has certain measures to assess and guarantee compliance with the Code of Conduct in the supply chain, inter alia supplier approval audits, which include the assessment of human-rights related matters such as certification in this area or the verification of compliance with the Code of Conduct. Also, in 2017 an assessment of compliance with the Corporate Social Responsibility Policy was performed on 15 significant suppliers, whose importance was based both on the type of product they supply and their geographical location. All of the assessments carried out in this process were satisfactory.

Lastly, mention should be made of the existence in this area of the Psychological Harassment Prevention Protocol, which is integrated in the occupational risk prevention system. The purpose of this Protocol is to define situations of psychological harassment in the workplace, establish preventive measures to prevent and avoid these situations, and establish procedures so that, should they arise, the Company's personnel know how to act.

For more information on Human Rights matters, see the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

Fighting corruption and bribery

Good Corporate Governance System

The CAF Group carries on its activity by bearing in mind the importance of appropriate, transparent management as an essential factor for generating value, enhancing economic efficiency and strengthening the trust of its shareholders and investors, which is implemented through a Corporate Governance System based on the "Good Corporate Governance" concept.

This system is based on the commitment to ethical principles, best practices and transparency, and is organised around the defence of the corporate interests and the creation of sustainable value for the CAF Group's stakeholders.

Fighting corruption and bribery is part of the primordial Good Governance and Corporate Social Responsibility objectives, and has given rise to the establishment of preventive measures to ensure strict compliance with the legislation in force in the territories in which the CAF Group carries on its activities, including the approval and implementation of a Code of Conduct and a Corporate Compliance Manual.

Since 2011 the CAF Group's Code of Conduct has defined the series of general rules and principles of corporate governance and professional conduct applicable to all the Group's professionals and any other entity or party that, as part of their professional activity, collaborates or has a professional relationship with the Group.

The Code of Conduct is available on the CAF Group's website (www.caf.net) and has been distributed to all employees via the CAF Group's portal.

In implementing the Code of Conduct, a corporate compliance programme was established, which materialised in the Corporate Compliance Manual that was approved by CAF's Board of Directors on 29 April 2015; the Manual complies with the provisions of the recent changes introduced in the Spanish Criminal Code and the Code of Conduct forms part thereof. The Manual is reviewed periodically and the most recent version, in force in 2017, was approved by the Board of Directors on 27 July 2016.

This Manual responds to the need to verify the sufficiency and the effective establishment of the procedures and controls at the Group to prevent, as far as possible, the risk of significant offences being committed in relation to the CAF Group's activities and the consequences of such offences.

Risks and activities related to fighting corruption and bribery

As indicated above, the analysis of criminal risks enabled the definition, from the catalogue of offences that can be committed by legal persons, of the "significant offences", which are those that to a greater or lesser extent can be related to the purpose of the CAF Group's activity and, consequently, are the offences that warrant greater attention from a corporate compliance perspective.

Of the above list, the following are specifically related to fighting corruption and bribery: (i) corruption between individuals; (ii) bribery; and (iii) corruption in international transactions.

The CAF Group's activities that warrant particular attention for the aforementioned purposes can be summarised as follows: (i) public calls for tender, (ii) performance of public and private contracts; and (iii) integrated projects. However, the Corporate Compliance Manual provides a detailed analysis of each of the risk activities and how to manage them.

Management of specific risks related to fighting corruption and bribery

Specific management of the risks identified in the Corporate Compliance Manual is performed: (i) by applying specific conduct policies; (ii) by raising awareness among all individuals of the CAF Group to whom the Manual applies through training and dissemination activities; (iii) by managing a whistleblowing channel that enables detection of behaviour that violates the Code of Conduct or the aforementioned Manual; and (iv) by implementing the Manual at the CAF Group's subsidiaries to ensure that it is applied at all the Group's companies.

The Compliance Committee or Unit is the CAF Group's body, which has independent powers of oversight and control, that is responsible for overseeing the compliance programme implemented through the Manual.

Specific conduct policies

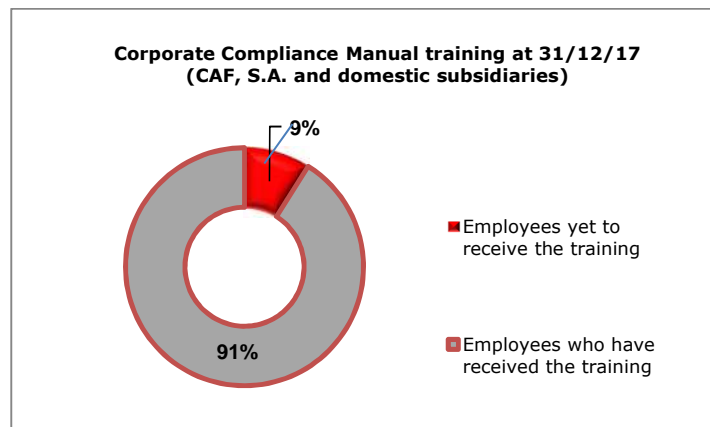
The Corporate Compliance Manual specifies the risk activities that the Group carries on and links them to potential criminal conduct that might be committed and assigns certain conduct policies that must be observed to avoid the commission of offences.

The classification of an activity as a "risk" does not mean that it is unlawful or criminal, but rather that it is an activity from which, if due precaution is not taken, situations with potential criminal implications might arise.

Also, the conduct policies are protocols or procedures to be followed that are established by the CAF Group to prevent the commission of criminal conduct in the performance of risk activities.

Corporate Compliance Manual dissemination and training

In 2017 the Group continued to provide to the CAF Group's personnel the training activities commenced in 2016 aimed at raising awareness of, disseminating and applying the Corporate Compliance Manual. At the end of the 2017, training had been provided to 91% of the personnel at the Parent and Spanish subsidiaries, in accordance with the Corporate Compliance Manual. More than 2,000 people have received training in this connection. Similarly, a system has been established to provide training to new employees.



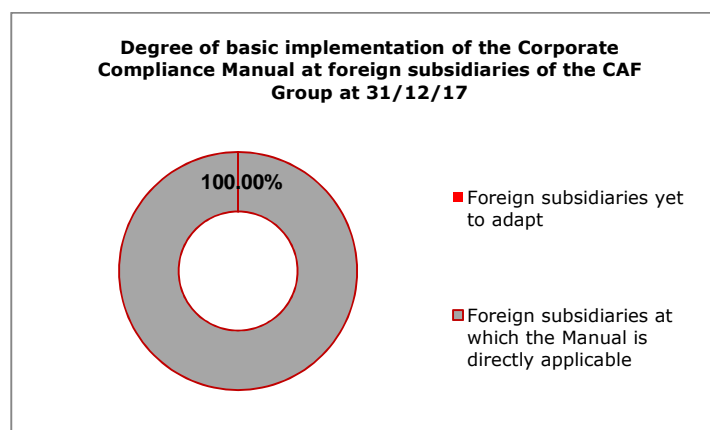
Whistleblowing channel

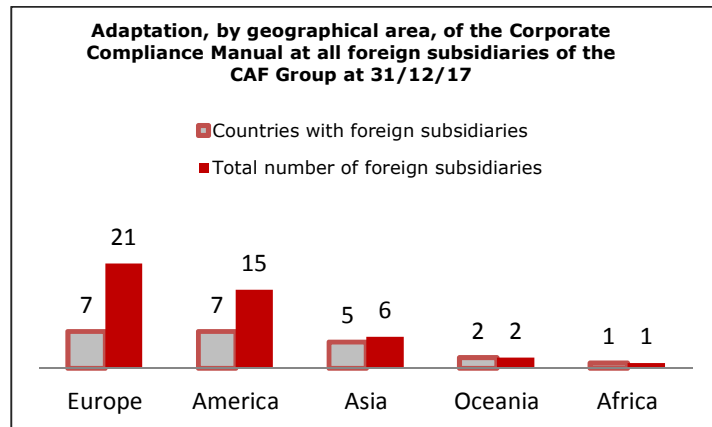
The Manual also establishes a single whistleblowing channel to report complaints, which is supervised by the Compliance Committee. This body regularly analyses the complaints received and, where applicable, takes the appropriate steps based on the specific circumstances of each complaint. If it considers that the complaint warrants greater attention, the Compliance Committee can send the documentation to the relevant department in order to perform a joint assessment of the facts and determine the measures to be adopted. An appropriate record is kept of all the complaints received, which ensures the confidentiality of the whistleblower and the content thereof.

Adaption of the Corporate Compliance Manual at subsidiaries

The Corporate Compliance Manual was immediately applicable to Spanish subsidiaries from the date of its approval, and a deadline of 31 December 2017 was established for its adaptation for foreign CAF Group subsidiaries.

The adaptation process was completed within the deadline at the CAF Group’s 45 foreign subsidiaries. These subsidiaries are located in 22 countries on the five continents.





For more information on combating corruption and bribery matters, see Chapter 2 "Good Corporate Governance" in the "2017 Corporate Social Responsibility Report", which is available on the CAF Group's website.

EVENTS AFTER THE REPORTING PERIOD

At 31 January 2018, the Group had a firm backlog of EUR 6.158.860 thousand.

ACQUISITION AND DISPOSAL OF TREASURY SHARES

In 2017 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 2017 was 80.91 days. In order to reduce this period to the maximum payment period established by Law 11/2013, the Group is making 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).

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 "Consolidated Profit for the Year Attributable to the Parent" 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".

Investments in working capital: this is obtained by taking into consideration the following items of the consolidated balance sheet, the breakdown of which can be obtained from the consolidated financial statements:

- + Inventories
- + Trade and other receivables
- + Other current financial assets - Derivatives (see Note 13 to the consolidated financial statements)
- + Other current assets
- Short-term provisions
- Current financial liabilities - Derivatives (see Note 15 to the consolidated financial statements)
- Trade and other payables
- Other current liabilities

Net financial debt: this is obtained by taking into consideration the items making up the calculation of this indicator, which are disclosed in Note 14-h to the consolidated financial statements.

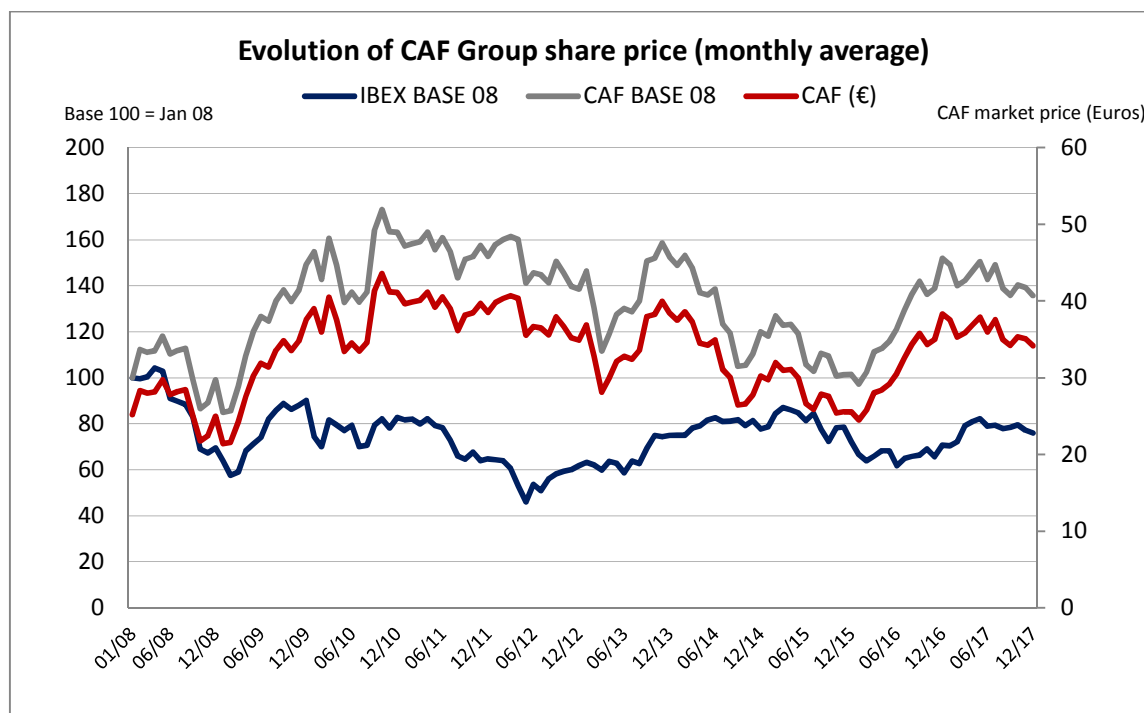
Liquidity available: this includes items defined in order to calculate net financial debt (see Note 14-h to the consolidated financial statements), "Current Financial Assets" and "Cash And Cash Equivalents" as well as credit lines and other undrawn financial balances.

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 14 to the consolidated financial statements).

Free-float rotation: ratio that compares the volume of traded securities with 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.9 bis).

STOCK MARKET INFORMATION

	2017	2016	2015	2014	2013
Market price-					
Market capitalisation at year-end (Millions of euros)	1,172	1,313	876	1,036	1,317
Closing price (euros)	34.18	38.30	25.55	30.23	38.43
Low (euros)	32.22	20.66	23.45	23.01	26.11
High (euros)	39.50	38.39	34.39	39.70	40.62
Data per share (euros) -					
Earnings per share (EPS)	1.24	1.02	1.20	1.74	2.63
Dividend per share	0.66	0.58	0.525	0.525	1.05
Market ratios -					
PER (average market price /EPS)	29.06	30.30	23.76	18.53	12.53
Market price/EBITDA	6.84	7.84	5.87	7.55	5.07
PBV (average market price/BV)	1.64	1.37	1.39	1.50	1.57
Dividend yield	1.84%	1.87%	1.85%	1.63%	3.18%
Pay-out ratio (dividend/EPS)	53.4%	56.8%	43.9%	30.2%	39.9%
Liquidity ratios-					
Free-float rotation	71%	89%	99%	123%	109%
Traded volume (millions of shares)	11.8	15.6	16.2	21.2	15.8



**2017 ANNUAL
CORPORATE GOVERNANCE
REPORT**

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER'S PARTICULARS

END OF FISCAL YEAR DATE

31/12/2017

TAX ID. NO.:

A20001020

COMPANY NAME

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

REGISTERED OFFICE

JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital.

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

Indicate whether different types of shares exist with different associated rights:

Yes

No

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
INVESCO LIMITED	0	350,070	1.02%
CARTERA SOCIAL, S.A.	8,727,191	0	25.46%
INDUMENTA PUERI, S.L.	0	1,721,528	5.02%
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	0	4,818,523	14.06%
TEMPLETON INVESTMENT COUNSEL, LLC	0	1,030,590	3.01%
EDM GESTIÓN, S.A. S.G.I.I.C.	0	1,035,107	3.02%

Name or company name of indirect holder of ownership interest	Via: Name or company name of direct holder of ownership interest	Number of voting rights
INVESCO LIMITED	GROUP COMPANIES	350,070
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	1,721,528
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA	KUTXABANK, S.A.	4,818,523
TEMPLETON INVESTMENT COUNSEL, LLC	GROUP COMPANIES	1,030,590
EDM GESTIÓN, S.A. S.G.I.I.C.	EDM INVERSIÓN FI	1,035,107

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
TEMPLETON INVESTMENT COUNSEL, LLC	21/08/2017	Ownership interest has risen above 3% of share capital
BESTINVER GESTIÓN S.A., S.G.I.I.C.	01/09/2017	Ownership interest has fallen below 3% of share capital
EDM GESTIÓN, S.A. S.G.I.I.C.	21/12/2017	Ownership interest has risen above 3% of share capital

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

Name or company name of director	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
MR. JUAN JOSÉ ARRIETA SUDUPE	1,000	0	0.00%
MS. ANE AGIRRE ROMARATE	750	0	0.00%

Total % of voting rights held by the Board of Directors	0.00%
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Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company

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

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the company and/or its group, unless they are insignificant or arise from ordinary trading activities:

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

Type of relationship: Contractual

Brief description:

Employees' share instrument in CAF's share capital

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

Type of relationship: Corporate

Brief description:

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

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

Yes

No

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

Yes

No

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

Not applicable

A.7 Indicate whether any natural or legal person currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Act. If so, identify:

Yes

No

Comments

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

At year-end:

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

(*) Through:

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

Explain significant changes

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

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

A.9.bis Estimated free float:

	%
Estimated free float	48.41

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

Yes

No

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

Yes

No

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

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

Yes

No

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

B GENERAL MEETING

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

Yes

No

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes

No

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

B.3 Indicate the rules governing amendments to the company's Bylaws. Specifically, the required majorities for amending the bylaws shall be informed, as well as the provisions set forth for safeguarding the rights of the shareholders during the bylaw amendments, as the case may be.

The General Shareholders' Meeting shall be competent to agree on the amendments to the bylaws. 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 domicile abroad and, in general, any amendment to the Bylaws, a Shareholders' Meeting must be held and have a quorum of at least 50% of the subscribed capital with voting rights at 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 during the debates, as well as vote. Those holding less than a hundred shares may group together and give their representation 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 Indicate the data on attendance at the General Meetings held in the year to which this report refers and those related to the previous year:

Date of Annual General Meeting	Attendance data				
	% attendance in person	% attendance by proxy	% remote voting		Total
			Electronic vote	Other	
11/06/2016	45.10%	27.92%	0.00%	0.00%	73.02%
10/06/2017	27.60%	43.52%	0.00%	0.00%	71.12%

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

Yes

No

Number of shares required to attend a General Meeting	1,000
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B.6 Section repealed.

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

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

This link includes, in a structured format, the information required by Royal 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 13 June, on technical and legal specifications and information to be contained in the websites of listed companies and savings banks issuing securities admitted for trading in official secondary stock markets.

Apart from the current by-laws, specifically, the subsection on "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; structure of the Board of Directors and its committees; the Corporate Governance Annual Report, Annual Report on Directors' Compensation, the Company's Corporate Policies, and other regulations and codes, By-Laws, Report on the Auditor's Independence 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 Spanish Capital Companies Act, at the moment of 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 MANAGEMENT STRUCTURE OF THE COMPANY

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	7

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

Name or corporate name of director	Representative	Director's condition	Board office	Date of first appoin	Date of last appoin	Procedure for election
MR. ANDRÉS ARIZKORRETA GARCIA		Executive	CHAIRMAN AND CEO	26/12/1991	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING

Name or corporate name of director	Representative	Director's condition	Board office	Date of first appointment	Date of last appointment	Procedure for election
MR. JUAN JOSÉ ARRIETA SUDUPE		Independent	COORDINATOR DIRECTOR	07/06/2008	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JAVIER MARTÍNEZ OJINAGA		Independent	DIRECTOR	13/06/2015	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. ALEJANDRO LEGARDA ZARAGÜETA		Other External	DIRECTOR	26/12/1991	13/06/2015	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JOSE ANTONIO MUTILOA IZAGUIRRE		Proprietary	DIRECTOR	28/10/2015	28/10/2015	COOPTION
MR. LUIS MIGUEL ARCONADA ECHARRI		Other External	DIRECTOR	29/01/1992	08/06/2013	APPOINTED AT THE ANNUAL GENERAL MEETING
MS. MARTA BAZTARRICA LIZARBE		Executive	DIRECTOR-SECRETARY OF THE BOARD	22/01/2016	22/01/2016	COOPTION
MS. CARMEN ALLO PÉREZ		Independent	DIRECTOR	11/06/2016	11/06/2016	APPOINTED AT THE ANNUAL GENERAL MEETING
MR. JULIÁN GRACIA PALACÍN		Independent	DIRECTOR	10/06/2017	10/06/2017	APPOINTED AT THE ANNUAL GENERAL MEETING
MS. ANE AGIRRE ROMARATE		Independent	DIRECTOR	19/12/2017	19/12/2017	COOPTION

Total number of directors	10
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Indicate any removals of directors during the reporting period:

Name or corporate name of director	Director's condition upon termination	Date of termination
MR. XABIER GARAIALDE MAIZTEGI	Other External	11/12/2017

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

EXECUTIVE DIRECTORS

Name or corporate name of director	Office per Company organisation chart
MR. ANDRÉS ARIZKORRETA GARCIA	Chairman and CEO
MS. MARTA BAZTARRICA LIZARBE	Director-Secretary of the Board

Total number of executive directors	2
% of the board	20.00%

EXTERNAL PROPRIETARY DIRECTORS

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

Total number of proprietary directors	1
% of the board	10.00%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director:

MS. CARMEN ALLO PÉREZ

Background:

With a Degree in Exact Sciences from the University of Zaragoza and Master in Business Management from the Instituto de Empresa, she has spent most of her professional career in the financial sector, working as Senior Relationship Manager at the Rabobank Bank and formerly Corporate Bank Head for Spain and Portugal at the Royal Bank of Scotland, among others.

Name or corporate name of director:

MR. JAVIER MARTÍNEZ OJINAGA

Background:

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

Name or corporate name of director:

MR. JUAN JOSÉ ARRIETA SUDUPE

Background:

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

Name or corporate name of director:

MR. JULIÁN GRACIA PALACÍN

Background:

Industrial engineer and MBA from ICADE. He has developed his professional career in industries such as telecommunications, logistics and consulting, acting as General Manager and Director at Hagen Batterien and Project Manager in Airtel S.A., among others. He is sole director of Samuelson Consulting, S.A. and Samuelson Logistics, S.A.

Name or corporate name of director:

MS. ANE AGIRRE ROMARATE

Background:

Degree in Business and Economics and Master in Advanced Management from Deusto University. She has performed, among others, the functions of Knowledge Management Director, Training and Development Director at BBVA Group, and Talent Director at EiTB. She is the founder of Vesper consulting project, in which she currently performs her activity.

Total number of independent directors	5
Total % of the Board	50.00%

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

No independent director has received any amount or benefit other than the directors' remuneration, nor has established a business relationship with the Company or with any Group company.

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

OTHER EXTERNAL DIRECTORS

Other External directors will be identified and reasons will be provided on why these Other External directors cannot be considered either proprietary or independent members and their relations, whether with the company or its officers, or with its shareholders:

Name or company name of director:

MR. LUIS MIGUEL ARCONADA ECHARRI

Company, officer or shareholder with whom relation is maintained:

MR. LUIS MIGUEL ARCONADA ECHARRI

Reason:

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

Name or company name of director:

MR. ALEJANDRO LEGARDA ZARAGÜETA

Company, officer or shareholder with whom relation is Maintained:

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

Reason:

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

Total number of Other External directors	2
Total % of the Board	20.00%

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

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

	Number of female directors				% of total directors of each type			
	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Executive	1	1	0	0	50.00%	50.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	1	0	0	40.00%	33.33%	0.00%	0.00%
Other External	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	3	2	0	0	30.00%	22.22%	0.00%	0.00%

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

Explanation of measures

CAF has a Directors' Selection Policy aimed at, among others, favouring gender diversity in nominating the members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quincecies of the Companies Law. Particularly, the express purpose of the Directors' Selection Policy is that the number of female directors represent at least thirty percent of all Board of Directors' members by year 2020. Board of Directors.

In particular, by way of the nomination of a third female Director, this goal has been achieved.

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

Explanation of measures

CAF's Nomination 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. Such role appears in Point 3 of the Company's Nomination and Remuneration Policy and is approved by the Board of Directors.

The Nomination and Remuneration Committee selected and issued the favourable reports for the appointment of the three female directors mentioned in section C.1.5 above during the fiscal years 2016 and 2017 respectively.

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

Explanation of reasons

--

C.1.6.bis Explain the Nomination Committee's conclusions on compliance verification of the directors' selection policy. In particular, how the policy is promoting the objective that by 2020 the number of female directors represents at least 30% of total board members.

Explanation of conclusions

Directors' nominations and ratifications approved since the entry into force of CAF's Directors Selection Policy have taken place in strict compliance with its provisions, and in particular with regard to the specific purpose that, in 2020, women Directors represent at least thirty per cent of the Board of Directors' members. In particular, the Directors Selection Policy was followed, both in the candidates' selection process and in the final decision in terms of competence, experience, qualification, professional profile and availability of time necessary to fulfil the commitments and dedication required by the director's position. Likewise, in the event that three female Directors are appointed as described in sections C.1.5 and C.1.6 above, their contribution to the diversity of experiences, knowledge and gender was taken into account within the Board. During the 2017 fiscal year, the Nomination and Remuneration Committee presented proposals for the appointment of two new independent board members. This Committee had concluded that for both cases the requirements established in the Directors Selection Policy and approved by the Board of Directors had been met. In particular, the objective envisaged for 2020 in the Directors Selection Policy was achieved through the appointment of a third female Director during this fiscal year, since at least thirty percent of the total number of directors on the Board of Directors are women.

