



# LIQUIDITY AND FINANCING POLICY



*The following English translation is provided by the Company for information purposes only, based on the original and official document in Spanish available on the Company's website. In the event of any discrepancy between the English version and the Spanish original document, the latter will prevail.*

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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<sup>1</sup> and article 34.b) of the Articles of Association and article 5.3 b) of the Rules of the Board of Directors, is responsible for approving the general strategies and policies of the Company and of the Group of which it is the parent company (“CAF Group”) and, among others, the General Risk Assessment and Management Policy and the Financing Policy.

Based on the above, at its meeting held on 10 October 2018, the Company's Board of Directors has agreed to approve this Liquidity and Financing 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 with regard to liquidity and financing.

## **1. PURPOSE**

The purpose of this Policy is to determine the single framework of guidelines for the management of the CAF Group's liquidity and financing. Such guidelines must ensure compliance with the payment commitments resulting from any obligations acquired, and must also optimise the financing structure and guarantee the correct management of the Group's liquidity surpluses within the framework of its long term strategy.

Likewise, this Policy implements in greater detail the liquidity and financing risks included within the financing risks section detailed in the General Risk Assessment and Management Policy and the Financing Policy.

## **2. SCOPE**

This Liquidity and Financing 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.

Excluded from this Policy are those CAF Group companies incorporated for the execution of a single project, given that the nature of their business means that they obtain project financing without recourse to the Company.

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<sup>1</sup>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. LIQUIDITY AND FINANCING RISKS**

As detailed in section one, the management of the following risks is included in this Policy:

- Liquidity Risk - the risk related to the inability to meet contractual payment commitments resulting from the Group's operations.
- Financing Risk: the risk derived from exposure to adverse situations in the debt markets or capital markets (systematic risk), in particular to episodes with a lack of market financing capability, such as those caused by variations in the CAF Group's solvency level (idiosyncratic risk) and associated financial ratios, that hinder or make it impossible to obtain the financial resources required for the correct performance of the CAF Group's daily business.

Also contemplated are the risks relating to the concentration and solvency of the financial entities or counterparties with which the CAF Group operates, with regard to both assets and liabilities.

### **4. GOVERNING PRINCIPLES**

This Policy is guided and supported by a set of basic principles in relation to the definition and application of the liquidity and financing management techniques,

#### **4.1. Liquidity**

The CAF group aims to ensure correct compliance with its payment obligations, as well as to have the necessary resources to cover the Group's financial needs, always avoiding the need to obtain the necessary finance in unfavourable market conditions, in terms of cost and maturity. Likewise, the CAF group adopts a prudent profile in the selection of short term monetary assets in which it invests its cash surpluses, in order to ensure the recoverability of the investments made.

In line with the above, the following principles shall be applied:

- Maintain a suitable level of financial resources available, including cash, short term deposits, liquid portfolio assets and credit lines available. These financial resources must always be sufficient to cover expected future needs, based on accessibility to the debt and capital markets.
- Maintain a centralised liquid assets function, ensuring the availability of sufficient cash resources at all times in order to cover the Group's needs, within the framework of its consolidated cash flow forecasts. Moreover, the management of the CAF Group's cash surpluses must also be centralised.
- Conduct a prudent management of cash surpluses. For this purpose, investment alternatives shall be selected, always seeking the correct balance between security, liquidity, profitability and diversification criteria.
- Maintain a segregation of functions for payment authorisation and fund movement processes in order to ensure the integrity and correct use of the Group's financial resources.

- Maintain the liquidity indicators within the parameters that make it possible to keep or improve the quality of the Group's cash flow, in compliance with the guidelines set by the Board of Directors at any given time, either through the General Risk Assessment and Management Policy, or through specific limits defined in the Management Plan in force at any given time.

## **4.2. Financing**

The conditions of the debt market, both bank and capital markets, in terms of accessibility to financing sources in addition to the cyclical performance of the industry in which the CAF Group operates, may hinder and even prevent the correct performance of the business of the CAF Group within the framework of the targets set by the Board of Directors.

In order to mitigate this risk, the following principles shall be applied:

- Obtain the necessary funds to give coverage to the investment and financing needs of the operations of the companies in the CAF Group, in adequate conditions in terms of cost, duration and risk.
- Optimise the use of the different financing instruments or sources, considering above all the opportunity-cost pair for the said resources, as well as the availability of the same, in order to comply with the commitments acquired within the CAF Group's daily business and its strategic line.
- Maintain a suitable diversification level of creditor counterparties, in order to minimise the impact of a possible reduction in the financial capacity of a particular entity.
- Centralise the management of the Group's financing in the corporate financial function.
- Maintain the financial leverage and solvency indicators within the parameters that make it possible to preserve or improve the quality of the Group's creditworthiness, in compliance with the guidelines set by the Board of Directors at any given time, either through the General Risk Assessment and Management Policy, or through specific limits defined in the Management Plan in force at any given time.
- Manage the financing risk based on the Group's long term financial projections, making it possible to anticipate financing needs, and to monitor the foreseeable trend of the Group's financial ratios.
- Finance investments using instruments with a maturity profile that is similar to the generation of funds or cash flows for the assets financed.
- Finance the working capital structural needs of the group through long term financing instruments and the seasonal needs through the use of available liquidity and short term financial instruments.
- Finance, as a general rule, the needs of investee companies through capital increases and/or the granting of inter-company loans denominated in the working currency of each subsidiary.
- Maintain information channels with lenders and financial entities.

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

## **5. LIQUIDITY AND FINANCING RISK CONTROL AND MANAGEMENT SYSTEM**

In line with the guidelines set out in the General Risk Assessment and Management Policy, the liquidity and financing 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 context of the liquidity and financing risk management.
2. Identification of the liquidity and financing risks faced by the Company.
3. Analysis of the liquidity and financing risks identified and association with the CAF Group as a whole.
4. Evaluation of the liquidity and financing risks based on the defined appetite.
5. Treatment of the liquidity and financing risks identified.
6. Periodical monitoring and control of current and potential risks.

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

## **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 Liquidity and Financing 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 CAF's 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 Liquidity and Financing Risk Policy, it shall be published on the Company's website ([www.cafmobility.com](http://www.cafmobility.com)) and also on the Group's corporate Portal.