TALGO, S.A. AND SUBSIDIARIES

Abbreviated Consolidated Interim Financial Statements 30 June 2017

*Translation of abbreviated consolidated interim financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails"

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 31 DECEMBER 2016

(Expressed in thousands of euros)

	Notes	30.06.2017	31.12.2016
ASSETS			
Non-current assets			
Tangible fixed assets	4	67 697	63 903
Intangible assets	5	49 500	53 490
Goodwill	6	112 439	112 439
Investment in associates	8	10	10
Deferred tax assets	15	25 513	23 492
Other financial assets	8	27 059	26 936
		282 218	**280 270**
Current assets			
Non-current assets held for sale		-	6 114
Stock	10	78 360	93 033
Customers and other accounts receivable	9,17	385 946	341 676
Other financial assets	8	391	415
Asset accruals		2 543	2 492
Cash and cash equivalents	11	67 862	38 808
		535 102	**482 538**
TOTAL ASSETS		**817 320**	**762 808**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of financial position for the six months ended 30 June 2017.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 31 DECEMBER 2016

(Expressed in thousands of euros)

	Notes	30.06.2017	31.12.2016
EQUITY			
Capital and reserves attributable to the owners of the Parent Company			
Share capital	12	41 663	41 187
Share premium	12	7 886	68 451
Other reserves	12	2 845	4 897
Retained earnings	12	264 082	179 248
Treasury Stock	12	(10 000)	-
Total equity		**306 476**	**293 783**
LIABILITIES			
Non-current liabilities			
Borrowings	13	276 708	227 264
Deferred tax liabilities	15	5 786	5 205
Provisions for other liabilities and charges	16	27 943	28 125
Government grants		3 592	4 504
		314 029	**265 098**
Current liabilities			
Suppliers and other payables	14,17	166 621	173 848
Current tax liabilities		107	131
Borrowings	13	25 402	25 402
Provisions for other liabilities and charges	16	4 685	4 546
		196 815	**203 927**
Total liabilities		**510 844**	**469 025**
TOTAL EQUITY AND LIABILITIES		**817 320**	**762 808**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of financial position for the six months ended 30 June 2017.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016

(Expressed in thousands of euros)

	Notes	30.06.17	30.06.16
Net turnover		**215 083**	**299 303**
Other income		1 305	1 604
Stock variation for work-in-progress and finished goods		996	1 084
Work performed and capitalized by the Company		1 594	2 345
Procurement costs		(92 047)	(179 132)
Personnel costs	18	(51 641)	(47 207)
Other operating expenses		(26 804)	(21 599)
Amortization and depreciation charge	4,5	(10 481)	(9 372)
Other results		73	222
Operating profit		**38 078**	**47 248**
Financial income	19	7	293
Financial expenses	19	(4 644)	(3 564)
Net financial result		**(4 637)**	**(3 271)**
Profit before tax		**33 441**	**43 977**
Income tax charge	15	(7 383)	(9 361)
Profit for the period from continuing operations		**26 058**	**34 616**
Profit for the period		**26 058**	**34 616**
Attributable to:			
Owners of the parent	12	26 058	34 616
Non-controlling interests		-	-
Basic earnings per share attributable to the owners of the Company			
Continuing operations	12	0,19	0,25
Total		**0,19**	**0,25**
Diluted earnings per share attributable to the owners of the Company			
Continuing operations	12	0,19	0,25
Total		**0,19**	**0,25**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim income statement for the six months ended 30 June 2017.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016

(Expressed in thousands of euros)

	30.06.2017	30.06.2016
Profit for the period	**26 058**	**34 616**
Other comprehensive Income:		
Cash flow hedges:	-	-
Direct assignment to equity:		
Cash flow hedge	-	-
Tax effect of the equity assignment	-	-
Transfer to results:		
Cash flow hedge	-	-
Tax effect of the cash flow hedge	-	-
Foreign currency translation differences	(2 052)	(212)
Total other comprehensive Income	**(2 052)**	**(212)**
Total comprehensive income for the period		
Attributable to:		
-Owners of the parent	24 006	34 404
-Non-controlling interests	-	-
Total comprehensive Income for the period	**24 006**	**34 404**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of comprehensive income for the six months ended 30 June 2017.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016