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

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

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

State if formal requests for a presence of the Board have been rejected from shareholders with a shareholding equal to or greater than that of others who have been successfully appointed proprietary directors. If so, explain why these requests have not been entertained:

Yes

No

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

Name of board member:

MR. XABIER GARAIALDE MAIZTEGI

Reasons for resignation:

He has stepped down for voluntary and personal reasons reported in written to the Board of Directors.

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

Name or company name of director:

MR. ANDRÉS ARIZKORRETA GARCIA

Brief description:

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

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

Name or corporate name of director	Corporate name of the group entity	Position	Does he hold any executive
MR. ANDRÉS ARIZKORRETA GARCIA	CAF RAIL AUSTRALIA PTY LTD	Chief Executive Officer	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF TURK SANAYI VE TICARET LIMITED SIRKETI	Natural person representing the Sole Director CAF, S.A.	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF DEUTSCHLAND GMBH	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF SISTEME FERROVIARE, S.R.L.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF NEW ZEALAND LIMITED	Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF CHILE, S.A.	Chairman	NO
MR. ANDRÉS ARIZKORRETA GARCIA	CAF ARGELIA EURL	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF FRANCE SAS	Chairman	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, CAF COLOMBIA S.A.S.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF HUNGARY Korlátolt Felelősségű Társaság	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF INVESTMENT PROJECTS, S.A.U.	Joint Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF INDIA PRIVATE LTD	Managing Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES INVESTIGACION Y DESARROLLO, S.L.U.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF POWER AND AUTOMATION, S.L.U.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF TURNKEY & ENGINEERING, S.L.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	TRENES CAF VENEZUELA, C.A.	Sole Director	YES
MR. ANDRÉS ARIZKORRETA GARCIA	CAF NETHERLANDS B.V.	Sole Director	YES
MR. ALEJANDRO LEGARDA ZARAGÜETA	FERROCARRILES SUBURBANOS S.A.P.I. DE C.V.	Chairman Non Executive	NO
MS. MARTA BAZTARRICA LIZARBE	CTRENS COMPANHIA DE MANUTENÇÃO, S.A.	Director	NO
MS. MARTA BAZTARRICA LIZARBE	PROVETREN, S.A. de C.V.	Director	NO

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

Name or corporate name of director	Corporate name of the group entity	Position
MR. ALEJANDRO LEGARDA ZARAGÜETA	VISCOFAN, S.A.	DIRECTOR
MS. CARMEN ALLO PÉREZ	NATRA, S.A.	DIRECTOR

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

Yes

No

Explanation of rules

Article 23.2.b) of the Board of Directors' Regulations 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.1.14 Section repealed.

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

Board remuneration (thousands of euros)	1,721
Amount of the pension rights accumulated by current directors (in thousands of euros)	230
Amount of the pension rights accumulated by former directors (in thousands of euros)	0

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

Name or corporate name	Position
MR. JESUS ESNAOLA ALTUNA	GENERAL CHIEF SALES OFFICER
MR. AITOR GALARZA RODRIGUEZ	CHIEF FINANCIAL, CONTROLLING AND STRATEGY OFFICER
MR. JOSU VILLAR ELORZA	CHIEF OPERATING OFFICER
MR. JUAN GASTESI IRIARTE	CHIEF HUMAN RESOURCES OFFICER
MR. JOSU IMAZ MURGUIONDO	CHIEF CORPORATE OFFICER, BUSINESS AND TECHNOLOGY
MR. IÑIGO ONA LARUMBE	CHIEF CORPORATE DIGITAL OFFICER
MR. IBON GARCIA NEILL	CHIEF RAIL SERVICES OFFICER
MR. FELIX FERNANDEZ LOPETEGUI	CHIEF PROJECT OFFICER
MR. EDUARDO GALVEZ LISON	CHIEF QUALITY, SAFETY AND HOMOLOGATION OFFICER
MS. IRUNE LOPEZ FERNANDEZ	INTERNAL AUDITOR

Total remuneration of senior executives (thousand Euros)	2,075
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C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

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

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

Yes

No

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

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 cooption. The director does not need to be a shareholder. Disqualification on the grounds of conflict of interest or any other legal grounds shall apply (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 that the Board membership of non-executive directors be greater than that of the executive directors, that the number of independent directors be at least one third of the total Board membership and that the relation between proprietary directors and independent directors should match the ratio of the capital represented on the board by proprietary directors to the remainder of the Company's capital. However, this last condition may be relaxed by recognising more significance to proprietary directors, upon existence of a plurality of shareholders represented in the Board with no links between them (Article 7 of the Board Regulations).

Additionally, Board Regulations establishes the following rules related to appointment of Directors: Any appointment or re-election proposal submitted by the Board of Directors to the General Meeting for approval and any appointments made by the Board by its legally stipulated powers of cooption shall be preceded by the corresponding proposal by the Nomination and Remuneration Committee, in the case of Independent Directors and by the Board for the rest of the cases. The proposal shall be accompanied with an explanatory report issued by the Board of Directors, assessing the competence, experience and merits of the proposed candidate, to be attached to the General Meeting or Board of Directors' Meeting minutes. The proposed appointment or re-election of any non-independent director shall also be preceded by a report from the Nomination and Remuneration Committee. The abovementioned shall also apply to natural persons appointed representatives of an artificial person acting as director. The natural person proposed to be a representative shall be subject to the report from the Nomination and Remuneration Committee. Should the Board decide not to follow the proposals of the Nomination and Remuneration Committee, it shall submit and minute its reasons for such decision. The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Likewise, Directors should also be offered refresher programmes when circumstances so advise (Article 15 of the Board Regulations).

With regard to the appointment of Non-Executive Directors, the Board of Directors shall ensure that candidates be individuals of proven solvency, competence and experience, applying even stricter criteria for the positions of Independent Directors. The Board of Directors may not propose or appoint as Independent Directors any individuals who are or have been related to the Company or Group companies' management, or to a significant shareholder, or with family ties up to the second degree of kinship and blood relatives up to the third degree, professional or commercial relations with Executive Directors or any other senior executive, or significant shareholders of the Company or Group companies. Specifically, individuals matching the descriptions below shall not be proposed or appointed as Independent Directors: a) If they have been employed or acted as executive directors in Group companies, unless 3 or 5 years have elapsed since the termination of such a relationship, respectively. b) Individuals who are paid by the Company or the Group itself any amount or benefits other than the director compensation, unless they are not significant. Dividends or pension supplements received by the Director for his/her former professional or labour relationship shall not be taken into account, for the purposes of the paragraph above, insofar as such supplements be unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company. c) Individuals who are or have been in the last 3 years partners to the external auditor or person responsible for the auditing report, whether such Period's audit corresponds to the Company or any other Group company.

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

Description of changes

The Board of Directors and the independent external consultant participating in the annual evaluation process have both positively assessed the performance of the Board, its Board members and its Committees during 2017 and have ensured that all the Action Plans outlined for 2017 have been achieved.

Furthermore, within the scope of this evaluation process, the Board of Directors has established various Action Plans for the 2018 fiscal year, however, they have not led to any significant changes to the internal organisation or in the procedures concerning its activities.

C.1.20.bis Describe the assessment process and the areas evaluated by the Board of Directors assisted, if necessary, by an external consultant, regarding diversity in its composition and powers, operation and composition of its committees, performance of the Board of Directors' Chairman and the company's chief executive, as well as performance and contribution of each director.

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 Nomination and Remuneration Committee, it is based on the Board's evaluation.

As for the 2017 fiscal year, and while being in line with the membership numbers determined in Recommendation 36 of the Good Governance Code of Listed Companies, assistance was outsourced through an independent external consultant to conduct this annual evaluation. Within the scope of this process, the Company provided the consultant the minutes of the Board and its Committees along with other corporate documentation. Additionally, the consultant held interviews with the various Directors. This was for the purpose of independently analysing a series of elements that determine the performance of the Board and its Committees, along with the compliance with legal standards and with the recommendations of good governance.

The following core areas were examined:

- a) The quality and effective performance of the Board of Directors.
- b) The performance and membership of its committees.
- c) The diversity of the structure and competences of the Board.
- 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 the results of this examination, the Board of Directors evaluated its performance and that of its Committees in a positive light for the 2017 fiscal year, being in line with the favourable opinion disclosed by the independent external consultant in its report.

C.1.20.ter Break down, if any, business relationships between the consultancy firm or any company in its group and the company or any company in its group.

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

Directors must tender their resignation to the Board of Directors and, if the latter sees fit, resign in the following cases: a) The Proprietary Director must tender his/her resignation when the represented shareholder sells its entire shareholding or diminishes it to a level that requires the reduction of the number of Proprietary Directors. b) If they are disqualified on the grounds of conflict of interest or any other legal grounds. c) When indicted for any alleged crime or when subject of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

C.1.22 Section repealed.

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

Yes No

If applicable, describe the differences.

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

Yes No

C.1.25 Indicate whether the Chairman has the casting vote.

Yes No

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

Yes No

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors other than the one established by law.

Yes No

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been set forth regarding the right delegating conditions beyond the limitations established by law. If so, give brief details.

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 instructions 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.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	8
Number of board meetings held without the Chairman's attendance	0

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

Number of meetings	0
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Indicate the number of meetings of the various board committees held during the year:

Committee	Number of Meetings
AUDIT COMMITTEE	7
NOMINATION AND REMUNERATION COMMITTEE	8

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

Number of meeting with the attendance of all directors	8
% of attendances of the total votes cast during the year	100.00%

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

Yes No

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

Name	Positio
MR. ANDRÉS ARIZKORRETA GARCIA	CEO
MR. AITOR GALARZA RODRIGUEZ	Financial and Strategy Manager

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The Board of Directors delegates on the Audit Committee the monitoring of financial balances and auditing services in order to avoid any qualifications. Financial statements for the year ended 31 December 2017 and previous years were approved without qualifications.

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

Yes No

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

C.1.34 Section repealed.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The Company has regulated the relationships with Markets and Auditors. The CAF's Board of Directors Regulations state that the Board of Directors is responsible, among others, for: (A) Regarding relations with Markets (Article34): (i) The Board shall guarantee the fulfilment of the obligation to deliver information to Markets pursuant to the legislation in force at each given time. (ii) The Board shall also guarantee that periodic financial information, other than Financial Statements and, in general, any other information disclosed to the Markets, is prepared pursuant to the same professional principles, criteria and practices applied to the Financial Statements and that such information is as reliable as the latter. (iii) The Board shall include information about the Company's rules of governance in its annual public report. (B) Regarding relations with Auditors (Art.35): (i) Company relations with external auditors shall be channelled through the Audit Committee, pursuant to the Audit Committee Bylaws and Regulations. (ii) The Board shall inform in the Financial Statements the remuneration paid to the audit firm in each period for services other than auditing. (iii) The Board shall prepare the Financial Statements in order to avoid auditor's qualifications. However, in case the Board considers its criteria should be maintained, the content and scope of the discrepancy shall be explained.

In addition, according to the Company's Bylaws, the Audit and Compliance Committee is responsible for managing the relationships with the external auditors in order to gather information on matters that may call the auditor's independence into question, 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 bis 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 Regulation (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. (ii) Establishing the appropriate relations with the external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit 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 in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. 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 detailed 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. (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 services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing. (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. Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same. 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 (Article3 of the Audit Committee Bylaws and Regulations).

In 2017 the favourable report on the auditor's independence was issued.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes

No

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

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

Yes No

	Company	Group	Total
Amount paid for non-audit work (in thousands euros)	0	275	275
Amount paid for non-audit work as a % of the total amount billed by the audit firm	0.00%	33.00%	33.00%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	28	17
Number of years audited by current firm/number of years the company has been audited (as a %)	70.00%	100%

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

Yes No

Details of the procedure

Directors have access to the hiring of advising services through the Audit Committee. Additionally, Article 21 of the Board Regulations grants Non-Executive Directors the power to seek expert advice at the Company's expense, if deemed necessary in furtherance of their duties.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

Yes No

Details of the procedure

The Board approves, at its December meetings, the Board calendar for next year, so that the Directors know the dates of meetings early enough to prepare some of the subjects to be dealt with on them as a guiding plan is established on the subjects to be addressed in every Board Meeting. Normally, a schedule is approved containing eight sessions per year, spread out with sufficient time in between them to study and prepare the necessary information. Ordinary Board meetings shall be convened at least 5 days in advance, although in practice this is done earlier and shall include the meeting's agenda, 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.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the company's name or reputation, tendering their resignation as the case may be.

Yes

No

Explain the rules

As established in Article 18, 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 disciplinary proceedings for serious or very serious misconduct instructed by the supervisory 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. Directors shall always report and, if applicable, resign if they are involved in a situation that may harm the Company's name and reputation.

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

Yes

No

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

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

There are no such agreements.

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

Number of beneficiaries: 1

Type of beneficiary:

Managing Director

Description of resolution:

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

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

	Board of Directors	Annual General Meeting
Body approving clauses	Yes	No

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

C.2 Board of Directors' Committees

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

AUDIT COMMITTEE

Name	Positio	Category
MR. JAVIER MARTÍNEZ OJINAGA	CHAIRMAN	Independent
MR. JUAN JOSÉ ARRIETA SUDUPE	MEMBER	Independent
MR. ALEJANDRO LEGARDA ZARAGÜETA	MEMBER	Other External

% of proprietary directors	0.00%
% of independent directors	66.67%
% of Other External directors	33.33%

Explain the functions assigned to this Committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.

Organization:

The Audit Committee shall be made up of at least three directors, appointed by the Company's Board of Directors; At least two of them shall be independent directors and one of them shall be appointed considering their knowledge and experience on accounting, auditing or both. The Board of Directors shall also appoint the Chairman among members acting as independent directors of the Committee. The Chairman shall be replaced every four years and may be re-elected after stepping down for one year. In addition, the Audit Committee 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 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 adequate definition of the consolidation scope, and the correct application of accounting policies. ii. Monitor the independence and efficacy of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic financial information on its activities; and check that senior management is considering its recommendations and conclusions. iii. 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. 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 Regulation (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. f) Establishing the appropriate relations with the

external auditor in order to receive information on issues that may prejudice the independence of the auditor, to be assessed by the Audit 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 in articles 5, sections 4 and 6.2.b) of EU Regulation 537/2014 of 16 April and in paragraph 3, Chapter IV of Title I of Law 22/2015 of 20 July of Account Auditing on the independence regime, as well as establishing, with the external auditor, any other notifications envisaged in the legislation and standards on the auditing of accounts. 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. 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 services referred to in the foregoing section, whereby reviewed individually and as a whole, beside the various legal auditing and in relation to the regime of independence and governing regulations for the undertaking of account auditing.

Identify the directors in the Audit Committee assigned as per their skills and expertise in accounting, auditing or both areas, and report on the number of years the current Chairman of this Committee has been in this position.

Name of the experienced director	MR. JAVIER MARTÍNEZ OJINAGA
Number of years of chairman in office	2

NOMINATION AND REMUNERATION COMMITTEE

Name	Positio	Category
MR. JUAN JOSÉ ARRIETA SUDUPE	CHAIRMAN	Independent
MR. LUIS MIGUEL ARCONADA ECHARRI	MEMBER	Other External
MS. CARMEN ALLO PÉREZ	MEMBER	Independent

% of proprietary directors	0.00%
% of independent directors	66.67%
% of Other External directors	33.33%

Explain the functions assigned to this committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.

Organization:

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 (Articles 4 and 5 of the Nomination 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 Nomination and Remuneration Committee Regulations).

Functions:

The Nomination and Remuneration Committee has the following basic responsibilities: a) Evaluate the balance of skills, knowledge and experience on the Board. Define the candidates' roles and capabilities to fill each vacancy; and decide the time and dedication necessary for them to properly perform their duties. b) 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. c) Submit to the Board proposals for Independent Directors' appointment through cooption 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 cooption or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. e) Report the proposal for appointment and removal of high executives and the basic conditions of their contracts. f) Examine and organise 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. 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 Nomination and Remuneration Committee Regulations).

In addition, the Committee is responsible for the following tasks: (i) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives. (ii) Ensure that potential conflicts of interests do not compromise the independence of the external advice received by the committee and (iii) Verifying the information on the compensation provided to directors and high executives, as contained in the different corporate

documents, including the annual report on directors' compensation.

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.

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 be chaired by the most senior member among them.

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

	Number of female directors							
	Fiscal year 2017		Fiscal year 2016		Fiscal year 2015		Fiscal year 2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
NOMINATION AND REMUNERATION COMMITTEE	1	33.33%	1	33.33%	0	0.00%	0	0.00%

C.2.3 Section repealed

C.2.4 Section repealed.

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

AUDIT COMMITTEE: 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 been no amendments on the Audit Committee Bylaws and Regulations in 2017. In the fiscal year 2017 an annual report has been prepared on the activities performed by this Committee.

NOMINATION 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 been no amendments on the Nomination and Remuneration Committee Bylaws and Regulations in 2017. In the fiscal year 2017 an annual report has been prepared on the activities performed by this Committee.

C.2.6 Section repealed.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

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

Procedure to notify the approval of related-party transactions

As established in Articles 5 and 29 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to maintain confidential any Company transaction with a significant shareholder after it has received a report from the Audit Committee approving such. Furthermore, the Board of Directors has been attributed, but without the capacity to delegate, the duty to approve (subject to a prior report from the Audit Committee approving such) the transactions made by the Company or group companies for the Directors, for 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 persons related thereto, in accordance with the provisions of the Spanish Capital Companies Law. 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 3.^o they contain amounts not exceeding one percent of the Company's annual revenue.

General authorisation of the operations line and its implementation conditions suffice for all other transactions that are considered to be related-party transactions (those not made for Directors, Significant Shareholders or related persons) that are conducted during the ordinary course of the company business or that are regular or recurrent in nature.

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

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

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

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

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

207,806 (in thousands of euros).

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

Section 229 of the Capital Companies Law 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 such rules. 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 more than one group company listed in Spain?

Yes

No

Identify the listed subsidiaries in Spain:

Listed Subsidiary

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

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

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

Mechanisms to resolve possible conflicts of interest

E RISK CONTROL SYSTEMS

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

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 centralized 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 corporate procedures of the different businesses/projects are consistent with this Group's General Control and Risk Management Policy and Comprehensive Control and Risk Management System.

For the 2017 fiscal year, the Board of Directors approved the Corporate Fiscal Policy that 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.

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 responsible for preparing and implementing the risk management system, including the fiscal system.

Pursuant to Section 5 of the Regulations of the Board of Directors 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 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 Comprehensive Risk Management and Control System implemented and the procedures designed for its monitoring. This will be supported by the Internal Risk Management Function 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:

- 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,
- Participate actively in the risk strategy preparation and in the important decisions regarding its management and
- Ensure that 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 includes, 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) the definition of the Fiscal Strategy or Policy; (ii) the definition of the fiscal risk management framework; (iii) the design of the fiscal risk management and control system, and (iv) making available the internal mechanisms required for the control and management of fiscal risk.

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

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 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, criminal law, regional, national and international tax regulations, among others.

E.4. Identify if the company has a risk tolerance level, including the tax 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, cybersecurity and regulation, there is a zero tolerance level.

With regard to tax risks, the Board of Directors approved the Fiscal Policy that 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.

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

During 2017 no material or extraordinary risks were materialised, beyond those included in the Directors' Report and in 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 for its operation in the international sphere is managed in accordance with the Company's guidelines, which foresee, fundamentally, the establishment of financial or natural hedges, the constant monitoring of fluctuations in the exchange rates and other measures designed to mitigate this risk. However, during this year, the depreciation of the Brazilian real has had a negative impact on the Company's equity.

Lastly, it should be noted that the mechanisms that allow anticipating and managing adequately the consequences derived from Brexit have continued, both in the portfolio contracts and in future tenders.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks.

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.

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

Describe the mechanisms which comprise the risk control and management systems in relation to the financial reporting process (ICFR) at the company.

F.1 Company's control environment

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

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

CAF's Board of Directors is the body responsible for having and maintaining a proper and effective Financial Information Internal Control System. According to the duties assigned by the Board of Directors, the Audit Committee is the body responsible for overseeing the regulated financial reporting preparation and presentation process and the efficiency of the company's internal control, internal audit services and risk management systems, as well as discussing with account auditors or audit companies the most relevant internal control system weaknesses detected during the audit. These functions are described in the Board's Audit Committee Regulation.

The Internal Audit Department is mandated by the Audit Committee to effectively supervise the Financial Information Internal Control System through its single and independent oversight role, in line with the professional quality regulations and standards, which shall contribute to good corporate governance and ensure that the financial information has been prepared in a reliable manner.

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

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

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

The 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 area of the ICFR, the processes defined as critical for financial reporting information include the main tasks and controls to be performed and the people responsible for both their implementation and supervision, clearly defining responsibility and authority lines. The breakdown of functions of the tasks considered incompatible is also documented for these processes.

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

CAF Group has a Code of Conduct that was approved by CAF's Board of Directors on 27 July 2011 and which is available on the website, disclosing the set of general standards and principles on corporate governance and professional conduct that are applicable to all professionals of CAF, S.A. and subsidiaries which belong to CAF Group.

The Code of Conduct defines the ethical structural principles that serve as a basis to establish the behavioural criteria that are mandatory for CAF professionals and the agents they interact with as part of their Company business. These ethical structural principles refer to strict compliance with lawfulness, quality, reputation, protection of human resources, the respect for and commitment to the community and environment and the duty of transparency.

Particularly, with regard to the Financial Information, the Code of Conduct sets forth that the information conveyed to the shareholders shall be truthful, complete and current and shall adequately reflect the Company's position. Adherence to this maxim shall be especially scrupulous with regard to the financial information. CAF acts with total transparency, adopting specific procedures to ensure the financial documentation is correct and truthful. CAF pays special attention to the fact that the abovementioned information is recorded and conveniently disclosed to the market.

The Compliance Committee is in charge of ensuring compliance with the Code of Conduct to the Board of Directors. Its duties include analysing possible breaches and proposing corrective actions and penalties.

The Code of Conduct is an essential and integral part of the Crime Prevention Manual, a document approved by the Board of Directors during its meeting held on 29 April 2015, identifying (i) a policy and procedure system to prevent the commission of material crimes as much as possible. Such Crime Prevention Manual has been updated and revised by the Board of Directors on 27 July 2016.

In 2017, a training plan has been followed for this Crime Prevention Handbook aimed at raising awareness, dissemination and application by CAF personnel. At the end of the year, a total of 91% of employees from the parent company and its national subsidiaries received training in accordance with the Crime Prevention Handbook. More than 2,000 staff have received training on this matter. Also, a training system has been implemented for new employees.

Furthermore, the Crime Prevention Handbook was immediately applicable to national subsidiaries the moment it was approved and it was to be implemented no later than 31 December 2017 for foreign subsidiaries belonging to the CAF Group. The 45 foreign subsidiaries comprising the CAF Group have adhered to the Handbook within the established timeframe. These subsidiaries are distributed throughout 22 countries around the world.

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

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 corresponding actions in response 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.

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 update courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Group has a corporate training budget and a training plan designed biannually. Training needs are detected and activities for each department are scheduled as part of this plan.

Staff performance assessments are held every year and an individual development and training plan is set out for every employee included in the Training Plan.

In addition, refresher courses taught by external specialist are held at least on an annual basis so as to ensure staff remains up-to-date on regulatory changes that can affect the preparation of the financial statements.

With regard to learning programmes for CAF S.A.'s economic and financial subjects, in order to support the different businesses in fiscal year 2017, the main reference indicators of this activity have been as follows:

- Number of participants in the training actions on this matter: 109
- Number of training hours received: 687.75 hours

The main training activities are focused on the technical updates within the economic and financial area, (regulatory, taxes, risks, treasury ...)

F.2 Financial information risk assessment

Report at least:

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

- The process exists and is documented.

The identification of risks within the financial information sphere is a continuous and documented process carried out by the Company's Management as part of the risk 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.

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

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

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

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

- Whether the process considers the effects of other kinds of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

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

- Finally, which of the company's governing bodies is responsible for overseeing the process.

