

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%
--	-------

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				Total
	% attendance in person	% attendance by proxy	% remote voting		
			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
--	-------

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
----------------------------------	----

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
--	-------

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
---------------------------	---

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