(Expressed in thousands of euros)

	Attributable to the owners of the company								
	Share capital (Note 12)	Share premium	Other reserves (Note 12)	Retained earnings	Other equity instruments (Note 12)	Shares in Treasury Stock (Note 12)	Total	Non-controlling interests	Total equity
Balance at 31 December 2015	**41 187**	**68 451**	**3 945**	**83 690**	**33 724**	**-**	**230 997**	**-**	**230 997**
Comprehensive Income									
Profit or loss	-	-	-	34 616	-	-	34 616	-	34 616
Other comprehensive Income									
Currency exchange differences	-	-	(212)	-	-	-	(212)	-	(212)
Total comprehensive Income	**-**	**-**	**(212)**	**34 616**	**-**	**-**	**34 404**	**-**	**34 404**
Transactions with owners									
Equity instruments payment	-	-	-	33 724	(33 724)	-	-	-	-
Total transactions with owners									
Balance at 30 June 2016	**41 187**	**68 451**	**3 733**	**152 030**	**-**	**-**	**265 401**	**-**	**265 401**
Balance at 31 December 2016	**41 187**	**68 451**	**4 897**	**179 248**	**-**	**-**	**293 783**	**-**	**293 783**
Comprehensive income									
Profit or loss	-	-	-	26 058	-	-	26 058	-	26 058
Other comprehensive Income									
Currency exchange differences	-	-	(2 052)	-	-	-	(2 052)	-	(2 052)
Total comprehensive Income	**-**	**-**	**(2 052)**	**26 058**	**-**	**-**	**24 006**	**-**	**24 006**
Transactions with owners									
Equity reclassifications	-	(60 565)	-	60 565	-	-	-	-	-
Share Capital increase	476	-	-	(476)	-	-	-	-	-
Distribution of dividends	-	-	-	(1 313)	-	-	(1 313)	-	(1 313)
Shares in Treasury Stock variation (note 12)	-	-	-	-	-	(10 000)	(10 000)	-	(10 000)
Total transactions with owners	**476**	**(60 565)**	**-**	**58 776**	**-**	**(10 000)**	**(11 313)**		**(11 313)**
Balance at 30 June 2017	**41 663**	**7 886**	**2 845**	**264 082**	**-**	**(10 000)**	**306 476**	**-**	**306 476**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of changes in equity for the six months ended 30 June 2017.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016

(Expressed in thousands of euros)

	30.06.17	30.06.16
Cash flows from operating activities		
Cash used in operations	**3 933**	**(78 003)**
Interest paid	(3 861)	(3 108)
Interest received	7	7
Tax paid	(4 231)	(2 236)
Net cash flow generated from operating activities	**(4 152)**	**(83 340)**
Cash flows from investing activities		
Purchases of property, plant and equipment	(752)	(951)
Purchases of intangible assets	(3 443)	(2 994)
Net cash used in investing activities	**(4 195)**	**(3 945)**
Cash flows from financing activities		
Acquiring its shares in Treasury Stock	(10 000)	-
Disbursements for loan repayments	(13 490)	(12 758)
Proceeds from borrowings	62 204	84 453
Payments with equity instruments	(1 313)	-
Net cash used / (generated) in financing activities	**37 401**	**71 695**
Net (decrease) / increase in cash, cash equivalents and bank overdrafts	**29 054**	**(15 590)**
Cash, cash equivalents and bank overdrafts at the beginning of period	38 808	21 812
Cash, cash equivalents and bank overdrafts at the end of period	67 862	6 222

Notes 1 to 21 form an integral part of the abbreviated consolidated statement of cash flows corresponding to the six months ended 30 June 2017.