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

F.3 Control tasks

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

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

Certification of financial statements: The financial statements are certified by the Chairman and Managing Director and the Financial Manager. There has been a prior supervision process of submitted data conducted by senior staff involved in preparing these financial statements, as well as control activities designed to mitigate risks of error that may affect financial reporting.

The main financial reporting generation processes significantly affecting financial statements are documented and programmed. The financial reporting processes that are covered include the following:

- Consolidation and Reporting
- Accounting closing
- Employee compensation
- Treasury management
- Income and expense recognition (for every business unit)
- Invoicing and trade receivables
- Inventories and Supplies (for every business unit)
- Investments
- Taxes
- Provisions
- Information systems

The risks of error that may affect the reliability of the financial information (including risks of error in relevant judgements, estimates, assessments and projections) have been identified for each of these processes, as have the control activities to mitigate those risks. A person is appointed for each control activity, in charge of implementing and overseeing the activity, the timing of implementation, as well as the evidence necessary to execute the activity.

This system is updated on a continual basis and is adapted according to the risks identified.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

There is an Internal Information and Communication and Information Technology Management and Control Policy which defines the guidelines that are to inspire the management and control procedures on Communication and Information Technology. This policy is applicable to management of the ICT divisions of CAF Group.

The Policy establishes the scope and the guidelines for the following matters:

- Licences and regulatory requirements: Activities aimed at ensuring that the hardware and software installed complies with signed agreements.
- Access to information: Procedures that ensure that users only have access to the resources and tools they need to perform their duties (segregation of duties).
- Business continuity:
 - Procedures to backup and recover critical data and to protect personal equipment units and servers
 - Physical and environmental security of data processing centres
 - Contingency plans
- Operating and monitoring: Procedures that ensure that all incidents are logged, identified, defined and resolved.
- Change management: procedures aimed at learning the impacts of new developments and reducing the risk of transferring elements to the production environment that should not be transferred, which jeopardise the data systems.

Applicable control activities have been identified for each one of these areas, with a person in charge of execution and oversight, a given timing, as well as the proper evidence that the activity has been performed.

In 2017, in accordance with ISO 27001, the rolling out of an Information Security Management System (ISMS) was implemented as one of the activities of the strategic plan for "Information systems supporting the CAF corporate processes and 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. For the following fiscal year, a third-party certification for the system and its scope within a corporate setting has been considered which is dependent upon the development of other initiatives, such as the adaptation to Regulation 2016/679 of the European Parliament and of the Council, dated 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation).

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

There is a Manual of Accounting and Financial Procedures and Policies applicable to all CAF, S.A. subsidiaries, including, among others, an approval and supervision policy for activities subcontracted to third parties in preparing financial statements.

The main activities identified as having been subcontracted to third parties include the preparation of the payroll and tax returns of certain subsidiaries (areas considered to be low-risk and in subsidiaries that cannot materially affect the Group's financial statements) and the subcontracting of services in the IT department (the effectiveness of which is regularly monitored). Assessments by independent experts have been specifically requested (impairment tests). In these cases, the Company's policy is to resort to firms of renowned background and independence.

F.4 Information and communication

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

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

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

The Manual is available on CAF's website.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Every year a schedule is drawn up of the information required to prepare the financial information for the following year.

The financial information of each subsidiary is reported directly to CAF, S.A.'s Economic Department, through a web-based tool with consistent reporting formats which is used to gather the information supporting the consolidated financial statements, as well as the consolidated information in the financial statement notes and which is also used to roll up and consolidate the reported information.

CAF, S.A.'s Economic Department is responsible for establishing the formats on the web application (chart of accounts, reporting package). Those who have been designated for each subsidiary and are in charge of control supervise the process used to harmonise the information of each subsidiary with the Group standards.

F.5 System operation supervision

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

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

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 perimeter of consolidation, as well as to oversee the proper internal controls risk management systems, including ICFR.

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.
- Is competent and has 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 2017 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. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. Likewise, it will report on the availability (or not) of an action plan aimed at correcting or mitigating any weakness observed.

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 2017, six Audit Committee meetings were held in which the Internal Audit Manager has reported on the Annual Work Plan's evolution and the existing action plans to implement recommendations for internal control improvement.

Likewise, in 2017 the external auditors have twice appeared before the Audit Committee to report on the results of the financial statements audit and the semi-annual financial statements limited review, and on regulatory developments (new accounting report and standards). During 2017, auditors have not revealed significant internal control weaknesses.

Additionally, the external auditors attended a Board of Directors meeting to report on the progress of the audit for 2017, and on the Audit report according to the Law 22/2015 on Account Auditing.

F.6 Other disclosures

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

F.7 External auditor report

State whether:

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

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

G- DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

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

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

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

Complies

Explain

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

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies

Partly complies

Explain

Not Applicable

3. During the General Annual Shareholders' Meeting, in addition to the written dissemination of the annual corporate governance report, the Chairman of the Board of Directors orally informs the shareholders, in sufficient detail, of the most relevant aspects of the company's corporate governance and, in particular:

a) Any changes that have taken place since the last annual general meeting.

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

Complies

Partly complies

Explain

4. The company establishes and furthers a policy of communication and contact with the shareholders, institutional investors and proxy advisors that is fully in line with the rules on market abuse and provides for equal treatment of shareholders in the same position.

In addition, the company makes said policy publicly available on its website, including information concerning the way in which it has been implemented in practice, identifying the representatives or authorities responsible for executing that policy.

Complies Partly complies Explain

5. The board of directors does not submit to the shareholders for discussion at a general meeting a proposed delegation of powers, to issue stock or convertible securities without pre-emptive rights for a sum exceeding 20% of the capital at the time of such delegation.

In addition, when the board of directors approves any issue of stock or convertible securities without pre-emptive rights, the company immediately posts the reports on such exclusion provided for in commercial laws on its website.

Complies Partly complies Explain

6. Any listed companies that prepare the following reports, either mandatorily or voluntarily, post them on their websites sufficiently in advance of the annual general shareholders' meeting, even if the disclosure of such reports is not a mandatory requirement:

a) Report on the auditor's independence.

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

c) Report from the Audit Committee on related transactions.

b) Report on corporate social responsibility policy.

Complies Partly complies Explain

7. The company provides a live broadcast of the general shareholders' meetings on its website.

Complies Explain

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

Complies Partly complies Explain

9. The company's website permanently features the requirements and procedures that will be accepted to establish shares ownership or the right attend the general shareholders' meeting and the exercise or delegation of voting rights.

In addition, such requirements and procedures favour attendance and the exercise of shareholder rights, and apply in a non-discriminatory manner.

Complies Partly complies Explain

10. When a recognized shareholder has, prior to the general shareholders' meeting, exercised the right to add to the agenda or submit new proposed decisions, the company:

- a) Immediately publicizes such additional agenda items and new proposed decisions.
- b) Publish the attendance card model or voting delegation or remote delegation form with the specific amendments to vote on the new items of the agenda and alternative proposals, under the same conditions as those proposed by the Board of Directors.
- c) Submits all such items and alternative proposals for voting and subjects them to the same voting rules as established by the board of directors, including, in particular, any presumptions or inferences on the direction of a given vote.
- d) After the general shareholders' meeting, it reports a breakdown of how such additional items or alternative proposals were voted on.

Complies Partly complies Explain Not applicable

11. If the company has decided to offer attendance fees for the general shareholders' meeting, it has established in advance a general policy on such fees, and such policy is stable.

Complies Partly complies Explain Not applicable

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

In its efforts to act in the company's best interest, in addition to abiding by the laws and regulations and behaving based on good faith, ethics and the observance of generally accepted conventions and good practices, it strives to reconcile its own corporate interests with, as the case may be, the legitimate interests of its employees, providers, customers and any other stakeholders that might be affected, as well as the impact of the company's activities in the life of the community as a whole and the environment.

Complies Partly complies Explain

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise from five to fifteen members.

Complies Explain

14. The Board should approve a director selection policy that:

- a) Is specific and verifiable;
- b) Ensures that proposals for appointment or reappointment are based on a previous analysis of the Board's needs;
- c) Favours diversity of knowledge, experience and gender.

The result of the previous analysis of the Board's needs should be rendered from the Nomination Committee's supporting report disclosed when convening the Annual General Meeting in which each Director will be ratified, appointed or reappointed.

The director selection policy should promote the objective that by 2020 at least 30% of the Board members will be female directors.

The Nomination Committee will monitor compliance with the director selection policy annually and will report on it in the Annual Corporate Governance Report.

Complies

Partly complies

Explain

15. Proprietary and independent directors should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies

Partly complies

Explain

16. The percentage of proprietary directors over all non-executive directors should be no greater than the proportion between the capital represented on the Board by said proprietary directors and the remainder of the Company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

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

Complies

Explain

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

However, when the company is not large cap or when, despite being so, it has one shareholder or shareholders acting concertedly controlling over 30% of share capital, the number of independent directors should represent at least one third of all Board members.

Complies

Explain

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

a) Professional experience and background.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, regardless of their nature.

c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a Company director.

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

Complies

Partly complies

Explain

19. The Annual Corporate Governance Report, upon verification by the Nomination Committee, should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies

Partly complies

Explain

Not applicable

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

Complies Partly complies Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when directors incur new obligations or hold new positions preventing them from dedicating the time needed to the proper performance of the directors' relevant duties; when they are in breach of their fiduciary duties or come under one of the disqualifying grounds for being independent directors.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 16.

Complies Explain

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

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

Complies Partly complies Explain

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

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

The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

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

And the Board Regulations should determine the number of directorships their Board members can hold.

Complies Partly complies Explain

26. The board should meet with the necessary frequency to properly perform its functions, and at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

Complies Partly complies Explain

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

Complies Partly complies Explain

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

Complies Partly complies Explain Not applicable

29. The company should establish suitable channels for directors to receive the advice and guidance they need to carry out their duties, including, if applicable, external advice at the company's expense.

Complies Partly complies Explain

30. Regardless of the knowledge directors' circumstances perform their duties, they should also be offered ongoing learning programs when circumstances so dictate.

Complies Explain Not applicable

31. The agenda of the meetings should clearly state the matters about which the Board shall make a decision or reach an agreement so directors may obtain or assess accurate information in advance for its application.

When, in urgent and exceptional cases, the Chairman wishes to submit for the approval by the Board decisions or agreements that were not included in the agenda, the prior express consent of the majority of the attending directors shall be required, which will be recorded in the minute book.

Complies Partly complies Explain

32. Directors should be informed on a regular basis about shareholding changes and about the opinion that significant shareholders, investors and rating agencies keep of the Company and the Group.

Complies Partly complies Explain

33. The Chairman, as the person responsible for the proper operation of the Board, in addition to carrying law or Bylaws and statutory duties, should prepare and submit to the Board a calendar and agenda; he should organize and coordinate the regular evaluations of the Board and, where appropriate, those of the company's chief executive; he should be responsible for the Board's direction and its proper operation; he should ensure enough time is devoted to discuss strategic matters, as well as accept and review ongoing learning programs for each director when circumstances so dictate.

Complies Partly complies Explain

34. When there is a coordinating director, in addition to powers conferred by law, the By-laws or the Board regulations should delegate the following duties to said director: to chair the Board of Directors when the chairman and deputy chairmen, if applicable, are not present; hearing the concerns of non-executive directors, to be in contact with investors and shareholders in order to learn their points of view and form an opinion about their concerns, especially about the Company's corporate governance; and to coordinate a succession plan for the chairman.

Complies Partly complies Explain Not applicable

35. The Secretary should take care to ensure that the Board's actions and decisions consider the good governance recommendations of the Unified Code that are applicable to the Company.

Complies Explain

36. The Board in full should evaluate and adopt, on an annual basis, if applicable, an action plan aimed at correcting deficiencies found regarding:

- a) The quality and effective performance of the Board of Directors.
- b) The performance and structure of its committees.
- c) The diversity of the structure and competences of the Board.
- d) The performance of the Board's Chairman and of the Company's chief executive.
- e) The performance and contribution of each director, paying special attention to those in charge of the different committees of the Board.

The evaluation of the different committees will be based on the reports submitted by said committees to the Board, and the evaluation of the Board will be based on the report submitted by the Nomination Committee.

Every three years, the Board will perform the evaluation with the support of an external advisor, whose independence will be verified by the Nomination Committee.

Business dealings between the advisor or any company of his group and the company or any company of its group shall be detailed in the Annual Corporate Governance Report.

The process and the assessed areas will be described in the Annual Corporate Governance Report.

Complies Partly complies Explain

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

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain

40. Under the supervision of the Audit Committee, there should be a unit in charge of internal audit that ensures the proper operation of internal control and reporting systems, and the operation of this unit will be dependent on the non-executive chairman of the Board or of the Audit Committee.

Complies Partly complies Explain

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

Complies Partly complies Explain Not applicable

42. In addition to those established by law, the Audit Committee should have the following functions:

1. With regard to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence and efficacy of the division performing the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget for this service; approving work plans and orientation, ensuring that its activity is mainly focused on the company's material risks; receive periodic financial information on its activities; and check that senior management is considering its recommendations and conclusions.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

- a) In the event of the resignation of the external auditor, investigate the issues giving rise to that resignation.
- b) Ensure that the external auditor's compensation for his work does not compromise its quality or independence.
- c) Ensuring that the Company notifies any change of auditor to the National Securities Market Commission as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor the reasons for the same.
- d) 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.
- e) Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.

Complies Partly complies Explain

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

Complies Partly complies Explain

44. The Audit Committee should 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.

Complies Partly complies Explain Not applicable

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

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

Complies Partly complies Explain

46. Under direct supervision of the Audit Committee or, if applicable, of a specialized committee of the Board, there should be an internal function of risk control and management carried out by a unit or internal department of the Company with the following functions:

- a) Ensure the proper operation of risk control and management systems and, specifically, that all important risks faced by the Company are properly identified, managed and quantified.

- b) Actively participate in the development of the risk strategy and in the important decisions about its management.
- c) Ensure that risk control and management systems mitigate risks adequately in accordance with the policy framework set forth by the Board.

Complies Partly complies Explain

47. The members of the Nomination and Remuneration Committee —or of the Nomination Committee and the Remuneration Committee, if they are separated— should be designated seeking to ensure that they have the knowledge, skills and experience required for the duties they will perform, and that the majority of said members are independent directors.

Complies Partly complies Explain

48. Large cap companies should have two separate committees, a Nomination Committee and a Remuneration Committee.

Complies Explain Not applicable

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

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

Complies Partly complies Explain

50. The Remuneration Committee should perform its duties independently, and in addition to those conferred by law, it should have the following functions:

- a) Proposing to the Board of Directors the basic conditions governing high-executive contracts.
- b) Verifying the compliance with the remuneration policy established by the Company.
- c) Reviewing periodically the remuneration policy applied to directors and high executives, including share-based compensation systems and their application, as well as ensuring that their individual compensation is proportionate to that paid to the Company's other directors and high executives.
- d) Ensuring that potential conflicts of interests do not jeopardise the independence of the external advice provided to the committee.
- e) Check the information on the remuneration received by directors and senior officers contained in different corporate documents, including the Annual Report on Director's Remuneration.

Complies Partly complies Explain

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

Complies Partly complies Explain

52. The rules on structure and operation of the supervision and control committees should be established on the Regulations of the Board of Directors and should be consistent with those that are legally binding and applicable to committees, pursuant to previous recommendations, including:

- a) They must be exclusively made up of non-executive directors, with a majority of independent directors.
- b) Committees should be chaired by an independent director.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each Committee, and it should discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting.
- d) The Committees may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of meeting proceedings should be drawn up and a made available to all Board members.

Complies Partly complies Explain Not applicable

53. The job of supervising compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be entrusted to one or several committees of the Board, namely, the Audit Committee, the Nomination Committee, the Corporate Social Responsibility Committee, if applicable, or a specialized committee created by the Board, exercising its power to self-organize, which should have the following minimum functions:

- a) Supervising compliance with internal codes of conduct and the corporate governance rules of the Company.
- b) Supervising the strategies of communication and relation with shareholders and investors, including small and medium shareholders.
- c) 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.
- d) Reviewing the corporate social responsibility policy of the Company, ensuring it is directed towards the creation of value.
- e) Monitoring strategies and actions of corporate social responsibility, and evaluating the degree of compliance.
- f) Supervising and evaluating the relations with the different stakeholders.
- g) Evaluating everything related to the Company's non-financial risks, including operational, technological, financial, legal, social, environmental, political and reputational risks.
- h) Coordinating the process of reporting non-financial and diversity information, according to the applicable regulations and the international standards of reference.

Complies Partly complies Explain

54. The corporate social responsibility policy should include the principles and commitments the Company takes on voluntarily in relation to the different stakeholders, and it should identify, at least:

- a) The objectives of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy related to sustainability, the environment and social affairs.

- c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social affairs, the environment, diversity, fiscal responsibility, related to human rights and the prevention of illegal behaviour.
- d) Methods or systems to monitor the results of the implementation of the specific practices detailed in the preceding item, the associated risks and their management.
- e) Mechanisms for the supervision of non-financial risks, ethics and business conduct.
- f) Channels for communication, participation and dialogue with groups of interest.
- g) Responsible communication practices that prevent information manipulation and protect integrity and honour.

Complies Partly complies Explain

55. The Company should report, in a separate document or in the directors' report, matters related to corporate social responsibility using some of the internationally accepted methods.

Complies Partly complies Explain

56. Directors remuneration should be sufficient to attract and retain directors with the desired profile and to compensate them for the dedication, abilities and responsibility that the position entails; but should not be so high as to compromise the independence of criterion of non-executive directors.

Complies Explain

57. Variable remuneration linked to the Company's performance, individual performance, and remuneration comprising the delivery of shares, share options or other share-based instruments, and long-term saving systems such as pension plans, retirement systems or other systems of social provision should be confined to executive directors.

The delivery of shares for the remuneration of non-executive directors may be considered when they are obliged to retain them until the end of their tenure. The foregoing will not be applicable to shares that the director needs to sell in order to afford the expenses related to their acquisition.

Complies Partly complies Explain

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

And, specifically, variable components of remuneration should:

- a) Be linked to predetermined and measurable performance criteria that consider the risk incurred to obtain a result.
- b) Promote the Company's sustainability and include non-financial criteria adequate for the creation of long term value, in addition to compliance with the Company's rules and internal procedures, and its risk management and control policies.
- c) Be designed based on a balance between the accomplishment of short, medium and long term objectives that allow for the remuneration of continuous performance over a period that is sufficiently long to appreciate their contribution to the creation of value, in a way that the measurement elements of that performance do not only revolve around specific, occasional or extraordinary events.

Complies Partly complies Explain Not applicable

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

been fulfilled.

Complies Partly complies Explain Not applicable

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

Complies Partly complies Explain Not applicable

61. A relevant percentage of the variable remuneration of non-executive directors should be linked to the delivery of shares or other share-based financial instruments.

Complies Partly complies Explain Not applicable

62. Once shares, share options or rights over shares of remuneration systems have been attributed, directors cannot transfer ownership of a number of shares equal to twice their fixed annual remuneration and cannot make use of said options or rights for, at least, three years after they are attributed.

The foregoing will not be applicable to shares that the director needs to sell in order to afford the expenses related to their acquisition.

Complies Partly complies Explain Not applicable

63. Contractual agreements should include a clause allowing the company to ask for a reimbursement of the variable components of remuneration when payment was not adjusted to performance conditions or when payment was made pursuant to data that is later deemed inaccurate.

Complies Partly complies Explain Not applicable

64. Payments due to the termination of the agreement should not exceed the established amount equivalent to two years of the total annual remuneration and should not be paid until the company can verify that the director has fulfilled the performance criteria that were previously established.

Complies Partly complies Explain Not applicable

H OTHER INFORMATION OF INTEREST

1. If the Company or Group companies are dealing with any relevant matters in terms of corporate governance that have not been addressed in the rest of the sections in this report, but which must be included so as to provide more complete and reasoned information on the structure and governance practices of the entity or that of its group, please provide a brief description.

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

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

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If so, please state the code in question and the date of adherence.

A.3. As the system only allows for two 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%.

C.1.19. d) Executive Directors or senior management of a different company where a Company Executive Director or Senior Manager is Non-Executive. e) Individuals who maintain or have maintained in the last year an important business relation with the Company or Group companies, whether on his/her behalf or as significant shareholder, director or senior executive of an entity maintaining such relation either at present or in the past. Business relations shall be those of supplier of goods or services, including financial ones, or of advisor or consultant. f) Individuals who may be significant shareholders, executive directors or senior executives of an entity who receives or may have received any major donations from the Company or its Group over the past 3 years. Mere owners of a Foundation receiving donations are excluded from this list. g) Spouses, individuals with an analogous relationship, or relatives up to the second degree of a Company executive director or senior executive. h) Individuals whose appointment or re-election has not been proposed by the Nomination Committee. i) Individuals who had been directors during a continuous term exceeding 12 years. j) Individuals falling under any of the assumptions mentioned in subsections a), e), f) or g) above with respect to any significant shareholder or any shareholder represented on the Board. In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company (Article 16 of the Board Regulations).

Proprietary Directors forced to resign after their shareholders sell their shareholding may only be re-elected as Independent Directors when the shareholder they represented up to that moment sold his/her entire shareholding in the Company. A Director with Company shares may be an Independent Director provided he/she meets all the requirements pursuant to this Article and does not hold a significant shareholding.

RE-ELECTION Directors shall hold office for 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 Nomination and Remuneration Committee has certain responsibilities with regard to Directors' appointment, assessment and re-election, set forth in the corresponding Regulations. The following should be noted: The Nomination and Remuneration Committee has the following basic responsibilities: 1.- Evaluate the balance of skills, knowledge and experience on the Board. 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 cooption 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 the proposal for appointment of the remaining directors by cooption or to be submitted to the decision of the General Shareholders' Meeting, as well as the proposals for their re-election or removal by the General Shareholders' Meeting. 5.- Report on proposals for appointment and removal of senior managers and the basic terms of their contracts. 6.- Examine and organize 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. (Article 3 of the Nomination 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 of disciplinary measures for serious or very serious breach determined by supervising authorities. d) When seriously reprimanded by the Nomination and Remuneration Committee upon default of director's obligations. e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and abstention. f) When they breach the non-competition agreement. Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial. Should a Director be indicted or tried for any 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 report and, if applicable, resign if they are involved in a situation that may be detrimental to the Company's name and reputation (Article 18 of the Board Regulations).

The Directors' Selection Policy, approved by CAF's Board of Directors during this fiscal year, repeats the functions applicable to the

Nomination and Remuneration Committee in selecting Directors, as well as the conditions of its participation in such process, as previously described, and the conditions to be met by candidates, putting special emphasis on the essential purpose of favouring gender diversity in appointing members of the Board of Directors, pursuant to recommendation 14 c) under the Good Governance Code of Listed Companies, and articles 529 bis and 529 quidecies of the Companies Law.

C.2.1. AUDIT COMMITTEE

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 the reasons for the same. 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 the 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: 1.^o The financial information that the Company must make public on a periodic basis. 2.^o 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 Proposal to the Board of Directors for amending the Regulations, accompanying the proposal with a supporting report. Report on any other proposal for amending the above said Regulations. The provisions of sections e), f) and g) will be understood notwithstanding the regulatory standards of account auditing. (Article 3 of the Audit Committee Bylaws and Regulations).

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.- The Committee shall at any time request, through the Chairman of the Board, personal collaboration or reports from any member of the Company or Group companies' executive team when deemed necessary or convenient for the furtherance of the Committee's duties, as well as the presence of any of them, or any employee, at the meetings thereof convened and even require their presence in the absence of any other officer. (Article 9 of the Audit Committee Bylaws and Regulations).

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 the strategies of communication and relation with shareholders and investors, including small and medium shareholders and ii) Evaluating everything related to the Company's non-financial risks, including operational, technological, financial, legal, social, environmental, political and reputational risks.

