MARKET RISK POLICY

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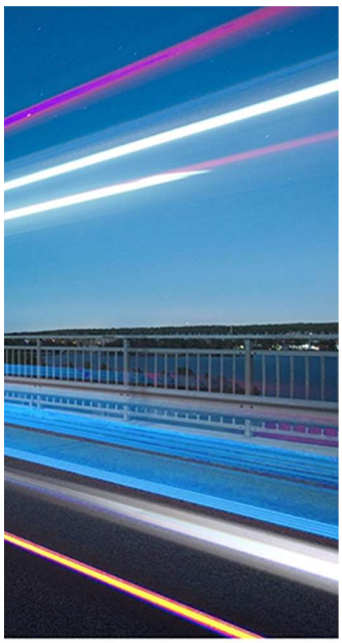

0. INTRODUCTION

The Board of Directors of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.(hereinafter "CAF" or the "Company"),in accordance with the provisions of articles 249 bis and 529 ter of the Corporate Enterprise Act[1] and article 34.b) of the Articles of Association and article 5.3 b) of the Rules of the Board of Directors, has the power to approve the general strategies and policies of the Company and the Group of which it is the parent company ("CAF Group") and, among others, the General Risk Assessment and Management Policy and, where applicable and if so decided, any other polices that may implement the latter.

Based on the above, at its meeting held on 10 October 2018, the Company's Board of Directors has agreed to approve this Market Risk Policy (the "Policy") which shall be part of the system of internal rules of the CAF Group.

This Policy implements and, in some of its sections supplements, the General Risk Assessment and Management Policy of the CAF Group with regard to market risks.

1. PURPOSE

This Policy aims to determine the single framework of guidelines for market risk management in the CAF group, within the risk appetite framework defined by the Company's governing bodies. A market risk is understood to be any potential impact on the value of an asset, liability or cash flow associated with the fluctuation or adverse movements in the factors determining its price or fair market value.

The market risk sources applicable to the CAF Group are: 1) exchange rate risk; 2) interest rate risk; and 3) raw material price risk.

2. SCOPE

This Market Risk Policy applies to all the companies forming part of the CAF Group, in accordance with the provisions of article 42 of the Commercial Code, in all jurisdictions in which CAF is operating, and it is applicable to all the Group's employees.

For those equity investments that are not part of the CAF Group, the Company shall aim to ensure that the principles, guidelines and risk limits are consistent with those established through this Policy.

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

3. MARKET RISKS

The range of market risks include the following blocks:

a. Exchange rate risk

Risk resulting from the variation or fluctuation in the exchange rates of a currency in relation to another, with a possible effect on futures transactions and the valuation of monetary assets and liabilities in foreign currencies.

Detailed below are all those items and operations exposed to an exchange rate risk:

- Cash flows - Transactions with a high probability of purchases and sales in foreign currencies.
- Contracts, monetary assets and liabilities - Conversion Risk for Foreign currency monetary items:
  - Firm commitments with customers and suppliers.
  - Loans granted.
  - Loans received.
  - Dividends approved pending distribution in Group companies.
- Net investments abroad - Translation Risk:
  - Investment in a subsidiary or branch operating in a currency other than that of the parent company.

b. Interest rate risk

Risk of interest rate changes that could cause variations in the results and in the value of the Group's assets and liabilities.

Detailed below are all those items and operations exposed to an interest rate risk:

- Bank financing
- Debt issuances.
- Factoring operations.
- Financial investments payable or valued on the basis of the interest rate.
- Customer financing, including leasing.

c. Risk of raw material price variations

Risk resulting from variations in prices and market variables in relation to the raw materials required in the business supply chain.

Detailed below are all those items and operations exposed to a raw materials purchase risk (commodities), primarily the purchase of:

- Steel.

- Aluminium.
- Scrap metal (LME).
- Copper.

4. GOVERNING PRINCIPLES

The following principles shall be applicable when defining the actions directed at the management of market risks:

- Minimise the net exposure to market risks, maximising the use of natural hedges as far as possible.
- As a general rule, transfer the residual market risk to third parties, by arranging derivatives, futures contracts or other hedge instruments. In any case, with regard to any market risks that the Group does not wish to assume, and which are transferred to counterparties, an assessment should be made to ensure that the latter have adequate credit risk levels. The cost of such hedge coverage must be reasonable, and the risk assumed must exceed the risk appetite limits set at any time in the General Risk Assessment and Management Policy, or through specific limits contemplated in the Management Plan in force at any time.
- Centralise the management of the Group's market risk mitigation instruments in the Company's corporate financial function.
- The area managing the assets or liabilities creating the market risk exposure shall be responsible for identifying the risk, both with regard to quantification and duration. Exposure shall be stated at all times in the Group's financial reporting systems and shall be subject to the internal control mechanisms.
- Take decisions that are fully consistent with the Group's ethical criteria and values, based on CAF's Code of Conduct, limited in any case by the legislation in force.
- Comply with internal policies, processes and procedures, as well as with external regulations, in accordance with the applicable regulatory framework.
- Ensure the correct use of the hedge products available on the market at all times, based on the principles of financial prudence, establishing sound analysis and approval procedures, avoiding, as a general rule, taking out hedge products that could be considered to be speculative.

The principles detailed above implement the basic guidelines contained in the General Risk Assessment and Management Policy, specifically with regard to market risks.

5. MARKET RISK CONTROL AND MANAGEMENT SYSTEM

In line with the guidelines set out in the General Risk Assessment and Management Policy, the market risks are fully integrated into the Overall Risk Management and Control System of the CAF Group. This system is a set of standards, processes, procedures, controls and reporting systems that includes the following stages and activities:

1. Establishment of the market risk management context.

2. Identification of the market risks faced by the Company.
3. Analysis of the market risks identified and implication for the CAF Group as a whole.
4. Assessment of the market risks based on the defined appetite.
5. Treatment of the market risks identified.
6. Periodical monitoring and control of current and potential risks.

This system is in line with international risk management standards, with regard to the use of an effective methodology for analysis and integrated risk management, and the Three Lines of Defense Model related to the assignment of responsibilities in the area of risk management and control.

6. MONITORING AND CONTROL

The Audit Committee and, ultimately, the Board of Directors, is responsible for ensuring that the CAF Group as a whole complies with this Policy. To do so, the necessary internal control instruments shall be established.

7. REVISION AND UPDATING

This Market Risk Policy is intended to be permanent, without prejudice to its periodical revision by the Audit Committee, which shall submit, where applicable, the corresponding updating proposal to the Board of Directors.

8. APPROVAL AND PUBLICATION

This Policy was approved by the CAF Board of Directors at its meeting held on 10 October 2018, coming into effect from that date onwards.

To ensure that stakeholders and target audiences are familiar with this Market Risk Policy, it shall be published on the Company's website (www.cafmobility.com) and also on the Group's corporate Portal.