SUMMARY

Abbreviated consolidated interim statement of financial position for the six months ended 30 June 2017 and 31 December 2016

Abbreviated consolidated interim income statement for the six months ended 30 June 2017 and 2016

Abbreviated consolidated interim statement of comprehensive income for the six months ended 30 June 2017 and 2016

Abbreviated consolidated interim statement of changes in equity for the six months ended 30 June 2017 and 2016

Abbreviated consolidated interim statement of cash flows for the six months ended 30 June 2017 and 2016

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TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE ABBREVIATED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2017
(Expressed in thousands of euros)

1. General Information

Talgo, S.A. (formerly known as Pegaso Rail International, S.A.) hereinafter the "Parent Company", was constituted as a limited company in Spain on 30 September 2005. The Company's registered office for corporate and tax purposes is in Las Rozas, Madrid (Spain) and the Company is duly registered in the Commercial Registry of Madrid. On 28 March 2015, the company changed its name from Pegaso Rail International, S.A. to Talgo, S.A., this name change was duly registered in the Commercial Registry of Madrid on 9 April 2015.

On 7 May 2015, an Initial Public Offering was made for 45% of the shares of the Company and they were admitted to trading on the Stock Exchanges of Madrid, Barcelona, Valencia and Bilbao.

The main activity of the Parent Company and its subsidiaries (the Group) is the design, manufacture and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems. According to Article 2 of the Company's bylaws, Talgo, S.A. has the following corporate purpose:

a) The manufacture, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of transport material, systems and equipment, especially relating to the railway sector.

b) The manufacture, assembly, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of engines, machinery and parts and components thereof, intended for the electromechanical, iron & steel and transport industries.

c) The research and development of products and technologies relating to the previous two paragraphs, along with the acquisition, operation, assignment and disposal of patents and trademarks relating to the corporate activity.

d) The subscription, acquisition, disposal, possession and administration of stocks, shares, or interests, within the limits set forth by the regulations governing the stock market, collective investment companies and other regulations in force that may apply.

e) The purchase, restoration, redesign, construction, leasing, promotion, operation and sale of all types of real estate.

2. Summary of the main accounting policies applied in the preparation of the abbreviated consolidated interim accounts for the six months ended 30 June 2016

2.1 Basis of presentation

These Abbreviated Consolidated Interim Financial Statements are presented in accordance with IAS 34 on Interim Financial Information and were drawn up by the

Administrators of the Board meeting which was held on 19 July 2017. This consolidated interim financial information has been prepared based on the accountancy records kept by Talgo, S.A. and the other companies forming part of the Group, and includes the adjustments and re-classifications necessary to achieve uniformity between the accountancy and presentation criteria followed by all the companies of the Group in accordance with the International Financial Reporting Standards (henceforth IFRS).

In accordance with that established by IAS 34, interim financial information is prepared solely in order to update the most recent consolidated annual accounts drawn up by the Group, placing emphasis on new activities, occurrences and circumstances that have taken place during these six months and not duplicating the information previously published in the consolidated annual accounts of the 2016 financial year. Therefore, adequate understanding of the information, these Abbreviated Consolidated Interim Financial Statements must be read jointly with Consolidated Annual Accounts corresponding to the 2016 financial year.

The Accounting Policies adopted in the drafting of the Abbreviated Consolidated Interim Financial Statements are consistent with those established in Consolidated Annual Accounts corresponding to the 2016 financial year, except for the standards and understanding that have come into force during the first half of 2017 and are detailed below.

2.1.1 Changes in accounting criteria

During first half of 2017 financial year no changes were made in the accounting criteria with respect to the criteria applied in 2016.

2.1.2 Entry into force of new accounting standards

During first half of 2017, the following standards and interpretations came into effect and have already been adopted by the European Union. Where applicable and appropriate, the Group has applied these rules in its preparation of the Abbreviated Consolidated Interim Financial Statements.