Operation:

The Committee shall convene upon the Chairman's decision to perform its functions. The Committee shall convene at least twice a year. The Committee shall also convene upon request of, at least, one of its members. The request shall be submitted to the Committee Chairman and shall include the agenda with the matters to be addressed by the Committee. (Article 5 of the Audit Committee Bylaws and Regulations). The Chairman of the Committee is responsible for summoning it. The notice call, except for special emergency reasons considered by the Chairman, shall be issued to Committee members at least five calendar days in advance by post, fax, telegram or electronic mail. The notice call shall include the meeting's agenda. Without prejudice to the abovementioned, the Committee may also discuss matters not included in the cited agenda. (Article 6 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 the absence or inability, the Secretary shall be replaced by the member of the Committee of less age. (Article 7 of the Audit Committee Bylaws and Regulations). Resolutions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Secretary shall record the minutes of each meeting which, once approved either at the end of the meeting or in the following one, shall be signed by the Chairman and the Secretary. (Article 8 of the Audit Committee Bylaws and Regulations).

During 2017, the Audit Committee held seven meetings. Most important actions in the year:

The main activities undertaken by the Committee during the fiscal year may be grouped into the following areas: Activities concerning financial and non-financial information and the associated internal control mechanisms:

- (i) 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 2016 fiscal year.
- (ii) The examination of the individual and consolidated quarterly and half-yearly financial statements, prior to being submitted before the Board of Directors for its approval,
- (iii) 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. In this sense, the analysis of the public documentation required for the implementation of a Euro-Commercial Paper Program (ECP), prior to its submission and approval by the Board of Directors.
- (iv) Ongoing monitoring with the Manager of Internal Audit, the Economic-Financial Department and that of Strategy on the proper performance of the internal control systems, including the ICFR, whereby identifying any significant weaknesses therein, where appropriate. Activities associated with related-party transactions: (i) Review of these related transactions within the scope of the financial reports that the Company approves and submits to the National Securities Market Commission (CNMV). Review of significant related-party transactions, for their inclusion in the Annual Corporate Governance Report. (ii) Regular information for the Board of Directors concerning related-party transactions carried out by the Company. Activities relating to the corporate social responsibility policy and its terms of implementation during the year: corporate social responsibility activities correspond entirely to the Nomination 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. Activities relating to risk management and control: (i) Ongoing evaluation of the internal control system of financial information (ICFR) and the analysis of the recommendations and improvement plans thereof, proposed by Internal Audit. (ii) Periodic risk map supervision for the risks identified and evaluated during the various processes throughout the Organisation. (iii) Monitoring and supervision of the work entrusted to external advisors with regard to high-level corporate risk diagnosis. (iv) Supervision of the risk management models implemented by the Company, both during the tendering phase and in the execution phase. (v) Supervision of the development and exercise of the internal risk department. (vi) Supervision of the actions of the Company's Internal Fiscal Department, which is accountable for the control and management of the Group's fiscal risks. (vii) Supervision of the Corporate Fiscal Policy, which is proposed by the Fiscal Department and submitted before the Board of Directors. (viii) Analysis on the request for the creation of an entity, domiciled in a country that could be considered a tax haven, to undertake local works for an international project for its presentation and approval by the Board of Directors. (ix) Prior review of the corporate acquisitions and other corporate operations conducted by the Company. 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: (i) Supervision of the Internal Audit Work Plan compliance for the year 2016. (ii) Approval of the 2017 Internal Audit Work Plan. (iii) Monitoring of the development of the Internal Audit Work Plan and the degree of compliance with the issued recommendations. Activities of the external auditor: (i) Meetings held with the external auditor to reveal the most significant aspects following the review of the financial statements and the findings of the audit work relating to the financial statements. (ii) Meetings held with the external auditor regarding the reports on the limited review of accounts and semi-annual financial statements, and on the supervision of the internal control and risk management systems. (iii) In conjunction with the external auditors, the analysis of regulatory changes impacting on the Company, especially in matters relating to accounting and to the Audit Report. (iv) Preparation of the external auditor independence report. (v) Preparing the proposal for renewal of the external auditor for its submission before the Annual General Meeting. (vi) Approval of the budget for outsourcing non-audit services in 2018. (vii) Approval of a percentage threshold on non-audit service fees that is stricter than the maximum allowed by the legislation on account auditing. (viii) Call for an external auditor to appear before the plenary session of the Board of Directors for the purpose of reporting on the audit work and the accounting and risk situation of the Company. Monitoring activities of the Committee's own action plans: Throughout the current year, the Committee has continuously monitored the 2017 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 20 December 2016, where it declared that all of such had been satisfactorily completed.

NOMINATION AND REMUNERATION COMMITTEE

The Chairman shall organise the debate ensuring and promoting the participation of all Committee members during the body's deliberations. At the Committee's request, its meetings may be attended by any executive or worker, the Executive Director, the Board of Director's Chairman or any other director. The Board of Director's Chairman or the Executive Director may indistinctly request the Committee to hold special informative meetings. Resolutions shall be adopted by majority vote of the Directors attending the meeting in person or by proxy. The Chairman of the Committee has the casting vote in the event of a tie. Adopted resolutions shall be minuted, reported by the Secretary and approved during such meeting or at the beginning of the next one immediately after.

During fiscal year 2017, the Nomination and Remuneration Committee held eight meetings.

Most important actions in the year: The main activities undertaken by the Committee during the fiscal year may be grouped into the following areas:

Activities regarding appointments: (i) Analysis of the Board of Directors' needs and the evaluation of nominations so as to provide advice on any vacancies that could arise in its membership. (ii) Propose the appointment of a new independent Director to the Board of Directors, to be later submitted before the General Meeting. (iii) Propose the co-opted appointment of an independent Director before the Board of Directors. (iv) Directors Selection Policy compliance. Activities regarding remuneration: (i) Proposal of the 2016 Directors Remuneration Report to be presented before the General Shareholders' Meeting. (ii) Proposal and favourable opinion of the Directors Remuneration Policy and presented at the Board of Directors to be raised before the General Shareholders' Meeting. (iii) Proposal of the Directors Remuneration before the Board of Directors in their capacity as directors for the 2017 fiscal year. (iv) Analysis of the amounts and remuneration concepts of senior executives and executive directors so as to present the corresponding proposal to the Board of Directors. Activities regarding corporate governance: (i) Appointment of an independent external consultant responsible for assisting the Board of Directors in conducting the annual evaluation of its performance during the 2017 fiscal year, pursuant to Recommendation 36 of the Good Governance Code of Listed Companies. (ii) Approving the Report on the annual evaluation of its own performance, in compliance with the provisions of Recommendation 36 of the Good Governance Code of Listed Companies. (iii) Reporting on the evaluation of the Board of Directors, with regard to the findings and recommendations of the evaluation process carried out by the external advisor. Monitoring activities of the Committee's own action plans: The Committee has continuously monitored the 2017 Action Plans presented in the Report on the annual evaluation of its own performance, approved at a meeting of the Committee held on 20 December 2016, where all of such had been satisfactorily completed. Other activities: (i) Review of the situation regarding liability insurance for Company directors and executives. Comparative analysis of the current policy with other offers provided by various companies, where the conditions of the current liability insurance conditions for directors and executives have been improved, and their coverage limit has also been extended. (ii) Submission of the proposed redistribution the Executive Committee roles before the Board of Directors.

D.5

The transactions performed with other related parties amount to EUR 207,806 thousand. The abovementioned transactions are broken down in Note 10 to the Group's consolidated financial statements.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on 27/02/2018.

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

Yes

No

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

Auditor's Report on the "Information Relating
to the System of Internal Control over Financial
Reporting (ICFR)" for the year ended 31
December 2017

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

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 2017

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 18 October 2017, 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 2017, 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 2017 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.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Group in relation to the ICFR system -disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report established in CNMV Circular no. 7/2015, of 22 December 2015.
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 of CNMV Circular no. 7/2015, of 22 December 2015, for the purposes of the description of the ICFR system in annual corporate governance reports.

Deloitte, S.L.

Pablo Múgica
27 February 2018

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

**Consolidated Balance Sheets as at 31 December 2017 and 2016 (Notes 1, 2 and 3)
(Thousands of Euros)**

Assets	31/12/17	31/12/16 (*)	Equity and liabilities	31/12/17	31/12/16 (*)
Non-current assets:			Equity (Note 14):		
Intangible assets (Note 7)-			Shareholders' equity-		
Goodwill (Note 2-f)	24,124	15	Registered share capital	10,319	10,319
Other intangible assets	46,421	40,129	Share premium	11,863	11,863
	70,545	40,144	Revaluation reserve	39,119	39,119
Property, plant and equipment, net (Notes 6 & 8)	244,513	229,309	Other reserves of the Parent and of fully consolidated companies and companies		
Investments accounted for using the equity method (Note 9)	19,752	18,572	accounted for using the equity method	770,489	758,268
Non-current financial assets (Note 9)	576,502	666,419	Profit for the year attributable to the Parent	42,406	35,013
Deferred tax assets (Note 18)	144,989	159,176		874,196	854,582
Total non-current assets	1,056,301	1,113,620	Valuation adjustments-		
			Available-for-sale financial assets (Note 9)	39	-
			Hedges	(6,580)	(5,908)
			Translation differences	(117,238)	(76,703)
				(123,779)	(82,611)
			Equity attributable to the Parent	750,417	771,971
			Non-controlling interests	9,783	11,706
			Total equity	760,200	783,677
			Non-current liabilities:		
			Long-term provisions (Note 20)	7,071	4,646
			Non-current financial liabilities (Notes 15 & 16)-		
			Bank borrowings	625,645	648,145
			Other financial liabilities	70,170	61,428
				695,815	709,573
			Deferred tax liabilities (Note 18)	153,805	172,137
			Other non-current liabilities (Note 3-f)	55,821	58,039
			Total non-current liabilities	912,512	944,395
Current assets:			Current liabilities:		
Inventories (Note 11)	71,654	60,287	Short-term provisions (Note 20)	227,939	227,937
Trade and other receivables-			Current financial liabilities (Notes 15 & 16)-		
Trade receivables for sales and services (Notes 10, 11 & 12)	1,277,243	1,306,363	Bank borrowings	46,262	103,075
Other receivables (Notes 9, 10 & 19)	198,470	204,033	Other financial liabilities	93,038	139,527
Current tax assets (Note 19)	10,030	13,426		139,300	242,602
	1,485,743	1,523,822	Trade and other payables-		
			Payable to suppliers (Note 25)	423,385	376,531
Other current financial assets (Note 13)	126,702	140,480	Other payables (Notes 11, 15 & 19)	646,593	657,056
Other current assets	3,229	3,206	Current tax liabilities (Note 19)	5,009	969
Cash and cash equivalents	371,625	392,022	Other current liabilities	316	270
Total current assets	2,058,953	2,119,817	Total current liabilities	1,442,542	1,505,365
Total Assets	3,115,254	3,233,437	Total Equity and Liabilities	3,115,254	3,233,437

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

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet as at 31 December 2017.

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

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

**Consolidated Statements of Profit or Loss
for the years ended 31 December 2017 and 2016
(Notes 1, 2 and 3)
(Thousands of Euros)**

	(Debit) Credit	
	2017	2016 (*)
Continuing operations:		
Revenue (Notes 6, 9 & 10)	1,477,039	1,318,200
+/- Changes in inventories of finished goods and work in progress	(77,035)	(15,474)
In-house work on non-current assets	8,977	9,778
Procurements (Note 21)	(542,771)	(608,669)
Other operating income (Note 21)	7,886	15,792
Staff costs (Note 22)	(446,381)	(397,634)
Other operating expenses (Note 21)	(247,463)	(186,723)
Depreciation and amortisation charge (Notes 7 & 8)	(34,690)	(34,669)
Impairment and gains or losses on disposals of non-current assets (Notes 2-f, 7, 8 & 9)	148	11,239
Profit from Operations	145,710	111,840
Finance income (Notes 9, 10 & 13)	7,309	13,643
Finance costs (Notes 9, 16 & 17)	(68,551)	(72,819)
Changes in fair value of financial instruments	35	870
Exchange differences	(17,591)	5,916
Impairment and gains or losses on disposals of financial instruments (Note 9)	4	(594)
Financial Loss	(78,794)	(52,984)
Result of companies accounted for using the equity method (Note 9)	594	473
Profit before Tax	67,510	59,329
Income tax (Note 18)	(24,993)	(22,049)
Profit for the year from continuing operations	42,517	37,280
Consolidated Profit for the Year	42,517	37,280
Attributable to:		
The Parent	42,406	35,013
Non-controlling interests	111	2,267
Earnings per share (euros) (Note 2-e)		
Basic	1.24	1.02
Diluted	1.24	1.02

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of profit or loss for 2017.

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

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

**Consolidated Statements of Comprehensive Income
for 2017 and 2016
(Notes 1, 2 and 3)
(Thousands of Euros)**

	2017	2016 (*)
A) Consolidated profit for the year:	42,517	37,280
B) Other comprehensive income - Items not reclassified to profit or loss:	(4,771)	713
Arising from actuarial gains and losses (Note 3-j)	(5,525)	990
Tax effect (Note 18)	754	(277)
C) Items that may be reclassified subsequently to profit or loss:	(41,168)	50,292
Cash flow hedges:	(2,058)	(301)
Revaluation gains/losses (Note 17)	(2,138)	(33)
Amounts transferred to profit or loss	80	(268)
Available-for-sale financial assets:	39	-
Revaluation gains/losses (Note 9)	39	-
Amounts transferred to profit or loss	-	-
Translation differences:	(40,385)	53,971
Revaluation gains/losses (Note 14)	(40,385)	53,971
Amounts transferred to profit or loss	-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:	656	(516)
Revaluation gains/losses-		
Cash flow hedges (Notes 9 & 17)	160	(1,206)
Translation differences	(150)	3
Amounts transferred to profit or loss-	10	(1,203)
Cash flow hedges (Note 17)	646	635
Translation differences	-	52
	646	687
Tax effect	580	(2,862)
Total comprehensive income (A+B+C)	(3,422)	88,285
Attributable to:		
The Parent	(3,533)	86,005
Non-controlling interests	111	2,280

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for 2017.

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

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

**Consolidated Statements of Changes in Equity
for 2017 and 2016 (Notes 1, 2 and 3)
(Thousands of Euros)**

	Equity attributable to the Parent								Non-controlling interests	Total equity
	Shareholders' equity					Valuation adjustments	Translation differences			
	Share capital	Share premium	Reserve for unrealised fair value gains and losses	Other reserves	Net profit for the year					
Balances at 31 December 2015 (*)	10,319	11,863	39,119	734,288	41,041	(5,142)	(127,748)	11,187	714,927	
Total comprehensive income	-	-	-	713	35,013	(766)	51,045	2,280	88,285	
Transactions with shareholders or owners	-	-	-	223	(17,997)	-	-	(1,761)	(19,535)	
Dividends paid	-	-	-	-	(17,997)	-	-	(1,935)	(19,932)	
Other transactions with non-controlling interests (Note 2-f)	-	-	-	223	-	-	-	174	397	
Other changes in equity	-	-	-	23,044	(23,044)	-	-	-	-	
Transfers between equity items (Note 14)	-	-	-	23,044	(23,044)	-	-	-	-	
Balances at 31 December 2016	10,319	11,863	39,119	758,268	35,013	(5,908)	(76,703)	11,706	783,677	
Total comprehensive income	-	-	-	(4,771)	42,406	(633)	(40,535)	111	(3,422)	
Transactions with shareholders or owners	-	-	-	1,862	(19,883)	-	-	(2,034)	(20,055)	
Dividends paid	-	-	-	-	(19,883)	-	-	(3,005)	(22,888)	
Other transactions with non-controlling interests (Note 2-f)	-	-	-	1,862	-	-	-	971	2,833	
Other changes in equity	-	-	-	15,130	(15,130)	-	-	-	-	
Transfers between equity items (Note 14)	-	-	-	15,130	(15,130)	-	-	-	-	
Balances at 31 December 2017	10,319	11,863	39,119	770,489	42,406	(6,541)	(117,238)	9,783	760,200	

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2017.

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

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

**Consolidated Statements of Cash Flows
for 2017 and 2016
(Notes 1, 2 and 3)
(Thousands of Euros)**

	2017	2016 (*)
Cash flows from operating activities:		
Profit before tax	67,510	59,329
Adjustments for-		
Depreciation and amortisation charge (Notes 7 & 8)	34,690	34,669
Impairment losses (Notes 8 & 9)	(222)	2,827
Changes in provisions (Notes 3 & 20)	8,912	221
Other income and expenses	20,734	11,559
Gains and losses on disposals of non-current assets (Notes 2-f & 8)	108	(13,795)
Investments accounted for using the equity method (Note 9)	(594)	(473)
Finance income	(7,309)	(13,643)
Finance costs	68,551	72,819
Changes in working capital-		
Trade receivables and other current assets (Notes 3-d & 12)	(22,989)	(144,083)
Inventories (Note 11)	(25,282)	33,917
Trade payables (Note 11)	33,461	316,941
Other current liabilities	45	(418)
Other non-current assets and liabilities	(1,263)	(6,206)
Other cash flows from operating activities-		
Income tax paid (Note 19)	(10,351)	(16,684)
Other amounts paid relating to operating activities	(944)	(1,562)
Net cash flows from operating activities (I)	165,057	335,418
Cash flows from investing activities:		
Payments due to investment-		
Group companies and associates (Note 9)	(61)	(1,102)
Business units (Note 2-f)	(8,329)	-
Property, plant and equipment, intangible assets and investment property (Notes 7 & 8)	(51,254)	(26,977)
Other financial assets (Notes 9 & 13)	(4,028)	(42,967)
Proceeds from investments-		
Group companies and associates (Note 2-f)	693	581
Property, plant and equipment, intangible assets and investment property (Notes 7 & 8)	182	13,867
Other financial assets (Notes 9 & 13)	35,567	49,910
Interest received (Notes 9 & 13)	5,189	12,907
Net cash flows from investing activities (II)	(22,041)	6,219
Cash flows from financing activities:		
Proceeds from issue of equity instruments - non-controlling interests	4,000	2,001
Purchase of equity instruments - non-controlling interests	(1,167)	-
Proceeds/(Payments) relating to financial liability instruments-		
Issue (Notes 15 & 16)	76,543	171,782
Repayment (Notes 15 & 16)	(128,307)	(346,284)
Dividends and returns on other equity instruments paid (Note 14)	(22,888)	(19,933)
Other cash flows from financing activities-		
Interest paid (Note 16)	(76,862)	(58,952)
Net cash flows from financing activities (III)	(148,681)	(251,386)
Net increase in cash and cash equivalents (I+II+III)	(5,665)	90,251
Cash and cash equivalents at beginning of year	392,022	297,440
Effect on cash of foreign exchange rate changes	(14,732)	4,331
Cash and cash equivalents at end of year	371,625	392,022

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

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for 2017.

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

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

Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2017

1. Description and activities of the Parent

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

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

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

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2017 of the CAF Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the Group's accompanying consolidated financial statements are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the CAF Group's consolidated equity and consolidated financial position at 31 December 2017 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting of CAF on 10 June 2017. The 2017 consolidated financial statements of the Group and the 2017 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of new standards and interpretations issued

In 2017 no new accounting standards taken into account when preparing the accompanying consolidated financial statements came into force.

Standards and interpretations issued but not yet in force

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

Pronouncement	Effective date - IASB	Effective date - European Union
IFRS 15, Revenue from Contracts with Customers	1 January 2018	1 January 2018
IFRS 9, Financial Instruments	1 January 2018	1 January 2018
IFRS 16, Leases	1 January 2019	1 January 2019
IFRS 17, Insurance Contracts	1 January 2021	Pending
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions	1 January 2018	Pending
Amendments to IFRS 4, Insurance Contracts	1 January 2018	1 January 2018
Amendments to IAS 40, Reclassification of Investment Property	1 January 2018	Pending
IFRIC 22, Foreign Currency Transactions and Advance Consideration	1 January 2018	Pending
IFRIC 23, Uncertainty Over Income Tax Treatments	1 January 2019	Pending
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures	1 January 2019	Pending
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Pending	Pending
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019	Pending

At the reporting date, the Group was analysing all the effects of adopting IFRS 15, Revenue From Contracts with Customers, and IFRS 9, Financial Instruments, which will enter into force on 1 January 2018 and have been endorsed by the European Union.

The Group will adopt IFRS 15 and IFRS 9 as from 1 January 2018, and will foreseeably perform the transition to the application thereof by means of the modified transition approach, whereby previous years' figures are not restated, but rather the cumulative effect of the initial application of the standard is recognised as an initial adjustment to reserves.

IFRS 15 provides a new revenue model applicable to all contracts with customers. The core principle of the standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the new standards does not have any effect on the cash position of the contracts or the substance of the contracts with customers.

The model set out by the standard is structured in five steps:

1. Identify the contract(s) with a customer
2. Identify the various performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations identified in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Currently, most of the Group's construction contracts are recognised by reference to the stage of completion. After the analysis by the Group, these contracts will continue to meet the requirements in order to continue to be recognised in the same way after the entry into force of IFRS 15. However, changes in the financial statements are expected which, at the date of preparation of the consolidated financial statements, are being assessed by the Group and which, in summary, would be as follows:

- In certain of the Group's contracts there are extensions which are optional for the customer and are recognised by the Group once the extension is signed with the customer. In accordance with the new standard, the original contract and the option exercised shall be recognised separately, not in aggregate as had been the case to date, which affects the timing of recognition of the Group's income and expenses.
- With regard to the identification of goods and services in the contracts, distinct products and services are being provided under certain of the Group's contracts and, accordingly, they should be considered as a distinct service and their value should be estimated, giving rise to an impact on the timing of recognition of Group revenue, as the stage of completion of each service is estimated separately.

The aforementioned effects will give rise to a reclassification of approximately EUR 23 million, reducing "Trade Receivables for Sales and Services" and increasing "Inventories", with a negative impact on equity of approximately EUR 3 million before tax.

Most of the Group's contracts include clauses relating to possible penalties which could change the probable transaction price and, therefore, could give rise to certain consideration arrangements with customers being recognised as a reduction of income rather than as an expense. In the transition to IFRS 15, the Group will classify a portion of the contractual liability described in Note 20 as a reduction of "Trade Receivables for Sales and Services". At 31 December 2017, this standard would reduce the Group's assets and liabilities by approximately EUR 83 million and would have no impact on equity.

The impact that IFRS 9, Financial Instruments, could have has also been assessed. The current IAS 39 is superseded by IFRS 9, with significant differences with respect to the former. The impact on the Group would be summarised as follows:

- Impairment losses: a new impairment model based on expected credit losses is established, as opposed to the current incurred loss model. Under the expected credit loss model, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. The Group is designing the impairment models adapted to this approach, which it estimates will have a negative impact on equity of less than EUR 8 million, before tax, on the date of initial application.
- The Group holds certain "Available-for-Sale Financial Assets" which arose from investments in the share capital of unlisted companies recognised at acquisition cost. The Group is using the measurement models in order to calculate the fair value of those assets, subject to the sensitivity of the estimates themselves. The directors estimate that the value of these instruments on the date of initial application will increase by a range of EUR 9 million to EUR 12 million.

The Group is assessing the additional disclosures so that the consolidated financial statements may be adapted, if required, after the entry into force of the standards described above.

IFRS 16, Leases

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

The detail of payments in relation to outstanding operating leases are disclosed in Note 3-m to the consolidated financial statements.

c) Functional currency

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

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2017 estimates were occasionally made. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The assessment of possible impairment losses on certain assets (see Notes 7, 8, 9, 10, 11, 12 and 13);
- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 15);
- The useful life of the property plant and equipment and intangible assets (see Notes 3-a and 3-b);
- The fair value of certain financial assets (see Note 3-d);
- The calculation of provisions (see Note 20);
- The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised (see Note 18);
- Changes in estimated costs in the budgets for construction projects performed and percentage of completion (see Note 3-f).

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statement of profit or loss.

There have been no changes in accounting estimates with respect to 2016 that might have had a material impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2017 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2016.

The 2016 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2017.

f) Consolidated Group and basis of consolidation

Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2017 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - see Note 1) at that date and of the subsidiaries and associates listed below:

	% of control or influence	Location	Line of business
Fully consolidated companies - Industrial activity CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of rolling stock equipment and components
CAF USA, Inc.	100%	Delaware	Manufacturing
CAF México, S.A. de C.V.	100%	Mexico City	Manufacturing and maintenance
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Manufacturing and maintenance
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance
CAF Rail UK, Ltda.	100%	Belfast	Manufacturing and maintenance
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance
CAF Chile, S.A.	100%	Santiago de Chile	Manufacturing and maintenance
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance
Trenes CAF Venezuela, C.A.	100%	Caracas	Manufacturing and maintenance
CAF Rail Australia Pty. Ltd.	100%	Sydney	Manufacturing and maintenance
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance
CAF France, SAS	100%	Paris	Manufacturing and maintenance
Trenes de Navarra, S.A.U.	100%	Navarre	Manufacturing
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing
Construcciones Ferroviarias - CAF Santana, S.A.	100%	Jaén	Manufacturing and engineering
Tradinsa Industrial, S.A.	100%	Lleida	Repairs and maintenance
CAF New Zealand Ltd	100%	Auckland	Manufacturing and maintenance
CAF Sisteme Feroviare SRL	100%	Bucharest	Manufacturing and maintenance
CAF Colombia, S.A.S.	100%	Medellín	Manufacturing and maintenance
CAF Arabia, Co.	100%	Riyadh	Manufacturing and maintenance
CAF Deutschland GmbH	100%	Munich	Manufacturing and maintenance
CAF Taiwan Ltd.	100%	Kaohsiung	Manufacturing and maintenance
CAF Hungary, K.F.T.	100%	Budapest	Manufacturing and maintenance
CAF Netherlands, B.V.	100%	Utrecht	Manufacturing and maintenance
CAF Rolling Stock UK, Ltd.	100%	Newport	Manufacturing
Technological activity			
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D
CAF Power & Automation, S.L.U.	100%	Guipúzcoa	Electronic and power equipment
Vectia Mobility Research & Development, A.I.E.	70%	Guipúzcoa	R&D
Vectia Mobility, S.L.	70%	Guipúzcoa	Solutions for urban transport
CAF Turnkey & Engineering, S.L.U.	100%	Vizcaya	Engineering
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests
Lander Simulation and Training Solutions, S.A.	57%	Guipúzcoa	Simulators
Gemyns, S.L.	100%	Guipúzcoa	Operating manuals
CAF Signalling, S.L.U.	100%	Guipúzcoa	Signalling
CAF Sinyalizasyon Sistemleri Ticaret Ltd. Sirketi	100%	Istanbul	Signalling
BWB Holdings, Ltd. (**)	60%(*)	Nottingham	Engineering
Services activity			
Actren, S.A.	51%	Madrid	Maintenance
Sermanfer, S.A.	100%	Madrid	Maintenance
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services
CAF Investment Projects, S.A.U.	100%	Guipúzcoa	Business development
Urbanización Parque Romareda, S.A.	100%	Zaragoza	Holding company
Ctrens Companhia de Manutenção, S.A.	100%	Sao Paulo	Lease services
Provetren, S.A. de C.V.	100%	Mexico City	Lease services
Regiotren, S.A. de C.V.	100%	Mexico City	Lease services
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services
Ennera Energy and Mobility, S.L.	100%	Guipúzcoa	Power generation
Ennera Kaihatsu CO, Ltd.	100%	Tokyo	Power generation
Rail Line Components, S.L.U.	100%	Guipúzcoa	Marketing
Sermanbra Serviços de Manutenção Brasil, Ltda.	100%	Sao Paulo	Maintenance
CAF Group UK, Ltd.	100%	Coventry	Holding company
Rifer S.R.L.	51%(*)	Milan	Component maintenance
Construction activity			
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	100%	Mexico City	Equipment
Companies accounted for using the equity method (Note 9) - Industrial activity			
Compañía de Vagones del Sur, S.A.	35%	Jaén	Manufacturing
Ferrocarril Interurbano, S.A. de C.V.	49.63%	Mexico City	Manufacturing and equipment
Technological activity			
Nuevas Estrategias de Mantenimiento, S.L. (***)	50%	Guipúzcoa	Technology solutions
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automated production
Tumaker, S.L.	24.6%	Guipúzcoa	Printing equipment
Services activity			
Ferrocarriles Suburbanos, S.A. de C.V.	43.35%	Mexico City	Transport services
Plan Metro, S.A.	40%	Guipúzcoa	Lease services
Consorcio Traza, S.A. (****)	25%	Zaragoza	Holding company
Arabia One for Clean Energy Investments PSC.	40%	Ma'an	Power generation
Purple Line Transit Operators, L.L.C.	20%	Delaware	Operation and maintenance

(*) The options described in Note 2-f to the consolidated financial statements are not included.

(**) This company owns all the shares of Quincey Manon Practice, Ltd., BWB Consulting, Ltd. and BWB Regeneration, Ltd.

(***) This company owns all the shares of NEM Solutions USA, Inc., with registered office in the US.

(****) This company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Changes in the scope of consolidation

In 2017 the Parent acquired majority ownership interests granting it control over two companies which have been included in the scope of consolidation of the CAF Group. The main information on the acquired companies is as follows:

Company acquired	Location	Line of business	Date of acquisition	% Acquired (2)	Consideration (2) (Thousands of euros)
BWB Holdings, Ltd. (1)	Nottingham (UK)	Engineering services	11/07/17	100%	18,434
Rifer, S.R.L.	Milan (Italy)	Maintenance	18/07/17	100%	4,713
					23,147

(1) Head of a subgroup of companies.

(2) Subject to the options being exercised.

The consideration in the transactions includes, in both cases, the estimated value of certain cross call and put options to be exercised in the future. The measurement of these options is linked to certain financial parameters (mainly EBITDA and Net Financial Debt) which have been estimated based on the business plans of both companies.

Consideration	Thousands of euros		
	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Initial % acquired	51%	60%	
Cash paid	520	9,301	9,821
Cash payable	130	-	130
	650	9,301	9,951
% Option 1	24%	13%	
Estimated value - Option 1	1,463	2,825	
% Option 2	25%	27%	
Estimated value - Option 2	2,600	6,308	
Total consideration	4,713	18,434	23,147

The options relating to the acquisition of Rifer, S.R.L. are exercisable in 2019 and 2020, respectively, while those relating to the acquisition of BWB Holdings, Ltd. are exercisable in 2018 and 2020, respectively. Consequently, the liabilities associated with the exercise of the options gave rise to the recognition of EUR 2,825 thousand and EUR 10,371 thousand under "Current Financial Liabilities - Other Financial Liabilities" and "Non-Current Financial Liabilities - Other Financial Liabilities", respectively, in the accompanying consolidated balance sheet as at 31 December 2017 (see Note 15).

The costs incurred by the Group in relation to the two transactions were not significant and were recognised as expenses in the accompanying consolidated statement of profit or loss for 2017.

The detail of the assets and liabilities acquired in the aforementioned transactions is as follows:

	Thousands of euros		
	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Non-current assets			
Intangible assets	132	120	252
Property, plant and equipment	372	661	1,033
Other non-current assets	22	-	22
Current assets			
Inventories	513	1,688	2,201
Trade and other receivables	1,702	18,070	19,772
Other current assets	8	-	8
Cash and cash equivalents	108	1,384	1,492
Non-current liabilities			
Non-current financial liabilities	-	(94)	(94)
Other non-current liabilities	-	(618)	(618)
Current liabilities			
Bank borrowings	(129)	-	(129)
Current financial liabilities	-	(4,938)	(4,938)
Trade and other payables	(1,882)	(17,670)	(19,552)
Other current liabilities	(398)	-	(398)
Total net assets	448	(1,397)	(949)
% acquired	100%	100%	
Total net assets acquired	448	(1,397)	(949)

At 31 December 2017, both business combinations had been accounted for and provisionally determined and were within the one-year period provided for under applicable legislation to determine the fair value of the assets and liabilities acquired. The work required to obtain a market measurement of the assets and liabilities acquired will be completed before the end of that period. Pursuant to the foregoing, the entire amount of any goodwill arising has yet to be allocated. The provisional calculation of the goodwill is broken down as follows:

	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Consideration	4,713	18,434	23,147
Net assets acquired	448	(1,397)	(949)
Goodwill	4,265	19,831	24,096

The net cash flow generated by the two transactions at 31 December 2017 is broken down in the following table:

	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Cash paid in the transaction	520	9,301	9,821
Cash acquired in the transaction	(108)	(1,384)	(1,492)
Net cash transferred	412	7,917	8,329

In addition, at the date of acquisition the Parent granted BWB Holdings, Ltd. financing amounting to EUR 4,823 thousand to cater for certain financial liabilities held by the acquired company.

Lastly, the accompanying consolidated statement of profit or loss for 2017 includes revenue and profit generated by both companies since the date of their acquisition amounting to EUR 13,782 thousand and EUR 322 thousand, respectively.

In 2017 CAF Netherlands, B.V., CAF Group UK, Ltd., CAF Rolling Stock UK Ltd. and Sermanbra Serviços de Manutenção Brasil, Ltd. were incorporated and BASA TMB, S.L. and UPR Argentina, S.A. were liquidated. In addition, changes occurred in the percentage of ownership interests in Vectia Mobility Research & Development, A.I.E., Vectia Mobility, S.L. and CAF Santana, S.A. (2.52%, -9.46% and 16.27%, respectively). The Group already had a controlling interest in these companies, and these changes gave rise to a cash inflow of EUR 2,833 thousand in the Group's scope of consolidation. In 2017 the corporate name of Inversiones en Concesiones Ferroviarias, S.A.U. was changed to CAF Investment Projects, S.A.U.

In 2016 Ennera Kaihatsu Co, Ltd., NEM Solutions, USA, Ltd and Purple Line Transit Operators, L.L.C. were incorporated and Urban Transport Solutions, B.V. and Zhejiang Sunking Trainelec Traintic Electric Co, Ltd. were liquidated.

On 18 May 2016, the CAF Group sold 35% of the shares in Nuevas Estrategias de Mantenimiento, S.L. ("NEM"). As a result of this transaction the Group lost control over the aforementioned company and adopted a position of joint control with the new reference shareholder. The transaction amounted to approximately EUR 3,150 thousand (considering cash of EUR 2,591 thousand at the transaction date), which was paid in full. Following the loss of control, the Group recognised its remaining ownership interest measured initially at its fair value, which was estimated to be EUR 4,500 thousand, under "Investments Accounted for Using the Equity Method". The gain on the transaction, amounting to EUR 4,608 thousand, was recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss.

Also in 2016, the ownership interests in CAF Sinyalizasyon Sistemleri Ticaret, Ltd., Vectia Mobility Research & Development, A.I.E. and Vectia Mobility, S.L., over which the Group already held control, were increased by 10%, 7.48% and 19.46%, respectively, giving rise to a total net disbursement by the CAF Group of EUR 1,065 thousand.

Consolidation method

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

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

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

- its assets and liabilities, including its share of any assets and liabilities held or incurred jointly;
- its share of the revenue and expenses arising from the joint operation.

Translation of foreign currency financial statements

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

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

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2016.

3. Accounting principles and policies and measurement bases applied

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements as at 31 December 2017 and 2016 were as follows:

a) Intangible assets

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

b) Property, plant and equipment

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

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

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

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

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

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

c) Impairment of assets

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

d) Financial instruments

Trade and other receivables

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

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

Also, the Group derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the risks and rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred. At 31 December 2017, the Group had derecognised receivables amounting to EUR 63,151 thousand (31 December 2016: EUR 107,190 thousand) as a result of factoring agreements.

Financial assets

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

1. Loans and other long-term receivables. Loans and other long-term receivables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectability. The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to all its cash flows.
2. Held-to-maturity investments. Financial assets with fixed maturity that the Group has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.
3. Held-for-trading financial assets classified as at fair value through 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. Changes in fair value are recognised with a debit or credit to "Valuation Adjustments" in the consolidated balance sheet until the investments are disposed of, at which time the cumulative balance of this heading relating to the investments disposed of is recognised in full in the consolidated statement of profit or loss. In this regard, (permanent) impairment is presumed to exist if the market value of the asset has fallen by more than 40% or if there has been a prolonged fall in market value over a period of 18 months without the value having recovered.

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

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

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

- Level 1: quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

The detail of the CAF Group's assets and liabilities measured at fair value according to the levels indicated above at 31 December 2017 and 2016 is as follows (in thousands of euros):

2017

	Level 1	Level 2	Level 3	Total
Assets				
Equity instruments (Note 9-b)	-	-	105	105
Derivatives (Note 17)	-	57,706	-	57,706
Held-for-trading financial assets (Note 13)	55,120	-	-	55,120
Total assets	55,120	57,706	105	112,931
Liabilities				
Derivatives (Note 17)	-	70,444	-	70,444
Total liabilities	-	70,444	-	70,444

2016

	Level 1	Level 2	Total
Assets			
Derivatives (Note 17)	-	58,243	58,243
Held-for-trading financial assets (Note 13)	54,732	-	54,732
Total assets	54,732	58,243	112,975
Liabilities			
Derivatives (Note 17)	-	130,042	130,042
Total liabilities	-	130,042	130,042

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

Cash and cash equivalents

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

Derivative financial instruments

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

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

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

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

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

- In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under "Financial Loss" in the accompanying consolidated statement of profit or loss. The Group recognises as fair value hedges the hedges arranged for construction work when the necessary conditions are met for hedges of this nature (existence of a firm commitment).
- In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instrument are recognised temporarily in equity under "Valuation Adjustments - Hedges". This method is used by the Group to hedge projects in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction, and for interest rate hedges. To the extent that a highly probable transaction gives rise to a firm commitment, the amounts previously recognised in equity are reclassified to profit or loss.
- In hedges of net investments in foreign operations, the gains or losses attributable to the portion of the hedging instrument qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences". This type of hedging was used for the equity of CAF USA, Inc. and Provetren, S.A. de C.V.

e) Inventory measurement bases

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

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

- Materials and expenses allocated to each project: at the average acquisition or production cost.
- Processing costs: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ significantly from actual hourly rates.
- For inventories that require a period of more than twelve months to be ready for sale, cost includes 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 Group 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 "Other Non-Current Liabilities" in the accompanying consolidated balance sheet.

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

The Group only recognises 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 Group applies the following correcting coefficients to determine actual profit or loss and revenue:

- With a percentage of completion of between 0% and 10%, no profit or revenue is recognised, in order to take into account the initial margin of uncertainty of the long-term contracts
- 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 consolidated statement of profit or loss and a credit to "Inventories" on the asset side of the consolidated balance sheet (see Note 11).

Revenue from the sales of products, basically wheel sets and components, is recognised when the goods and title thereto are transferred.

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

g) Customer advances and completed contract work

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

- If the difference is positive, under "Trade and Other Receivables - Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (deferred billings) (see Notes 11 and 12).
- If the difference is negative, under "Trade and Other Payables - Other Payables" (prebillings) (see Note 11).

h) Current/Non-current classification

Items are classified under "Current Assets" and "Current Liabilities" (prebillings, deferred billings and short-term provisions) which may be realised or settled in more than twelve months, since they form part of the Group's normal 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 20).

i) Government grants

The Group companies recognise government grants received as follows:

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

j) Post-employment benefits

The consolidated Group companies' legal and contractual obligations to certain of their 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 2017 for various groups of employees amounted to EUR 6,777 thousand (2016: EUR 3,809 thousand). The impact of these obligations on the consolidated statement of profit or loss for 2017 amounted to EUR 4,085 thousand (2016: EUR 4,799 thousand) with a charge to "Staff Costs". In 2017 a net actuarial loss of EUR 5,525 thousand arising from changes in the actuarial assumptions was recognised directly in equity (2016: a net actuarial gain of EUR 990 thousand).

In accordance with the accrual basis of accounting, the Group recognised a liability of EUR 2,833 thousand under "Current Liabilities" and an asset of EUR 268 thousand under "Current Assets" in the consolidated balance sheet as at 31 December 2017, calculated by an independent valuer. The sum of these amounts is 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 2016: an asset of EUR 268 thousand). The future modifications to the obligations assumed will be recognised in profit or loss for the related year (see Notes 15, 18 and 22).

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 Parent contributes an additional 2.3% of the annual base salary of all its employees to an employee benefit entity (EPSV) (see Notes 22, 23 and 24).

Lastly, certain subsidiaries have other obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2017 were recognised under "Long-Term Provisions" and "Short-Term Provisions" for EUR 3,095 thousand and EUR 2,703 thousand, respectively (31 December 2016: EUR 2,788 thousand and EUR 2,391 thousand, respectively) (see Note 20).

k) Early retirements and termination benefits

At 31 December 2017, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR 5,892 thousand and EUR 3,113 thousand, respectively (31 December 2016: EUR 3,165 thousand and EUR 2,529 thousand), relating to the present value estimated by the Parent's directors of the future payments to be made to employees who in December 2017 were included in the early retirement plan approved in 2013, or with whom hand-over contracts had been entered into. The net provision for 2017 was recognised with a charge of EUR 6,272 thousand (2016: EUR 3,042 thousand) to "Staff Costs" in the consolidated statement of profit or loss (see Note 22).

l) Income tax

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

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

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

m) Leases

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

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

At 31 December 2017 and 2016, the Group had various outstanding operating leases for which it had recognised an expense of EUR 9,917 thousand in 2017 (2016: EUR 8,027 thousand) with a charge to "Other Operating Expenses" in the accompanying consolidated statement of profit or loss. The Group 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 2017 amounted to EUR 30,057 thousand over the next few years, of which EUR 7,908 thousand are due in 2018 (31 December 2016: EUR 17,170 thousand, EUR 5,897 thousand of which were to be paid in 2017).

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

n) Administrative concessions

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

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

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

An intangible asset is recognised when the demand risk is borne by the operator and a financial asset is recognised when the demand risk is borne by the grantor, since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. Finance income arising from measurement of the financial asset of concessions at amortised cost is recognised under "Revenue" in the consolidated statement of profit or loss. Since they meet the required conditions, the concessions recognised by the Group (see Note 9) are classified as financial assets.

4. Distribution of the profit of the Parent

The proposed distribution of the profit for 2017 that the Parent'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	10,333
Voluntary reserves	12,292
	22,625
Distribution	
Dividends	22,625
	22,625

5. Financial risk management

The CAF Group is exposed to various risks inherent to the activities it carries on and to the various countries and markets in which it operates, which may prevent it from meeting 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 the CAF Group focuses on managing the uncertainty of financial markets and aims to minimise the potential adverse effects on the achievement of the Group's objectives.

The Group's Financial Department identifies, analyses, assesses and defines the treatment, and performs the monitoring and control, of the financial risks in accordance with the global risk management policies established by the Board of Directors.

a) Market risk

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

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

In this regard, a significant portion of the financial debt at 31 December 2017 related, on the one hand, to the concessions obtained in Brazil and Mexico (see Notes 9 and 16), and, on the other, to the Parent's debt for the financing of its activity and that of the other Group companies.

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

With regard to the Parent's debt at 31 December 2017, it has a liability exposure of EUR 103 million in relation to changes in market interest rates (31 December 2016: EUR 62 million) and EUR 263 million in relation to fixed interest rates (31 December 2016: EUR 260 million), of which EUR 13.3 million were fixed as a result of interest rate derivatives (see Notes 16 and 17). The debt of the subsidiary CAF Investment Projects, S.A.U. is tied to market interest rates (see Note 16).

Taking into consideration the balance at 31 December 2017 and 2016, if the average of the market-tied interest rates of third-party borrowings had been 100 basis points higher or lower, with all other variables remaining constant, and considering the hedging policies described above, the finance costs arising from the financial debt would have risen by approximately EUR 3,125 thousand and EUR 3,695 thousand, respectively.

a.2) Foreign currency risk

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

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

The Group's standard practice is to hedge, provided that the cost is reasonable, the market risk associated with contracts denominated in currencies other than its functional currency, which is the

euro. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Group's results present fairly its industrial and services activity. The impact on the consolidated statement of profit or loss (sensitivity) for 2017 of a 10% depreciation of the Brazilian real against the euro at 31 December 2017 would be a loss of EUR 4,801 thousand (31 December 2016: EUR 3,485 thousand). The sensitivity of the consolidated statement of profit or loss to the other foreign currencies was not material.

At 31 December 2017 and 2016, the Group was exposed to the foreign currency risk on the net investment in those subsidiaries whose functional currency is not the euro, except in the case of the US dollar, the exposure to which is hedged.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2017 and 2016 is as follows:

Currency	Equivalent value in thousands of euros					
	31/12/17			31/12/16		
	Assets	Liabilities	Net exposure	Assets	Liabilities	Net exposure
Chilean peso	20,841	18,569	2,272	18,368	16,837	1,531
Mexican peso	134,198	115,494	18,704	92,402	78,569	13,833
Argentine peso	2,355	1,414	941	3,108	1,818	1,290
Brazilian real	614,174	365,957	248,217	761,873	487,287	274,586
US dollar						
(Note 3-d) (*)	533,774	309,080	3,433	617,356	393,087	2,733
Pound sterling	84,931	41,212	43,719	8,795	7,777	1,018
Algerian dinar	4,852	3,105	1,747	5,344	2,948	2,396
Turkish lira	3,780	2,937	843	6,432	5,739	693
Venezuelan bolivar	53	50	3	79	70	9
Indian rupee	8,880	88	8,792	9,449	111	9,338
Australian dollar	965	593	372	760	538	222
Colombian peso	2,263	1,729	534	1,587	1,100	487
Saudi riyal	20,613	20,139	474	16,151	15,784	367
New Zealand dollar	5,960	4,844	1,116	5,088	4,338	750
Romanian leu	239	125	114	245	132	113
New Taiwan dollar	27,330	21,302	6,028	29,991	25,146	4,845
Hungarian forint	866	715	151	1,163	1,007	156
Japanese yen	610	538	72	-	-	-
Total	1,466,684	907,891	337,532	1,578,191	1,042,288	314,367

(*) At 31 December 2017, there were hedges of net investments in foreign operations (see Note 17) amounting to EUR 221,261 thousand, applying the year-end exchange rate (31 December 2016: EUR 221,536 thousand).

In the event of a 10% appreciation or depreciation of all the foreign currencies, the pre-tax impact on the Group's equity would amount to EUR 33,753 thousand at 31 December 2017 (31 December 2016: EUR 31,437 thousand).

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

Nature of the balances	Equivalent value in thousands of euros			
	31/12/17		31/12/16	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	236	-	210	-
Goodwill	19,831	-	-	-
Property, plant and equipment	66,778	-	59,910	-
Non-current financial assets and deferred tax assets	565,308	-	668,997	-
Inventories	146,361	-	166,451	-
Trade and other receivables	505,698	-	546,974	-
Other current financial assets	38,825	-	49,781	-
Cash and cash equivalents	123,647	-	85,868	-
Non-current liabilities	-	400,818	-	493,577
Current liabilities	-	507,073	-	548,711
Total	1,466,684	907,891	1,578,191	1,042,288

a.3) Commodity price risk

For the most significant commodities, the Group'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 Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

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

At 31 December 2017 and 2016, the Group 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

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations fully and effectively (see Notes 14-h and 16).