2.2.1. At the date of drawing up of these abbreviated consolidated interim financial statements, the following standards and interpretations had been published by the International Accounting Standards Board (IASB) but had not yet entered into force, either because their effective date is later than the date of these abbreviated consolidated interim financial statements, or because they have not yet been adopted by the European Union:

(Expressed in thousands of euros)

New standards, modifications and interpretations:		**Obligatory application for financial years starting on or after:**
Approved for use in the European Union at the date of this document publication (1)		
IFRS 15 Revenue from contracts with customers (published in May 2014)	New revenue recognition standard (which replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	1 January 2018
IFRS 9 Financial instruments (final stage published in July 2014)	Replaces the requirements for classification, valuation of financial assets and liabilities, derecognition and hedge accounting established by IAS 39	1 January 2018
Not approved for use in the European Union at the date of this document publication (1)		
IFRS 15 clarifications (published in April 2016)	The amendments include clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property, and the principal versus agent assessment (gross versus net revenue presentation).	1 January 2018
IFRS 16 Leases (published in Jan 2016)	New leases standard replaces IAS 17, lessees include all leases on the balance sheet as if they were financial leases (with limited exceptions) (asset depreciation for the use right and financial expenses will be recognized as depreciated costs)	1 January 2019
NIIF 17 Insurance Contracts (published in May 2017)	Replaces IFRS 4. Collects the principles of registration, valuation, presentation and breakdown of insurance contracts in order for the entity to provide relevant and reliable information that allows the users of the information to determine the effect that the contracts have on the financial statements	1 January 2021
Amendments or/and modifications		
Amendment to IFRS 2 Classification and valuation of share payments (published in June 2016)	Limited modifications that clarify specific issues such as the effects of accrual conditions in share cash-settled payments , the classification of share payments when clauses of net liquidation exists and some modifications of share payments	1 January 2018
Amendments to IFRS 4, Insurance contracts (published in September 2016)	The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional.	1 January 2018
Amendment to IAS 40, Investment property' regarding the transfer of property (published in December 2016)	The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition of an investment property.	1 January 2018
Annual improvements 2014-2016 : (published in December 2016)	Minor amendments to a set of standards	1 January 2018
IFRIC 22 Foreign currency transactions and advance consideration (published in 2016)	This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts.	1 January 2018
IFRIC 23 – Uncertainty over income tax treatments (published in June 2017)	Clarifies how to apply the registration and valuation criteria of IAS 12 when there is uncertainty about the acceptability by the tax authority of a particular tax treatment used by the entity	1 January 2019
Amendment to IFRS 10 and IAS 28 On the sale or contribution of assets between an investor and its associate or joint venture. (published in September 2014)	Clarification regarding the results of these operations if they involve businesses or assets	Dates to be confirmed

(1) The rules approval by European Union is available on the website of EFRAG

(Expressed in thousands of euros)

2.2.2. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2017:

Approved for use in the European Union		**Obligatory application for financial years starting on or after:**
Amendment to IAS 7, Cash flow statements, regarding the Disclosure initiative (Published in January 2016)	These amendments IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
Amendment to IAS 12, Income taxes, regarding recognition of deferred tax assets for unrealized losses. (Published in January 2016)	These amendments clarify the requirements for recognizing deferred tax assets on unrealized losses.	1 January 2017
Annual improvements 2014-2016 IFRS 12, Disclosure of interests in other entities.	This amendment clarifies that the disclosure requirement of IFRS 12 and its interaction with IFRS 5 takes effect in this period.	1 January 2017

Currently, the Group has also been applying the following standards and interpretations, since their entrance into force on 1 January 2017. The Group's preliminary evaluation concludes that the impact of the application of these standards will not be significant in the formulation of the abbreviated consolidated interim financial statements at 30 June 2017.

2.3 Variations in the consolidation perimeter

No changes were made to the consolidation perimeter during first half of 2017.