The CAF Group manages liquidity risk using the following mechanisms:

- Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not be 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. Segment reporting

a) Basis of segmentation

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

- By business unit, distinguishing between the "Rolling Stock" and the "Wheel Sets and Components" operating activities.
- Information based on the Group's geographical location is also included.

b) Basis and methodology for segment reporting

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

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

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

- Rolling stock
- Wheel sets and components

Segment information about the businesses is as follows:

Segmentation by business unit	2017 (Thousands of euros)				
	Rolling stock	Wheel sets and components	General	Inter-segment	Total
REVENUE:					
External sales	1,404,821	72,218	-	-	1,477,039
Inter-segment sales	-	30,031	-	(30,031)	-
Total sales	1,404,821	102,249	-	(30,031)	1,477,039
PROFIT OR LOSS:					
Profit (Loss) from operations	148,191	(1,192)	(1,289)	-	145,710
Financial loss (*)	(25,550)	(9)	(53,235)	-	(78,794)
Share of net results of associates	594	-	-	-	594
Profit (Loss) before tax	123,235	(1,201)	(54,524)	-	67,510
Income tax (*)	-	-	(24,993)	-	(24,993)
Profit (Loss) for the year from continuing operations	123,235	(1,201)	(79,517)	-	42,517
Profit attributable to non-controlling interests	(111)	-	-	-	(111)
Profit (Loss) attributable to the Parent	123,124	(1,201)	(79,517)	-	42,406
Depreciation and amortisation charge (Notes 7 and 8)	28,862	5,810	18	-	34,690
ASSETS	2,249,408	84,476	781,370	-	3,115,254
LIABILITIES	1,554,797	28,955	771,302	-	2,355,054
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	60,821	2,633	-	-	63,454
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment-Income (Expense) (Notes 7, 8 and 9)	60	-	88	-	148

Segmentation by business unit	2016 (Thousands of euros)				
	Rolling stock	Wheel sets and components	General	Inter-segment	Total
REVENUE:					
External sales	1,249,872	68,328	-	-	1,318,200
Inter-segment sales	-	29,827	-	(29,827)	-
Total sales	1,249,872	98,155	-	(29,827)	1,318,200
PROFIT OR LOSS:					
Profit (Loss) from operations	108,665	(4,719)	7,894	-	111,840
Financial loss (*)	(26,530)	(26)	(26,428)	-	(52,984)
Share of net results of associates	473	-	-	-	473
Profit (Loss) before tax	82,608	(4,745)	(18,534)	-	59,329
Income tax (*)	-	-	(22,049)	-	(22,049)
Profit (Loss) for the year from continuing operations	82,608	(4,745)	(40,583)	-	37,280
Profit attributable to non-controlling interests	(2,267)	-	-	-	(2,267)
Profit (Loss) attributable to the Parent	80,341	(4,745)	(40,583)	-	35,013
Depreciation and amortisation charge (Notes 7 and 8)	26,803	7,660	206	-	34,669
ASSETS	2,333,064	74,826	825,547	-	3,233,437
LIABILITIES	1,620,121	28,432	801,207	-	2,449,760
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	25,782	6,282	-	-	32,064
OTHER ITEMS NOT AFFECTING CASH FLOWS:					
Asset impairment-Income (Expense) (Notes 2-f, 7, 8, 9 and 11)	4,628	(4,584)	8,876	-	8,920

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

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

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

	2017	2016
High-speed	40,890	35,681
Regional and commuter	524,737	390,323
Metros	184,273	259,777
Tram and light rail	142,473	111,046
Bogies, refitting and other	40,195	32,220
Trains	932,568	829,047
Services	376,792	349,521
Wheel sets and components	72,218	68,328
Other	95,461	71,304
Total	1,477,039	1,318,200

The information based on geographical location is as follows:

- a) The breakdown of sales by geographical area at 31 December 2017 and 2016, including the most significant countries (those accounting for more than 5% of total sales), is as follows (in thousands of euros):

	2017	2016
Spain	196,672	279,372
The Netherlands	86,370	89,010
United Kingdom	333,481	77,590
Other	97,540	144,440
European Union	517,391	311,040
Chile	58,831	84,881
Mexico	276,466	132,594
Turkey	26,976	93,204
Other	116,671	102,170
OECD	478,944	412,849
Brazil	139,294	217,930
Other	144,738	97,009
Rest of the world	284,032	314,939
TOTAL	1,477,039	1,318,200

In 2017 one customer represented 12% of the Group's revenue. In 2016 one customer represented 14% of the Group's revenue.

- b) The breakdown of net investments in property, plant and equipment by geographical area at 31 December 2017 and 2016 is as follows (in thousands of euros):

Geographical area	2017	2016
Spain	175,647	167,577
Rest of the world	68,866	61,732
Total	244,513	229,309

7. Intangible assets

The changes in the years ended 31 December 2017 and 2016 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

	Thousands of euros			
	Development expenditure	Computer software and other	Goodwill	Total
Cost at 31/12/15	106,979	18,981	15	125,975
Cost-				
Additions or charge for the year	12,758	2,550	-	15,308
Transfers to inventories	(1,305)	-	-	(1,305)
Disposals or reductions	-	(33)	-	(33)
Translation differences	2	77	-	79
Cost at 31/12/16	118,434	21,575	15	140,024
Changes in the scope of consolidation	6	599	24,096	24,701
Additions or charge for the year	16,330	2,861	-	19,191
Transfers	-	142	-	142
Transfers to inventories	(1,384)	-	-	(1,384)
Disposals or reductions	-	(8)	-	(8)
Translation differences	1	(71)	13	(57)
Cost at 31/12/17	133,387	25,098	24,124	182,609
Accumulated amortisation-				
Accumulated amortisation at 31/12/15	(59,697)	(14,923)	-	(74,620)
Additions or charge for the year	(7,504)	(1,242)	-	(8,746)
Disposals or reductions	127	26	-	153
Translation differences	(2)	(44)	-	(46)
Accumulated amortisation at 31/12/16	(67,076)	(16,183)	-	(83,259)
Changes in the scope of consolidation	(2)	(352)	-	(354)
Additions or charge for the year	(10,170)	(1,606)	-	(11,776)
Transfers	-	(85)	-	(85)
Disposals or reductions	-	6	-	6
Translation differences	(1)	46	-	45
Accumulated amortisation at 31/12/17	(77,249)	(18,174)	-	(95,423)
Impairment-				
Impairment at 31/12/16	(16,621)	-	-	(16,621)
Recognised in 2017	-	(20)	-	(20)
Impairment at 31/12/17	(16,621)	(20)	-	(16,641)
Net balance at 31/12/16	34,737	5,392	15	40,144
Net balance at 31/12/17	39,517	6,904	24,124	70,545

Research and development expenditure incurred in 2017 amounted to EUR 28,054 thousand (EUR 11,724 thousand were recognised in the consolidated statement of profit or loss and EUR 16,330 thousand were capitalised). Research and development expenditure incurred in 2016 amounted to EUR 21,715 thousand (EUR 8,957 thousand were recognised in the consolidated statement of profit or loss

and EUR 12,758 thousand were capitalised). These amounts do not include basic engineering costs associated with contracts.

The additions to "Development Expenditure" in 2017 and 2016 correspond to the costs incurred in the development of new products, including most notably the high-speed train, the development of critical safety platforms, the development of highly automated signalling systems and the development of an electric bus.

As discussed in Note 3-a, in 2017 the Group transferred approximately EUR 1,384 thousand of development expenditure to various contracts it had won that incorporated the technology developed (2016: EUR 1,305 thousand).

8. Property, plant and equipment

The changes in the years ended 31 December 2017 and 2016 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Thousands of euros					
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total
Cost at 31/12/15	260,914	274,462	21,405	42,071	308	599,160
Cost-						
Additions	4,115	8,046	1,024	624	2,947	16,756
Transfers	(136)	322	59	3	(509)	(261)
Disposals or reductions	(8,673)	(1,931)	(148)	(651)	-	(11,403)
Translation differences	4,654	4,141	108	68	14	8,985
Cost at 31/12/16	260,874	285,040	22,448	42,115	2,760	613,237
Changes in the scope of consolidation	30	1,297	296	690	1	2,314
Additions	17,713	10,252	3,342	2,021	10,935	44,263
Transfers	631	1,714	294	(100)	(2,811)	(272)
Disposals or reductions	(197)	(2,145)	(56)	(17)	(1)	(2,416)
Translation differences	(6,645)	(4,642)	(247)	(181)	(189)	(11,904)
Cost at 31/12/17	272,406	291,516	26,077	44,528	10,695	645,222
Accumulated depreciation at 31/12/15	(94,387)	(218,354)	(14,548)	(22,600)	-	(349,889)
Accumulated depreciation-						
Additions or charge for the year	(6,625)	(15,265)	(1,270)	(2,763)	-	(25,923)
Transfers	-	(321)	-	-	-	(321)
Disposals or reductions	4,383	1,936	32	383	-	6,734
Translation differences	(1,170)	(2,485)	(65)	(66)	-	(3,786)
Accumulated depreciation at 31/12/16	(97,799)	(234,489)	(15,851)	(25,046)	-	(373,185)
Changes in the scope of consolidation	(3)	(745)	(69)	(462)	-	(1,279)
Additions or charge for the year	(6,492)	(12,770)	(1,202)	(2,450)	-	(22,914)
Transfers	-	(4)	44	41	-	81
Disposals or reductions	19	2,074	20	15	-	2,128
Translation differences	1,652	3,022	135	167	-	4,976
Accumulated depreciation at 31/12/17	(102,623)	(242,912)	(16,923)	(27,735)	-	(390,193)
Impairment at 31/12/15	(6,453)	(1,887)	(131)	(13)	-	(8,484)
Recognised in 2016	-	(2,265)	-	-	-	(2,265)
Disposals or reductions	-	12	-	-	-	12
Translation differences	(6)	-	-	-	-	(6)
Impairment at 31/12/16	(6,459)	(4,140)	(131)	(13)	-	(10,743)
Recognised in 2017	182	-	-	-	-	182
Translation differences	46	(1)	-	-	-	45
Impairment at 31/12/17	(6,231)	(4,141)	(131)	(13)	-	(10,516)
Net balance at 31/12/16	156,616	46,411	6,466	17,056	2,760	229,309
Net balance at 31/12/17	163,552	44,463	9,023	16,780	10,695	244,513

In 2017 the Group invested in its plants in order to improve their production capacity. These investments were focused mainly on the construction of a new production plant in the UK, the new buildings for a technical office and MiiRA, 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. Following an impairment test performed on the locomotives, the Parent's directors considered that they were not impaired. At 31 December 2017, the carrying amount of the aforementioned locomotives was EUR 8,583 thousand (31 December 2016: EUR 9,155 thousand).

At 31 December 2017 and 2016, the Group had firm capital expenditure commitments amounting to approximately EUR 23,768 thousand and EUR 8,189 thousand, respectively, mainly in the UK.

At 31 December 2017, the Group had payables to property, plant and equipment suppliers amounting to EUR 18,979 thousand (31 December 2016: EUR 6,671 thousand) under "Current Financial Liabilities - Other Financial Liabilities" in the accompanying consolidated balance sheet.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2017 and 2016, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2017, the gross cost of fully depreciated assets in use amounted to approximately EUR 274,410 thousand (31 December 2016: EUR 240,857 thousand).

The losses recognised on property, plant and equipment disposals in 2017 amounted to approximately EUR 106 thousand and were recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss (2016: gain of EUR 9,186 thousand). In 2017 the Group sold items of property, plant and equipment amounting to EUR 182 thousand (2016: EUR 13,867 thousand).

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2017, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,267 thousand (31 December 2016: EUR 1,690 thousand). EUR 423 thousand were allocated to profit or loss in this connection in 2017 (2016: EUR 611 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated statement of profit or loss.

The directors consider that there were no indications of impairment of the Group's assets at 31 December 2017 other than those described in this Note.

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

The changes in the years ended 31 December 2017 and 2016 in "Investments Accounted for Using the Equity Method" and "Non-Current Financial Assets" were as follows:

	Thousands of euros							
	Investments in associates (Note 9-a)	Equity instruments (Note 9-b)		Other financial assets (Note 9-c)	Derivative financial instruments (Note 17)	Loans and receivables (Note 9-e)		Total
	Cost	Cost	Impairment losses	Cost	Market value	Cost	Impairment losses	
Balance at 31/12/15	14,308	11,484	(1,824)	13,634	22,068	579,939	(12,404)	627,205
Translation differences	(7)	-	-	3,342	(62)	78,858	(3,222)	78,909
Additions or charge for the year	5,010	38	(249)	546	2,751	113,927	(291)	121,732
Disposals or reductions	(168)	(12)	-	(155)	(11,896)	(2,048)	-	(14,279)
Transfers (Note 3-n)	-	-	-	(170)	-	(127,835)	-	(128,005)
Hedges (Note 17)	(571)	-	-	-	-	-	-	(571)
Balance at 31/12/16	18,572	11,510	(2,073)	17,197	12,861	642,841	(15,917)	684,991
Changes in the scope of consolidation	-	-	-	12	-	-	-	12
Translation differences	(150)	(4)	-	(2,299)	(152)	(77,447)	2,164	(77,888)
Additions or charge for the year	531	85	(12)	797	5,175	123,454	87	130,117
Disposals or reductions	(7)	-	-	(83)	(2,042)	(2,473)	-	(4,605)
Transfers (Note 3-n)	-	-	-	-	-	(137,179)	-	(137,179)
Hedges (Note 17)	806	-	-	-	-	-	-	806
Balance at 31/12/17	19,752	11,591	(2,085)	15,624	15,842	549,196	(13,666)	596,254

A detail of the Group's non-current financial assets at 31 December 2017 and 31 December 2016, by type and category, for measurement purposes, is as follows:

Financial assets: Type/Category	Thousands of euros				
	31/12/17				
	Available- for-sale financial assets	Loans and receivables	Held-to- maturity investments	Hedging derivatives	Total
Equity instruments	9,506	-	-	-	9,506
Hedging derivatives (Note 17)	-	-	-	15,842	15,842
Other financial assets	-	535,530	15,624	-	551,154
Long-term/non-current	9,506	535,530	15,624	15,842	576,502

Financial assets: Type/Category	Thousands of euros				
	31/12/16				
	Available- for-sale financial assets	Loans and receivables	Held-to- maturity investments	Hedging derivatives	Total
Equity instruments	9,437	-	-	-	9,437
Hedging derivatives (Note 17)	-	-	-	12,861	12,861
Other financial assets	-	626,924	17,197	-	644,121
Long-term/non-current	9,437	626,924	17,197	12,861	666,419

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

2017

	2019	2020	2021	2022 and subsequent years	Total
Loans and receivables	121,655	135,074	109,410	169,391	535,530
Held-to-maturity investments	1,476	25	13	14,110	15,624
Hedging derivatives	13,492	2,256	94	-	15,842
Total	136,623	137,355	109,517	183,501	566,996

2016

	2018	2019	2020	2021 and subsequent years	Total
Loans and receivables	123,630	139,878	142,689	220,727	626,924
Held-to-maturity investments	987	99	23	16,088	17,197
Hedging derivatives	8,583	3,158	996	124	12,861
Total	133,200	143,135	143,708	236,939	656,982

a) Investments in associates

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

2017

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L. (2)	853	5,474	563	1,381	4,383	-	5,021	122	3
Plan Metro, S.A. (3)	376,024	10,232	384,860	30,729	(29,333)	-	54,427	(2,872)	-
Consortio Traza, S.A. (4)	245,001	54,607	228,365	14,487	53,926	2,830	23,910	22	3,224
Ferrocarriles Suburbanos, S.A. de C.V.	298,571	66,651	319,601	49,198	(3,577)	-	39,552	(7,398)	2,198
Arabia One for Clean Energy Invest. PSC.	20,091	2,730	18,806	831	3,184	-	3,280	1,605	(237)

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L. (2)	4,383	50	2,192	4,471	(210)
Plan Metro, S.A. (3)	(29,333)	40	(11,733)	-	-
Consortio Traza, S.A. (4)	53,926	25	13,481	13,481	5
Ferrocarriles Suburbanos, S.A. de C.V.	(3,577)	43.35	(1,551)	-	-
Arabia One for Clean Energy Investments PSC.	3,184	40	1,273	1,172	642
Other investments (5)	-	-	628	628	157
			4,290	19,752	594

(1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).

(2) Nuevas Estrategias de Mantenimiento, S.L. holds a 100% ownership interest in Nem Solutions USA, Inc.

(3) This company's shares are pledged to certain banks.

(4) Consortio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

(5) Dormant companies or companies with no significant activity: Asyris Vision Technologies, S.A., Compañía de Vagones del Sur, S.L., Tumaker, S.L. and Purple Line Transit Operators, L.L.C.

2016

Name	Basic financial data (1)								
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity of the Parent	Non-controlling interests	Sales	Profit (Loss) of the Parent	Other comprehensive income
Nuevas Estrategias de Mantenimiento, S.L.	965	4,799	384	1,124	4,256	-	4,765	678	-
Plan Metro, S.A. (3)	399,409	11,154	407,123	29,902	(26,461)	-	53,407	(3,892)	-
Consortio Traza, S.A. (2)	239,982	54,888	226,699	14,497	50,678	2,995	25,121	968	(2,286)
Ferrocarriles Suburbanos, S.A. de C.V.	240,614	53,065	243,893	48,163	1,623	-	39,930	(14,527)	(1,517)
Arabia One for Clean Energy Invest. PSC	17,973	2,113	17,703	490	1,893	-	1,404	159	64

Name	Equity	% of share capital	Equity attributable to CAF Group	Investment accounted for using the equity method	Recognised profit (loss)
Nuevas Estrategias de Mantenimiento, S.L.	4,256	50	2,128	4,681	181
Plan Metro, S.A. (3)	(26,461)	40	(10,584)	-	-
Consortio Traza, S.A. (2)	50,678	25	12,670	12,670	242
Ferrocarriles Suburbanos, S.A. de C.V.	1,623	43.35	704	-	-
Arabia One for Clean Energy Investments PSC	1,893	40	757	757	64
Other investments (4)	-	-	464	464	(14)
			6,139	18,572	473

- (1) After adjustments and unifying entries for consolidation purposes (in thousands of euros).
(2) Consortio Traza, S.A. holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.
(3) This company's shares are pledged to certain banks.
(4) Dormant companies or companies with no significant activity: Asyris Vision Technologies, S.A., Basa TMB, S.L., Compañía de Vagones del Sur, S.L., Ferrocarril Interurbano, S.A. de C.V. and Tumaker, S.L.

In consolidating the ownership interests, the Group took the necessary fair value adjustments into account and eliminated the sales margins on rolling stock material in proportion to its ownership interest. Since the CAF Group has not incurred any legal or explicit obligations or made payments on behalf of the associates it is not necessary to consolidate the additional losses incurred by these associates valued at zero. At 31 December 2017, the fair value adjustments and sales margins reduced the ownership interests by EUR 31,301 thousand (31 December 2016: EUR 39,045 thousand), and no losses exceeding the cost of the ownership interest, amounting to EUR 46,766 thousand (31 December 2016: 51,477 thousand), were recognised.

b) Non-current investment securities

Name	% of ownership	Cost of the investment (Thousands of euros)	
		2017	2016
Alquiler de Trenes, AIE	5%	1,202	1,202
Ferromovil 3000, S.L.	10%	3,181	3,181
Alquiler de Metros, AIE	5%	105	66
Plan Azul 07, S.L.	5.2%	1,381	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	1,908	1,908
Iniciativa FIK, A.I.E.	14.18%	1,040	1,052
FIK Advanlife, S.L.	5.91%	1	1
Albali Señalización, S.A.	3%	398	398
Other		290	248
Total		9,506	9,437

The Group 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 2,085 thousand (31 December 2016: EUR 2,073 thousand) and impairment of EUR 12 thousand was recognised in 2017 under "Impairment and Gains or Losses on Disposals of Financial Instruments" in the accompanying consolidated statement of profit or loss.

In 2017 the shareholders reached an agreement for the valuation of Alquiler de Metros, A.I.E. which is the best estimate of the fair value of this ownership interest and which gave rise to a gain of EUR 39 thousand recognised under "Valuation Adjustments - Available-for-Sale Financial Assets" in the accompanying consolidated balance sheet.

The other investments were measured at acquisition cost, as their fair value could not be determined reliably, although there is no indication of impairment on these ownership interests (see Note 3-d).

c) Other financial assets

At 31 December 2017, the main item recognised by the Group under "Non-Current Financial Assets - Other Financial Assets" related to guarantees amounting to EUR 13,666 thousand connected with the increase in borrowings taken by the subsidiary Ctrens Companhia Manutenção (see Note 16). This guarantee, which bears interest at market rates and relates to six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

d) Derivative financial instruments

"Derivative Financial Instruments" includes the fair value of the foreign currency hedges expiring at long term (see Note 17).

e) Loans and receivables

The detail of non-current loans and receivables is as follows (thousands of euros):

	31/12/17	31/12/16
Loans to employees	4,605	4,687
Share ownership scheme obligations	-	56
Non-current tax receivables (Note 19)	48,357	58,754
Provisions for tax payables (Note 19)	(13,666)	(15,917)
Non-current trade receivables	470,974	554,924
Loans to associates (Note 10)	25,172	24,336
Loans to third parties	88	84
Total	535,530	626,924

Loans to employees

In accordance with the agreements entered into with employees, the Parent grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Group does not discount these amounts since it considers that this effect is scantily material.

Share ownership scheme

The share ownership scheme was set up in 1994 to promote permanent employees' ownership of CAF's share capital through the creation of Cartera Social, S.A. This company is the owner of CAF, S.A.'s shares and eight employees of the Parent act as trustees thereat. Since that date, Cartera Social, S.A. has sold the rights on the shares it owns in CAF, S.A. to the Parent. At 31 December 2017, all the rights had been transferred to the employees.

At 31 December 2017, Cartera Social, S.A. owned 8,727,191 CAF, S.A. shares, equal to 25.46% of its share capital (see Note 14). At 31 December 2016, the percentage was 25.58% of the capital.

Non-current tax receivables

At 31 December 2017, the Group recognised EUR 48,357 thousand under "Non-Current Financial Assets - Loans and Receivables" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2016: EUR 58,754 thousand). This amount decreased by EUR 7,749 thousand in 2017 as a result of translation differences. The above amounts may be recovered by offsetting them against the output VAT charged to customers or selling them to third parties once they have been claimed from the tax authorities. The Group is currently taking the steps required to claim them and expects to recover them mainly through sale to third parties. At 31 December 2017, the Group had recognised impairment losses of EUR 13,666 thousand (31 December 2016: EUR 15,917 thousand) to adjust the face value of these receivables to their recoverable amount, with a reversal of EUR 87 thousand in 2017 (2016: a charge of EUR 291 thousand) recognised

under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss. The effect of the translation differences was a reduction in the impairment losses of EUR 2,164 thousand in 2017.

Non-current trade receivables

"Non-Current Trade Receivables" includes an account receivable amounting to EUR 4,932 thousand at long term (31 December 2016: EUR 6,015 thousand) and EUR 1,245 thousand at short term (31 December 2016: EUR 1,173 thousand) relating to a finance lease of rolling stock for a total amount receivable of EUR 10,570 thousand, under which the Group will receive constant monthly lease payments over a period of 120 months, which began in 2012. In 2017 EUR 1,500 thousand (2016: EUR 1,500 thousand) were received and EUR 490 thousand (2016: EUR 564 thousand) were credited to "Finance Income" in the accompanying consolidated statement of profit or loss, based on the interest rate implicit in the transaction.

On 19 March 2010, the Group company Ctrens-Companhía de Manutenção, S.A. and Companhia Paulista de Trens Metropolitanos (CPTM) entered into a 20-year concession arrangement for the manufacture of 36 trains and the provision of lease, preventative and corrective maintenance and general overhaul services and services to modernise the trains on Diamante line 8 in Sao Paulo (Brazil).

The main features of this arrangement, in addition to those indicated above, are as follows:

- The payments are guaranteed by CPTM through monthly bank deposits of BRL 11.6 million made to a bank account (in 2009 real terms, amounting to BRL 18.1 million at 31 December 2017 following an adjustment in line with the Sao Paulo State general inflation rate). This account is managed by a Security Agent and can be used to pay the concession operator in the event of default by CPTM on its payment obligations.
- The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.
- The concession operator secures with a bank guarantee the proper performance of its obligations to CPTM (see Note 25-a). At 31 December 2017, this guarantee amounted to BRL 37,026 thousand (EUR 9,320 thousand).
- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to CPTM at the end of the concession term for no consideration.

On 31 May 2010, the Group company Provetren, S.A. de C.V. and Sistema de Transporte Colectivo (STC) entered into a 15-year concession arrangement for the construction of 30 trains and the provision of lease and integral and general overhaul services for Line 12 of the Mexico City metro.

The main features of this arrangement, in addition to those indicated above, are as follows:

- The consideration payable by STC is secondarily guaranteed by a system of trusts with funds from the "Remanentes de las Participaciones Federales" (Federal Participation Surpluses) (Federal District Government payment risk). In 2017 this guarantee comfortably fulfilled STC's payment obligations in the year.
- The concession operator must secure the correct performance of its obligations to STC with a bank guarantee of 10% of the payments expected to be received by it in the current year (see Note 25-a).

- All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to STC at the end of the concession term for no consideration.

These concessions are accounted for in accordance with IFRIC 12, Service Concession Arrangements, since the related requirements are met, and, pursuant to IFRIC 12, the various services provided (construction, operation/maintenance and financing) were separated.

Consequently, at 31 December 2017 the Group recognised balances of EUR 466,042 thousand under "Non-Current Financial Assets - Loans and Receivables" (31 December 2016: EUR 548,909 thousand) and EUR 115,213 thousand under "Current Assets - Other Receivables" (31 December 2016: EUR 137,601 thousand) relating to construction activities and services performed to date, net of billings made. There were no investing activities in this regard in 2017 or 2016.

The lease and maintenance services started to be provided basically in the first half of 2011 in the case of the Line 8 (Brazil) concession and in the second half of 2012 in the case of the Line 12 (Mexico) concession.

In the case of both contracts the future cash flows from the lease payments are determined and guaranteed in full from the date the contracts are signed. The only potentially variable amount in the payments relates solely to any possible penalties relating to the technical performance of the rolling stock material made available to the customers. This matter was taken into consideration when determining the cash flows to be received. There is no demand risk for the CAF Group in these contracts, since the financial flows to be received are unrelated to passenger numbers.

10. Balances and transactions with related parties

The detail of the transactions performed with associates that were not eliminated on consolidation (see Note 2-f) is as follows:

Company	Thousands of euros					
	2017			2016		
	Services provided or sales recognised	Services received or purchases recognised	Finance income	Services provided or sales recognised	Services received or purchases recognised	Finance income
Nuevas Estrategias de Mantenimiento, S.L.	4	1,734	-	17	2,034	-
Plan Metro, S.A.	13,043	-	1,716	11,594	-	1,860
Ferrocarriles Suburbanos, S.A. de C.V.	13,673	97	-	13,607	63	-
Arabia One for Clean Energy Investments, PSC.	-	1	77	-	-	88
Ferrocarril Interurbano, S.A. de C.V.	177,454	-	-	60,361	-	-
Tumaker, S.L.	-	2	5	-	3	6
Total	204,174	1,834	1,798	85,579	2,100	1,954

The margins earned on transactions performed with associates were duly eliminated on consolidation in proportion to the percentage of ownership therein (see Note 9-a).

As a result of the transactions performed in 2017, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2017 and 2016 were as follows:

Company	Thousands of euros							
	31/12/17				31/12/16			
	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)	Accounts receivable	Accounts payable	Net advances based on stage of completion	Long-term loans (Note 9-e)
Nuevas Estrategias de Mantenimiento, S.L.	100	244	-	-	115	701	10	-
Plan Metro, S.A.	1,273	-	(167)	24,012	3,745	-	321	22,297
Ferrocarriles Suburbanos, S.A. de C.V.	2,052	23	-	-	10	24	-	-
Arabia One for Clean Energy Investments, PSC.	-	-	-	1,015	-	-	-	1,894
Ferrocarril Interurbano, S.A. de C.V.	25,442	50	(84,723)	-	6,803	10	(18,224)	-
Tumaker, S.L.	1	1	-	145	1	-	-	145
Total	28,868	318	(84,890)	25,172	10,674	735	(17,893)	24,336

In 2011 the subsidiary CAF Investment Projects, S.A.U. granted a loan of EUR 15,104 thousand to Plan Metro, S.A. to enable it to temporarily meet certain financial obligations incurred due to the change in the end client's payment profile. This loan does not form part of the net investment, since it has, in any case, a maturity date and collection is sufficiently guaranteed. Plan Metro, S.A.'s current economic and financial model supports the recovery of the loaned amounts and the interest accrued thereon by the CAF Group. Also, the Group recognised finance income of EUR 1,716 thousand in relation to the interest accrued on the loan with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss (2016: EUR 1,860 thousand).

"Trade and Other Receivables - Other Receivables" in the consolidated balance sheet as at 31 December 2017 includes an account receivable from Cartera Social, S.A. amounting to EUR 145 thousand (31 December 2016: EUR 115 thousand) (see Note 14).

11. Inventories and construction contracts

The detail of "Inventories" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 21)	33,529	23,930
Advances to suppliers	38,125	36,357
Total	71,654	60,287

At 2017 year-end the Group had recognised write-downs totalling EUR 8,788 thousand (31 December 2016: EUR 6,659 thousand).

At 31 December 2017, the Group had firm raw materials purchase commitments amounting to approximately EUR 721,823 thousand (31 December 2016: EUR 411,719 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2017 and 2016, 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 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Deferred billings (asset) (Notes 3-f and 12)	739,306	841,987
Prebillings (liability) (Note 3-f)	(537,584)	(575,337)
Net balance	201,722	266,650
Costs incurred plus profits and losses recognised based on stage of completion	2,645,847	2,649,643
Billings made excluding advances	(1,906,541)	(1,807,656)
Advances received	(537,584)	(575,337)
Net balance	201,722	266,650

12. Trade and other receivables

The detail of "Trade Receivables for Sales and Services" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Trade receivables - in euros	519,622	588,393
Trade receivables - in foreign currency	766,205	720,899
Write-downs	(8,584)	(2,929)
Total	1,277,243	1,306,363

These receivables arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances, approximately 42% in 2017 (2016: 36%), was billed to customers. The remaining receivable relates to "Amounts to Be Billed for Work Performed" (see Note 11).

At 31 December 2017, the balances billed included EUR 137,790 thousand (31 December 2016: EUR 137,790 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 20.

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 2017, the maximum amount payable to CAF was EUR 59 million. At the date of preparation of these consolidated financial statements all the objective conditions necessary for filing a claim under the aforementioned insurance policy had been met, but no claims had been made. The decision on whether to file claims lies within the remit of the governing bodies of UTE CSM. The terms and conditions of the credit insurance set the payment period for a potential indemnity payment at within six months.

In relation to the contract with Metro de Caracas, the Group's accounting policy was to recognise only revenue the collection of which was considered probable, considering as such revenue already collected, revenue insured under credit policies and revenue that can be offset against other liabilities to the same customer.

At 31 December 2017 and 2016, the CAF Group had balances billed to Metro de Caracas amounting to EUR 36,767 thousand (now past-due) which had not been recognised for accounting purposes since the performance of the related projects as there was uncertainty as to their collectability.

At 31 December 2017, 55% of the billed receivables related to the top five customers (31 December 2016: 58%). "Trade Receivables" includes retentions at 31 December 2017 amounting to EUR 5,043 thousand (31 December 2016: EUR 3,752 thousand).

The past-due balances recognised under "Trade and Other Receivables" at 31 December 2017 and 2016 in addition to the past-due balances with Metro de Caracas are as follows:

	Thousands of euros	
	31/12/17	31/12/16
Past due > 90 days	41,193	19,136
Past due > 180 days	121,017	128,118
Total	162,210	147,254

80% of this balance is concentrated in two countries and ten agreements in relation to which the Group 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 CAF Group considered that at 31 December 2017, EUR 8,584 thousand (31 December 2016: EUR 2,929 thousand) posed a collection risk and recognised the corresponding write-downs. In 2017 the net changes in the write-downs of trade receivables consisted of an additional write-down of approximately EUR 5,571 thousand (2016: a reversal of approximately EUR 180 thousand) recognised under "Other Operating Expenses" in the accompanying consolidated statements of profit or loss.

The CAF Group 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'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 be able to claim the potential losses from such members. At 31 December 2017, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to this contract, net of advances received, amounted to EUR 14.8 million, and no amount had been recognised for additional claims on the original contract.

13. Other current financial assets

The detail of "Other Current Financial Assets" at 31 December 2017 and 2016 is as follows:

2017

Financial assets: Type/Category	Thousands of euros				
	Loans and receivables (Note 9-e)	Held-to- maturity investments	Held-for- trading financial assets (Note 3-d)	Hedging derivatives (Note 17)	Total
Financial derivatives	-	-	-	41,864	41,864
Other financial assets	115	29,603	55,120	-	84,838
Short-term/current	115	29,603	55,120	41,864	126,702

2016

Financial assets: Type/Category	Thousands of euros				
	Loans and receivables (Note 9-e)	Held-to- maturity investments	Held-for- trading financial assets (Note 3-d)	Hedging derivatives (Note 17)	Total
Financial derivatives	-	-	-	45,382	45,382
Other financial assets	618	39,748	54,732	-	95,098
Short-term/current	618	39,748	54,732	45,382	140,480

"Held-to-Maturity Investments" and "Held-for-Trading Financial Assets" include the cash surpluses invested in government debt securities, repos, short-term deposits, term deposits, promissory notes or fixed-income investment funds. These are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated statement of profit or loss. In 2017 the Group recognised income in this connection and in relation to the cash surpluses amounting to EUR 5,156 thousand (2016: EUR 3,480 thousand).

14. Equity

a) Share capital of the Parent

At both 31 December 2017 and 2016, the Parent'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 Parent's share capital at 31 December 2017 and 2016 were as follows:

	%- 2017	%- 2016
Cartera Social, S.A. (Note 9) (i)	25.46%	25.58 %
Kutxabank, S.A. (ii)	14.06%	14.06 %
Indumenta Pueri S.L.(iii)	5.02%	5.02 %
Bestinver Gestión S.A. S.G.I.I.C.	-	3.09 %
Templeton Investment Counsel, LLC. (iv)	3.01%	-
EDM Gestión, S.A. S.G.I.I.C. (v)	3.02%	-

i. The shareholders of this company are employees of the Parent (see Note 9).

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 8 June 2013, at the Annual General Meeting, the Board of Directors 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 consolidated financial statements, no capital increase had been performed since that resolution.

The Annual General Meeting held on 10 June 2017 resolved to empower the Parent'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 Parent 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 Parent's Annual General Meeting held on 7 June 2014. At the date of preparation of these consolidated financial statements no convertible securities had been issued since that resolution.

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 consolidated financial statements, no treasury shares had been acquired since that resolution.

b) Share premium

The share premium account balance has no specific restrictions on its use.

c) Revaluation reserve

The amount held in this reserve in 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
Total	39,119	39,119

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses and to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance were used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

d) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At the end of 2017 and 2016 the balance of this reserve had reached the legally required minimum.

e) Restricted reserves

The separate financial statements of the consolidated companies include reserves amounting to approximately EUR 82,813 thousand at 31 December 2017 (31 December 2016: approximately EUR 84,360 thousand) relating to the legal reserve, revaluation reserve, productive investment reserve (Guipúzcoa Regulation 2/2014), reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (see Note 16).

In addition, until the balance of "Development Expenditure" has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2017 year-end EUR 39,612 thousand of the reserves were restricted as to their use (2016 year-end: EUR 34,880 thousand).

f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31/12/17	31/12/16
CAF México, S.A. de C.V.	(2,495)	(1,834)
CAF Brasil Industria e Comercio, S.A.	(34,567)	(17,240)
CAF Argentina, S.A.	(2,323)	(1,987)
CAF USA, Inc.	(106)	(46)
CAF Rail UK, Ltda.	(95)	(54)
CAF Chile, S.A.	67	101
Sefemex, S.A. de C.V.	(60)	(53)
Construcción, Mantenimiento, Ferrovías y Subsistemas, S.A. de C.V.	(2,825)	(1,915)
Corporación Trainemex, S.A. de C.V.	(42)	(39)
CAF Turquía, L.S.	(1,186)	(1,009)
CAF Argelia, E.U.R.L.	(553)	(214)
CAF India Private Limited	(606)	(3)
Ctrens Companhia de Manutenção, S.A.	(73,010)	(53,276)
Trenes CAF Venezuela, C.A.	(647)	(638)
Provetren, S.A. de C.V.	1,532	1,164
CAF Sinyalizasyon Sistemleri Ticaret Ltd Sirket	50	(121)
CAF Rail Australia Pty, Ltd.	(7)	9
CAF Colombia, S.A.S.	(185)	(120)
Sermantren, S.A. de C.V.	(11)	(10)
CAF Arabia, Co.	99	150
CAF New Zealand Ltd.	(63)	40
CAF Taiwan Ltd.	(16)	368
Arabia One for Clean Energy Investments PSC.	(41)	54
Ferrocarril Interurbano, S.A. de C.V.	(83)	(28)
CAF Sisteme Feroviare, SRL.	(5)	(2)
Ennera Kaihatsu CO, Ltd.	(2)	-
Nem Solutions USA, Inc.	2	-
CAF Group UK, Ltd.	(66)	-
Purple Line Transit Operators, L.L.C.	(2)	-
BWB Holdings, Ltd.	8	-
Total	(117,238)	(76,703)

g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes therein in 2017 and 2016 is as follows:

	Thousands of euros
Balance at 31 December 2015	11,187
Profit attributable to non-controlling interests	2,267
Translation differences	13
Loss of control over NEM Solutions, S.L. (Note 2-f)	(537)
Transactions with non-controlling shareholders	711
Dividends	(1,935)
Balance at 31 December 2016	11,706
Profit attributable to non-controlling interests	111
Transactions with non-controlling shareholders	971
Dividends	(3,005)
Balance at 31 December 2017	9,783

h) Capital management

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital, ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 31 December 2017 and 2016, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (see Notes 3-n and 9-e). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of euros	
	31/12/17	31/12/16
Net financial debt:		
Interest-bearing refundable advances (Note 15)	16,667	15,769
Bank borrowings - Non-current liabilities (Note 16)	625,645	648,145
Bank borrowings - Current liabilities (Note 16)	46,262	103,075
Financial assets - Non-current assets (Note 9-c)	(13,666)	(15,652)
Current financial assets (Note 13)	(84,723)	(94,480)
Cash and cash equivalents	(371,625)	(392,022)
	218,560	264,835
Equity:		
Attributable to the Parent	750,417	771,971
Non-controlling interests	9,783	11,706
	760,200	783,677

15. Other current and non-current financial liabilities and other obligations

The detail of the Group's financial liabilities at 31 December 2017 and 2016, by type and category for measurement purposes, is as follows:

Financial liabilities: Type/Category	Thousands of euros		
	31/12/17		
	Accounts payable	Hedging derivatives	Total
Bank borrowings (Note 16)	625,645	-	625,645
Other financial liabilities (excluding hedging derivatives)	52,039	-	52,039
Hedging derivatives (Note 17)	-	18,131	18,131
Non-current liabilities/Non-current financial liabilities	677,684	18,131	695,815
Bank borrowings (Note 16)	46,262	-	46,262
Other financial liabilities (excluding hedging derivatives)	40,725	-	40,725
Hedging derivatives (Note 17)	-	52,313	52,313
Current liabilities/Current financial liabilities	86,987	52,313	139,300
Total	764,671	70,444	835,115

Financial liabilities: Type/Category	Thousands of euros		
	31/12/16		
	Accounts payable	Hedging derivatives	Total
Bank borrowings (Note 16)	648,145	-	648,145
Other financial liabilities (excluding hedging derivatives)	47,854	-	47,854
Hedging derivatives (Note 17)	-	13,574	13,574
Non-current liabilities/Non-current financial liabilities	695,999	13,574	709,573
Bank borrowings (Note 16)	103,075	-	103,075
Other financial liabilities (excluding hedging derivatives)	23,059	-	23,059
Hedging derivatives (Note 17)	-	116,468	116,468
Current liabilities/Current financial liabilities	126,134	116,468	242,602
Total	822,133	130,042	952,175

The detail of "Other Non-Current Financial Liabilities" is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Refundable advances	34,753	43,696
Employee benefit obligations (Notes 3-k and 22)	5,892	3,165
Share purchase liabilities (Note 2-f)	10,371	-
Other liabilities	1,023	993
Total	52,039	47,854

The detail, by maturity in the coming years, of other non-current financial liabilities is as follows (in thousands of euros):

	2017		2016
2019	9,825	2018	13,028
2020	17,614	2019	7,425
2021	8,286	2020	7,141
2022	5,877	2021	6,327
2023 and subsequent years	10,437	2022 and subsequent years	13,933
Total	52,039	Total	47,854

Refundable advances

Through research and development programmes the Group has received certain grants to conduct research and development projects. This aid is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project. These grants consist of:

- Grants to partially meet the expenses and costs of these projects.
- Refundable advances in the form of loans which are generally interest-free and which usually have an initial grace period of three years and are taken to income in a period of over ten years.

The changes in 2017 and 2016 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of euros
	Refundable advances
Balance at 31/12/15	47,172
Additions	7,936
Adjustments and other	1,890
Transfers to short term	(13,302)
Balance at 31/12/16	43,696
Additions	2,386
Adjustments and other	378
Transfers to short term	(11,707)
Balance at 31/12/17	34,753

Also, the amount recognised in the short term relating to accounts payable for refundable advances amounted to EUR 18,351 thousand at 31 December 2017 (31 December 2016: EUR 15,482 thousand).

Employee benefit obligations

The Group has recognised the future obligations to the employees who have entered into pre-retirement plans (see Note 3-k). Short-term obligations of EUR 3,113 thousand were recognised under "Other Payables" in the accompanying consolidated balance sheet as at 31 December 2017 (31 December 2016: EUR 2,529 thousand).

Also, the detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, net of the fair value of the plan assets allocated for the coverage thereof, at the end of 2017 and 2016, is as follows (see Note 3-j):

	Thousands of euros	
	31/12/17	31/12/16
Present value of the obligations assumed	45,315	32,424
Less – Fair value of plan assets	(42,750)	(32,692)
Other current (assets) liabilities	2,565	(268)

The present value of the obligations assumed by the Group was determined by qualified independent actuaries using the following actuarial techniques:

- Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.
- Actuarial assumptions used: unbiased and mutually compatible. In general, the most significant actuarial assumptions used in the calculations were as follows:

Actuarial assumptions	2017	2016
Discount rate	1.68-2.47%	1.77% - 1.82%
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.

16. Bank borrowings

The detail of "Bank Borrowings" in the accompanying consolidated balance sheet is as follows:

	Nominal currency	Thousands of euros					
		31/12/17			31/12/16		
		Non-current	Current	Total	Non-current	Current	Total
Loans and credit accounts							
Ctrens - BNDES	BRL	154,411	15,095	169,506	194,106	16,034	210,140
Provetren - Banking syndicate	USD	93,729	18,285	112,014	126,621	25,188	151,809
Parent (CAF SA)	EUR	356,779	9,000	365,779	306,378	15,074	321,452
CAF Brasil	BRL	-	-	-	-	43,177	43,177
CAF Investment Projects, S.A.U.	EUR	19,799	-	19,799	20,000	-	20,000
Other Group companies	EUR	927	740	1,667	1,040	138	1,178
		625,645	43,120	668,765	648,145	99,611	747,756
Accrued interest payable		-	3,142	3,142	-	3,464	3,464
Total		625,645	46,262	671,907	648,145	103,075	751,220

In 2017 the changes in "Loans and Credit Accounts with Banks" were as follows:

Balance at 31 December 2016	747,756
Cash flows	
New drawdowns	72,123
Maturity payments	(111,814)
	(39,691)
Other changes (without cash flows)	
Changes in the scope of consolidation (Note 2-f)	129
Translation differences	(44,825)
Amortised cost adjustments and other	5,396
	(39,300)
Balance at 31 December 2017	668,765

Pursuant to IAS 39, the bank borrowings are presented in the consolidated balance sheet adjusted by the costs incurred in the arrangement of the loans.

Ctrens - BNDES -

In relation to the CPTM train lease transaction described in Note 9-e, on 10 May 2011, the subsidiary Ctrens-Companhia de Manutenção, S.A. (Ctrens) arranged with Banco Nacional de Desenvolvimento Econômico e Social (BNDES) financing for a maximum amount of BRL 946,890 thousand. The loan bears interest at TJLP (Taxa de Juros de Longo Prazo) plus a spread. The loan principal will be repaid in 160 successive monthly instalments, the first of which will be paid in January 2013.

The related agreement contains certain restrictive clauses limiting the ability of Ctrens-Companhia de Manutenção, S.A., inter alia, to obtain new bank loans, provide guarantees, reimburse capital and distribute dividends, and establishing the obligation to achieve certain financial conditions from January 2013 onwards, including a debt service coverage ratio (which must be over 1.2) and minimum capital structure ratio (which must be over 0.24). These clauses were met in 2017 and 2016.

Also, on 15 June 2011 the subsidiary entered into a "fiduciary" transfer of title agreement with BNDES whereby it assigned as a guarantee such collection rights as CTRENS might have vis-à-vis CPTM, as well as the guarantees provided by CPTM for the subsidiary and any amount claimable by the subsidiary from CPTM, the Parent and CAF Brasil.

Provetren - Banking syndicate -

In relation to the long-term agreement to provide services for the lease of trains (PPS - Line 12) described in Note 9-e, on 7 December 2012 the subsidiary Provetren, S.A. de C.V. entered into a long-term financing agreement amounting to a maximum of USD 300 million with a syndicate of banks comprising BBVA Bancomer, S.A., Banco Nacional de México, S.A., Banco Santander (Mexico) S.A., Sumitomo Mitsui Banking Corporation and Caixabank, S.A. The aforementioned loan bears interest at a rate tied to LIBOR. In order to avoid fluctuations in the yield curve and, as it is habitual in financing of this kind, Provetren entered into an interest rate hedge agreement for 80% of the financing and 80% of the term (see Note 17).

The loan principal will be repaid in 39 consecutive quarterly instalments, in line with the collection profile under the PPS, the first maturity date being October 2013.

The related agreement contains certain restrictive clauses limiting the ability of Provetren, S.A., de C.V., inter alia, to obtain new bank loans, provide guarantees, reimburse capital, distribute dividends if certain ratios have not been achieved, and establishing the obligation to achieve certain financial conditions from October 2013 onwards, including a debt service coverage ratio (which must be over 1.15), these clauses were met in 2017 and 2016.

Also, on the same date, 7 December 2012, the subsidiary, with Banco Invex acting as Trustee and BBVA Bancomer, S.A. acting as Primary Beneficiary, entered into a trust agreement, whereby it assigned as a guarantee such collection rights as Provetren might have under the PPS, any collection rights arising from the interest rate hedge agreement, any collection rights under the manufacture and maintenance agreements, any income from VAT refunds and amounts arising from insurance policies.

The shares of the subsidiaries Ctrens-Companhia de Manutenção, S.A. and Provetren, S.A. de C.V. have been pledged to BNDES and the syndicate of banks mentioned above, respectively. In neither of the long-term financing agreements described above can the lenders have recourse to any of the companies composing the CAF Group other than those of a technical nature.

Loans of the Parent -

In 2017 the Parent arranged three new loans with banks for a total of EUR 65 million. These loans had been drawn down in full at 31 December 2017. Also, in 2017 the Parent renegotiated certain loans for a total of EUR 75 million with a principal increase of EUR 5 million, an extension of the maturity date and a reduction in their cost.

In addition, in 2017 the Parent repaid EUR 12 million on maturity and a loan for EUR 14 million early.

At 31 December 2017, total bank borrowings included EUR 263 million tied to a fixed interest rate (EUR 13.3 million through an interest rate swap, see Note 17).

In 2016 the Parent arranged three new loans for a total of EUR 64,487 thousand (one of which amounts to USD 10,000 thousand) which have been paid in full, and drew down EUR 35,000 thousand against loans arranged in 2015. Also, nine loans totalling EUR 152,608 thousand were paid-off early and EUR 6,658 thousand were repaid on schedule. These loans were arranged on an arm's length basis. Of the amount drawn down, EUR 259,987 thousand are tied to a fixed interest rate (EUR 20,000 thousand through an interest-rate swap, see Note 17).

CAF Brasil -

In 2017 the subsidiary CAF Brasil Industria e Comercio, S.A. settled the drawn down credit facilities at their maturity date in order to finance working capital (BRL 148,122 equivalent to EUR 43,177 thousand drawn down at 31 December 2016), which were guaranteed by the Parent.

CAF Investment Projects, S.A.U. and others -

In July 2016 the subsidiary CAF Investment Projects, S.A.U. drew down a loan for EUR 20,000 thousand. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by CAF Investment Projects, S.A.U. in foreign companies. At 31 December 2017 and 2016, this ratio was being achieved.

The remaining financial debt relates to loans received by various subsidiaries that are tied to a market interest rate.

Undrawn credit facilities and maturities -

In addition to the foregoing, the Group companies have undrawn credit facilities amounting to EUR 149,775 thousand (31 December 2016: 189,775 thousand) in the form of undrawn loans, credit facilities and factoring arrangements, which are tied mainly to Euribor plus a market spread.

On 21 December 2017, the Parent 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.

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.

The repayment schedule of non-current bank borrowings is as follows (in thousands of euros):

	31/12/17		31/12/16
2019	104,961	2018	54,012
2020	62,560	2019	180,674
2021	175,047	2020	56,673
2022	139,485	2021	166,344
2023 and subsequent years	143,592	2022 and subsequent years	190,442
Total	625,645	Total	648,145

17. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (see Note 5-a). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

Also, certain fully consolidated companies and certain companies accounted for using the equity method have arranged interest rate hedges (see Note 5-a).

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

2017

Currency put options at 31/12/17	Maturity (in currency)		
	2018	2019	2020 and subsequent years
Fair value hedges			
USD currency forwards (*)	569,473,785	79,313,750	-
GBP currency forwards	184,930,953	112,649,300	95,037,543
EUR currency forwards	10,210,376	-	-
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	401,347,969	-	-
SAR currency forwards	287,127,754	-	-
MXP currency forwards	3,069,543,269	-	-
CAD currency forwards	1,212,495	-	-
TRY currency forwards	4,681,236	-	-
JPY currency forwards	13,642,169,888	3,694,606,739	4,081,705,774
ARS currency forwards	56,000,000	-	-

(*) Including the hedge of a net investment in CAF USA, Inc. and in Provetren amounting to USD 265,366 thousand.

Currency call options at 31/12/17	Maturity (in currency)		
	2018	2019	2020 and subsequent years
Fair value hedges			
USD currency forwards	7,019,282	11,598,823	24,289,000
EUR currency forwards	156,717,045	-	-
BRL currency forwards	628,825	-	-
MXP currency forwards	59,767,000	-	-
GBP currency forwards	2,675,136	-	-
Cash flow hedges			
JPY currency forwards	-	-	4,588,021,500
MXP currency forwards	-	-	591,486,246
GBP currency forwards	-	25,000,000	-

Interest rate derivatives	Loan maturity (in currency)		
	2018	2019	2020 and subsequent years
Euribor swap	EUR 6,666,666	EUR 6,666,667	-
LIBOR swap	USD 18,598,760	USD 20,494,634	USD 75,138,990

	Thousands of euros			
	Fair value		Cash flow	
	31/12/17	31/12/16	31/12/17	31/12/16
Hedges:				
USD currency forwards	14,419	(36,255)	-	-
GBP currency forwards	(581)	(6,014)	(38)	-
MXP currency forwards	(16,068)	(8,219)	(1,789)	-
BRL currency forwards	(6,409)	(9,115)	-	-
CHF currency forwards	-	(131)	-	-
EUR currency forwards	1,900	(9,134)	-	-
AUD currency forwards	24	47	-	-
SEK currency forwards	(1,066)	(439)	-	-
SAR currency forwards	(2,733)	2,047	-	-
TWD currency forwards	666	900	-	-
JPY currency forwards	(532)	-	(288)	-
Currency forwards in other currencies	(132)	2	-	-
Forward rate agreements	(23)	(54)	(88)	(5,434)
Measurement at year-end (*)	(10,535)	(66,365)	(2,203)	(5,434)

(*) Before considering the related tax effect

2016

Currency put options at 31/12/16 (fair value hedges)	Maturity (in currency)		
	2017	2018	2019 and subsequent years
Hedges:			
USD currency forwards (*)	644,214,550	79,234,468	55,313,750
GBP currency forwards	36,442,339	138,283,706	94,422,445
EUR currency forwards	15,623,445	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	224,317,236	19,185,635	-
AUD currency forwards	14,789,903	55,404,595	9,806,539
TWD currency forwards	463,285,969	-	-
SAR currency forwards	490,954,194	-	-
MXP currency forwards	2,723,626,945	-	-
CAD currency forwards	880,705	-	-
HUF currency forwards	975,898,338	-	-

(*) Including the hedge of a net investment in CAF USA, Inc. and in Provetren amounting to USD 233,521 thousand.

Currency call options at 31/12/16 (fair value hedges)	Maturity (in currency)		
	2017	2018	2019 and subsequent years
Hedges:			
USD currency forwards	39,364,913	-	34,109,000
EUR currency forwards	163,634,381	49,009,054	-
BRL currency forwards	11,654,562	-	-
MXP currency forwards	59,767,000	-	-
GBP currency forwards	5,677,835	-	-

Interest rate derivatives	Loan maturity (in currency)		
	2017	2018	2019 and subsequent years
Euribor swap	EUR 6,666,667	EUR 6,666,666	EUR 6,666,667
CDI cross-currency-swap	BRL 72,000,000	-	-
LIBOR swap	USD 15,838,944	USD 18,598,760	USD 95,633,624

At 2017 and 2016 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (see Note 9-a) had arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 4,994 thousand at 31 December 2017, net of the related tax effect (31 December 2016: EUR 5,800 thousand). This amount was recognised under "Equity - Valuation Adjustments - Hedges" in the consolidated balance sheet as at 31 December 2017.

The hedging instruments expire in the same year in which the cash flows are expected to occur.

The reconciliation of the remeasurement at each year-end to the carrying amounts recognised in the consolidated balance sheet is as follows (in thousands of euros):

	2017	2016
Non-current assets (Note 9)	15,842	12,861
Current assets (Note 13)	41,864	45,382
Non-current liabilities (Note 15)	(18,131)	(13,574)
Current liabilities (Note 15)	(52,313)	(116,468)
Balance sheet net total	(12,738)	(71,799)
Fair value	(10,535)	(66,365)
Cash flow	(2,203)	(5,434)
Total derivatives, remeasured	(12,738)	(71,799)

In 2017 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 1,933 thousand (2016: expense of EUR 4,988 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 26,827 thousand in 2017 (2016: expense of EUR 18,145 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 currency transactions included in each of the commercial agreements. When the hedges are initially arranged these transactions comprise either firm commitments (in which case they are recognised as fair value hedges) or highly probable transactions (in which case they are recognised as cash flow hedges).

18. Current and deferred taxes

At 31 December 2017, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to their business activities.

Since 2007 the Parent has filed consolidated income tax returns in the province of Guipúzcoa with certain subsidiaries.

The reconciliation of the Group's accounting profit for the year to the income tax expense is as follows:

	Thousands of euros	
	2017	2016
Accounting profit before tax	67,510	59,329
Tax rate of the Parent	28%	28%
Income tax calculated at the tax rate of the Parent	18,903	16,612
Effect of the different tax rate of subsidiaries	1,912	1,656
Effect of exempt income and non-deductible expenses for tax purposes	5,008	(1,576)
Effect of tax credits and other tax relief recognised in the year	(3,579)	(148)
Effect of tax assets and deferred taxes not recognised in previous years	3,163	5,606
Adjustments recognised in the year relating to prior years' income tax	(15)	(99)
Change in tax rate	(399)	(2)
Total income tax expense recognised in the consolidated statement of profit or loss	24,993	22,049
Current tax expense (*)	17,160	12,759
Deferred tax expense	7,833	9,290

(*) Including prior years' adjustments and income tax.

In 2013 the Parent availed itself of the tax incentive provided for in Article 39 of Guipúzcoa Income Tax Regulation 7/1996. At 31 December 2017, the Parent had fulfilled all the investment commitments related to this incentive (see Note 14).

In 2016 the Parent 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 difference between the tax charge allocated and the tax payable for 2016 is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet.

The detail of and the changes in these balances is as follows:

	Thousands of euros				
	31/12/16	Additions (*)	Disposals	Translation differences	31/12/17
Deferred tax assets:					
Tax credit and tax loss carryforwards (Notes 3-l)	103,623	4,270	(18,642)	(2,691)	86,560
Provisions temporarily not deductible (*)	45,105	15,638	(7,605)	(2,652)	50,486
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,525	11	(427)	-	3,109
Elimination of profits on consolidation and other	6,923	3	(1,584)	(508)	4,834
	159,176	19,922	(28,258)	(5,851)	144,989
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	133,464	6,200	(8,100)	(16,514)	115,050
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	(55)	55	-	-	-
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Exchange differences	127	-	(64)	(5)	58
Goodwill	19	9	-	-	28
Elimination of profits on consolidation and other	1,643	857	(794)	24	1,730
	172,137	7,121	(8,958)	(16,495)	153,805

(*) Including EUR 10 thousand for changes in the scope of consolidation, see Note 2-f.

	Thousands of euros				
	31/12/15	Additions	Disposals	Translation differences	31/12/16
Deferred tax assets:					
Tax credit and tax loss carryforwards (Notes 3-I)	116,659	8,262	(24,205)	2,907	103,623
Provisions temporarily not deductible	36,829	9,972	(3,371)	1,675	45,105
Effect of asset revaluation- Guipúzcoa Regulation 1/2013	3,145	1,685	(1,305)	-	3,525
Elimination of profits on consolidation and other	4,475	1,719	(3)	732	6,923
	161,108	21,638	(28,884)	5,314	159,176
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Notes 7, 8 and 9)	118,711	6,848	(2,226)	10,131	133,464
Investment valuation provisions	25,110	-	-	-	25,110
Cash flow hedges (Note 17)	(71)	16	-	-	(55)
Revaluation of land (Note 14)	11,829	-	-	-	11,829
Exchange differences	77	44	-	6	127
Goodwill	16	3	-	-	19
Elimination of profits on consolidation and other	1,145	861	(363)	-	1,643
	156,817	7,772	(2,589)	10,137	172,137

In 2017 the Group expects to take tax credits amounting to EUR 15,036 thousand (2016: EUR 10,814 thousand) mainly in relation to tax credits for R&D expenditure and international double taxation tax credits. Unused tax credits after projected income tax for 2017 amounted to EUR 101,650 thousand (2016: EUR 88,205 thousand), of which EUR 28,909 thousand (arising mainly from the Parent's tax group) are recognised under "Deferred Tax Assets - Tax Credit and Tax Loss Carryforwards" (2016: EUR 25,970 thousand). The tax loss carryforwards recognised amounted to EUR 57,651 thousand at 31 December 2017 (31 December 2016: EUR 77,653 thousand). The tax loss carryforwards relate mainly to the Parent's tax group -EUR 41,742 thousand (31 December 2016: EUR 41,745 thousand)- and to the subsidiary CAF Brasil Industria e Comercio, S.A. -EUR 13,906 thousand (31 December 2016: EUR 17,610 thousand)- (at 31 December 2016 Provetren, S.A. de C.V. had tax loss carryforwards amounting to EUR 16,151 thousand, which arose from the losses incurred in connection with accelerated depreciation for tax purposes of a significant portion of its assets as a result of the certificate for environmentally friendly assets obtained from the Federal Prosecutor's Office for Environmental Protection (PROFEPA)). At 31 December 2017, Provetren, S.A. de C.V. also recognised deferred tax liabilities of EUR 75,002 thousand to reflect the temporary difference between the assets' carrying amounts in the financial statements and their tax bases measured by applying the 30% tax rate in accordance with current Mexican tax legislation (31 December 2016: EUR 89,352 thousand).

Lastly, at 31 December 2017 the subsidiary Ctrens recognised a deferred tax liability amounting to EUR 38,887 thousand as a result of the difference between the tax base and the carrying amount of the concession's financial asset caused by differences in the timing of recognition of amortisation (31 December 2016: EUR 38,595 thousand).

In general terms, the assets or equity items subject to the aforementioned tax credits must remain in operation in the Group, and be assigned, where applicable, to their intended purpose, for a minimum period of five years, or of three years in the case of movable property, unless the useful life is less, without being transferred, leased or assigned to third parties for their use, with the exception of justified losses.

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 103,754 thousand (2016: EUR 81,130 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets, with no defined last year for deduction, amounting to EUR 12,975 thousand (2016: EUR 11,714 thousand).

The amount of the (unrecognised) tax credits, tax loss carryforwards and deferred tax assets and their schedule for use by the Group is as follows:

	Thousands of euros	
	31/12/17	31/12/16
Expiring in 2018	54	366
Expiring in 2019	-	855
Expiring in 2020	15	385
Expiring in 2021	178	577
Expiring in 2022	101	218
Expiring in 2023	-	-
Expiring in 2024	788	-
Expiring in 2025	11,913	-
Expiring in 2026	9,441	7,607
Expiring in 2027	24,070	8,258
Expiring in 2028 and subsequent years	44,774	54,372
Unlimited	25,395	20,206
	116,729	92,844

The differences between the estimated income tax for 2017 and the tax return ultimately filed gave rise to income of EUR 15 thousand (2016: income of EUR 99 thousand).

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2017 year-end the Group had 2013 and subsequent years open for review by the tax authorities for income tax and 2014 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and, at the foreign companies, in accordance with local legislation. The Parent's directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

On 14 May 2013, the Municipal Council of Beasain notified the Parent of the commencement of its general audit of various taxes for the years 2009-2013. In May 2015, 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 2017 the stay of the appeal for judicial review filed by the Parent was lifted, with no other changes 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 Parent and of Tax Group no. 03/07/G for 2012 to 2015. The Group's directors do not expect any liabilities to arise as a result of these audits.

19. Receivables from and payables to public authorities

The detail of the receivables from and payables to public authorities at 31 December 2017 and 2016 is as follows:

	Thousands of euros							
	31/12/17				31/12/16			
	Assets		Liabilities		Assets		Liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Accrued social security taxes	-	6	-	9,662	-	6	-	9,338
Regular taxes- VAT (Note 9)	34,691	65,206	-	32,647	42,837	54,675	-	14,892
Other	-	2,767	-	72	-	624	-	176
Personal income tax withholdings	-	-	-	8,954	-	-	-	8,609
Income tax (Note 3-l)	-	10,030	-	5,009	-	13,426	-	969
Grants receivable	-	1,391	-	-	-	658	-	-
Total	34,691	79,400	-	56,344	42,837	69,389	-	33,984

In 2011 the Parent and certain subsidiaries were authorised to file consolidated VAT returns.

20. Short- and long-term provisions

The changes in "Short-Term Provisions" and "Long-Term Provisions" in 2017 and 2016 were as follows (in thousands of euros):

	Long-term provisions	Short-term provisions					Total short-term provisions
		Contractual liability	Warranty and support services	Litigation	Other provisions		
Balance at 31/12/15	4,526	121,096	101,608	4,160	1,902	228,766	
Net charge for the year (Notes 3-j and 18)	1,782	9,674	31,423	2,302	4,238	47,637	
Amounts used charged to profit or loss	(1,562)	(6,778)	(39,792)	(4,754)	(187)	(51,511)	
Translation differences	(95)	614	1,864	72	504	3,054	
Transfers	(5)	(9)	-	-	-	(9)	
Balance at 31/12/16	4,646	124,597	95,103	1,780	6,457	227,937	
Changes in the scope of consolidation	618	398	-	-	-	398	
Net charge for the year (Notes 3-j and 18)	2,678	8,016	44,792	646	(1,605)	51,849	
Amounts used charged to profit or loss	(945)	(3,930)	(43,831)	(409)	(137)	(48,307)	
Translation differences	(300)	(498)	(2,692)	(117)	(495)	(3,802)	
Transfers	374	(52)	(84)	-	-	(136)	
Balance at 31/12/17	7,071	128,531	93,288	1,900	4,220	227,939	

Long-term provisions

The Group recognises employment-related provisions under "Long-Term Provisions" for present obligations arising from past events that it expects to settle when they fall due through an outflow of resources. The amount is based on the best estimate made by the Parent's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material.

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 consolidated companies recognised an expense of EUR 3,542 thousand under "Other Operating Expenses" in the accompanying consolidated statement of profit loss for 2017 (2016: income of EUR 3,874 thousand) relating to the difference between the provisions required in this connection at 2017 year-end and the provisions recognised at 2016 year-end.

The expenses incurred in 2017 and 2016 in connection with the provision of contractual warranty services (approximately EUR 43,831 thousand and EUR 39,792 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated statements of profit or loss for 2017 and 2016.

In 2008 the Group entered into an agreement with Metro de Caracas for the manufacture and supply of 48 trains to be manufactured in Spain. At 31 December 2017 and 2016, all the trains had been sent to the customer. Due to the contractual terms and conditions, at 31 December 2017 the Group had recognised a provision with a charge to the contract, amounting to EUR 66,535 thousand (31 December 2016: EUR 66,535 thousand), which is recognised under "Contractual Liability" in the table above (see Note 12). There is no litigation relating to this agreement.

21. Income and expenses

a) Procurements

	Thousands of euros	
	2017	2016
Materials used (*)	445,676	511,382
Work performed by other companies	97,095	97,287
Total	542,771	608,669

(*) 75% in euros, and the remainder mainly in US dollars and Brazilian reals (2016: 79% in euros).

b) Other operating expenses

	Thousands of euros	
	2017	2016
Outside services	233,144	187,046
Taxes other than income tax	3,273	3,381
Change in operating provisions and allowances and other (Notes 12 and 20)	8,552	(9,519)
Other current operating expenses	2,494	5,815
Total	247,463	186,723

The fees for audit services relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries amounted to EUR 838 thousand in 2017 (2016: EUR 778 thousand). From this amount, EUR 568 thousand relate to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2016: EUR 524 thousand). In addition, fees for other professional services provided by the principal auditor amounting to EUR 275 thousand were billed in 2017 (2016: EUR 387 thousand): EUR 41 thousand for audit-related attest services including six-monthly reviews (2016: EUR 58 thousand), EUR 2 thousand for tax services (2016: EUR 47 thousand) and the remainder for other services.

c) Information on the environment

In 2017 and 2016 no investments were made in systems, equipment and facilities designed for environmental protection and improvement.

The Group did not receive any environmental grants in 2017.

The final free allocation of CO₂ emissions for 2013-2020 was approved at the Spanish Cabinet meeting held on 15 November 2013, with the Parent allocating emission allowances of 151,537 tonnes of CO₂ for the aforementioned period. If the emissions exceed the volume of allowances allocated, emission allowances must be acquired in the market. 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.

In 2017 the Group emitted 1,425 tonnes of CO₂ (2016: 15,572 tonnes), whereas it had been allocated allowances for the emission of 18,770 tonnes (2016: 19,133 tonnes). As a result, the Group did not recognise any liability at year-end. In 2017 the Group sold emission allowances for 82,027 tonnes of CO₂, in relation to surpluses arising in prior years, for EUR 397 thousand (in 2016 no emission allowances were sold).

At 31 December 2017 and 2016, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2017 the Group incurred environmental expenses amounting to EUR 225 thousand (2016: EUR 710 thousand).

d) Grants related to income

Most of the grants transferred to profit or loss in 2017 and 2016 related to grants awarded under various Spanish ministerial and European programme calls, in respect of which all the costs to be supported were incurred.

Grants must be refunded together with the related market interest if the R&D investments envisaged under the projects are not ultimately made.

The grants related to income recognised in 2017 under "Other Operating Income" in the accompanying consolidated statement of profit or loss amounted to EUR 5,351 thousand (2016: EUR 2,585 thousand).

22. Average headcount and staff costs

The average headcount in 2017 and 2016 was as follows:

Professional category	Average number of employees	
	2017	2016
Board members	2	2
Senior executives	10	11
Employees	3,711	3,224
Manual workers	4,225	4,246
Total (*)	7,948	7,483

(*) At 31 December 2017, there were 8,428 employees (31 December 2016: 7,587 employees).

The breakdown, by gender, of the average headcount in 2017 and 2016 is as follows:

Professional category	2017		2016	
	Men	Women	Men	Women
Board members	1	1	1	1
Senior executives	9	1	10	1
Employees	2,718	993	2,376	848
Manual workers	4,081	144	4,096	150
Total	6,809	1,139	6,483	1,000

At 31 December 2017, the Parent's Board of Directors comprised seven men and three women. At 31 December 2016, the Parent's Board of Directors comprised seven men and two women.

The detail of staff costs is as follows (in thousands of euros):

	2017	2016
Wages and salaries (Note 3-k)	331,131	292,784
Social security costs	94,991	86,056
Other expenses (Note 3-j)	20,259	18,794
Total	446,381	397,634

23. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 2017 additional to the portion relating to the note 3-j description, the total remuneration of the Parent's Board of Directors amounted to approximately EUR 1,721 thousand (2016: EUR 1,495 thousand) in relation to salaries, life insurance, attendance fees and fixed compensation. During 2017 the Parent made contributions to long-term savings plans totalling EUR 140 thousand (2016: EUR 90 thousand). At 31 December 2017 and 2016, neither the Board of Directors of the Parent nor the boards of the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

In 2017 EUR 47 thousand were paid in connection with the third-party liability insurance premium of the directors for damage caused by acts or omissions (2016: EUR 33 thousand).

b) Information regarding situations of conflict of interest involving the directors

In 2017 and 2016 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 Parent.

24. Remuneration of senior executives

Remuneration of the Parent'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-j, amounted to EUR 2,075 thousand in 2017 (2016: EUR 2,041 thousand).

In 2017 and 2016 there were no other transactions with senior executives outside the ordinary course of business.

25. Other disclosures

a) Guarantees and other contingent assets and liabilities

At 31 December 2017, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 2,512,263 thousand (31 December 2016: EUR 2,328,875 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 17,459 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other government agencies (31 December 2016: EUR 23,342 thousand).

At 31 December 2017, the Group 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 Parent's directors consider that the likelihood of this situation giving rise to losses for the Group 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.

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 preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. The possible administrative penalties arising from

these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these consolidated 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 227 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 consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have 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.

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.

	2017	2016
	Days	Days
Average period of payment to suppliers	80.91	76.60
Ratio of transactions settled	85.40	81.82
Ratio of transactions not yet settled	67.00	60.27
	Thousands of euros	Thousands of euros
Total payments made	546,477	462,120
Total payments outstanding	176,709	147,542

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 Parent in 2016 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, was 60 days, unless no payment date or period has been agreed, in which case the maximum payment period would be 30 days.

26. Events after the reporting period

At 31 December 2017, the firm backlog, net of progress billings, amounted to approximately EUR 6,264,780 thousand (31 December 2016: EUR 6,227,931 thousand) (see Note 11). At 31 January 2018, the total was EUR 6,158,860 thousand (31 January 2017: EUR 6,176,967 thousand).

27. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPROVAL BY THE BOARD OF DIRECTORS

ANDRÉS ARIZKORRETA GARCÍA
CHAIRMAN

ALEJANDRO LEGARDA ZARAGÜETA
DIRECTOR

JOSE ANTONIO MUTILOA IZAGUIRRE
DIRECTOR

LUIS MIGUEL ARCONADA ECHARRI
DIRECTOR

CARMEN ALLO PÉREZ
DIRECTOR

JUAN JOSÉ ARRIETA SUDUPE
DIRECTOR

JAVIER MARTINEZ OJINAGA
DIRECTOR

JULIÁN GRACIA PALACÍN
DIRECTOR

ANE AGIRRE ROMARATE
DIRECTOR

MARTA BAZTARRICA LIZARBE
DIRECTOR-SECRETARY

APPROVAL BY THE BOARD OF DIRECTORS

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CARMEN ALLO PÉREZ
JULIÁN GRACIA PALACÍN
ANE AGIRRE ROMARATE
MARTA BAZTARRICA LIZARBE

Certificate issued by the Secretary of the Board of Directors attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (consolidated) for the year ended 31 December 2017 by the Board of Directors at its meeting on 27 February 2018, the directors have signed this document, consisting of 150 sheets numbered sequentially from 6285 to 6434, inclusive, signed by each of the directors at the end of the document.

San Sebastián, 27 February 2018.

Approved by

THE CHAIRMAN

ANDRÉS ARIZKORRETA GARCÍA

Signed

THE SECRETARY OF THE BOARD

MARTA BAZTARRICA LIZARBE



STATEMENT OF DIRECTORS' RESPONSABILITY

Certificate drawn by Marta Baztarrica Lizarbe, as Secretary of the Board of Directors of Construcciones y Auxiliar de Ferrocarriles, S.A., for the appropriate purposes pursuant to Article 8.1.b) of Royal Decree 1362/2007, of 19 October, in order to state that each and every one of the members of the Board of Directors declare that, to the best of their knowledge, both the individual and consolidated financial statements for FY 2017, authorised for issue at the meeting held on 27 February 2018, and prepared in accordance with the applicable accounting standards, present fairly the equity, financial position and results of Construcciones y Auxiliar de Ferrocarriles, S.A. and the companies included in the consolidation group taken as a whole, and that the Directors' reports approved along with these financial statements include a faithful analysis of the evolution, business results and position of Construcciones y Auxiliar de Ferrocarriles, S.A. and the companies included in the consolidation taken as a whole, as well as a description of the main risks and uncertainties that might arise and, in witness whereof, all of them have been signed by all the Directors of the Company, whose names are set forth below, to which I attest.

San Sebastián, on 27 February 2018

Signed: Marta Baztarrica Lizarbe

ANDRÉS ARIZKORRETA GARCÍA
CHAIRMAN

ALEJANDRO LEGARDA ZARAGÜETA
DIRECTOR

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