2.4 Significant accounting estimates and judgements

The consolidated results and calculation of consolidated equity are sensitive to the accounting principles and policies, valuation criteria and estimations adopted by the Directors of the Parent Company during the preparation of these abbreviated consolidated interim financial statements. The main principles, accounting policies and valuation criteria are detailed in Note 4 of the consolidated annual accounts for 2016.

Estimates and judgements are assessed on an on-going basis and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable in normal circumstances.

The Group makes estimates and assumptions regarding the future. The resulting accounting estimates, by definition, are seldom equal to the corresponding actual results. Below we explain the most significant estimates and judgements made by the Group's Management.

- Estimated loss due to impairment of goodwill.

- Tax on profits and assets of a tax nature that are recognised in interim periods in accordance with IAS 34, based on the best estimate of the weighted tax rate that the Group expects for the annual period.

- Revenue recognition by percentage of completion method.

- Useful lives of intangible and tangible fixed assets.

- Calculation of provisions.

- The evolution of costs estimated in the budgets of the projects of completed works.

2.5 Contingent assets and liabilities

In Note 28 of the Group's consolidated annual accounts for the year ended 31 December 2016, information was provided about the contingent assets and liabilities as at that date.

During the first half of 2017, additional liabilities may arise in the event of a tax inspection, as a result of the different possible interpretations of the governing tax legislation, amongst other factors. In any case, the Directors consider that those liabilities, in the event that they were to arise, would not significantly affect the abbreviated consolidated financial statements.

3. Segment reporting

Management has determined the operating segments based on the reports reviewed by the Board of Directors, which are used to make strategic decisions, analyze segment performance and allocate resources accordingly.

The Board of Directors monitors the business from a business line perspective, analyzing the performance of the following operating segments: Rolling stock, Auxiliary machines and Others, which are reflected in the reportable segments. The Board of Directors uses Operating Profit to assess the performance of the segments.

The "Rolling stock" segment includes both manufacturing activity and the maintenance of trains manufactured using Talgo technology, since these activities are closely related.

Likewise, the "Auxiliary machines and Others" segment primarily includes the manufacture and maintenance of lathes and other equipment, as well as repairs, modifications and the sale of spare parts.

The "General" segment includes general corporate expenses not directly assignable to other segments.

The segment information supplied to the Board of Directors of Talgo, S.A. for decision making relating to the six month period ended at 30 June 2017 and 30 June 2016, was obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

				30.06.16
				€ in thousands
	Rolling stock	**Auxiliary machines and others**	**General**	**Total**
Total segment revenues	287 012	12 291	-	299 303
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**287 012**	**12 291**	**-**	**299 303**
Amortization and depreciation charge	8 816	12	544	9 372
Operating result	**49 100**	**2 681**	**(4 533)**	**47 248**
Financial income	293	-	-	293
Financial expenses	(2 657)	(129)	(778)	(3 564)
Result before tax	**46 736**	**2 552**	**(5 311)**	**43 977**
Total Assets	**701 565**	**26 334**	**31 534**	**759 433**
Total Liabilities	**382 339**	**15 542**	**96 151**	**494 032**
Fixed asset investments	**3 480**	**257**	**208**	**3 945**

				30.06.17
				€ in thousands
	Rolling stock	**Auxiliary machines and others**	**General**	**Total**
Total segment revenues	197 294	17 789	-	215 083
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**197 294**	**17 789**	**-**	**215 083**
Amortization and depreciation charge	10 054	10	417	10 481
Operating result	**47 748**	**5 368**	**(15 038)**	**38 078**
Financial income	6	1	-	7
Financial expenses	(3 543)	(290)	(811)	(4 644)
Result before tax	**44 211**	**5 079**	**(15 849)**	**33 441**
Total Assets	**756 666**	**33 202**	**27 452**	**817 320**
Total Liabilities	**411 671**	**17 768**	**81 405**	**510 844**
Fixed asset investments	**3 003**	**71**	**1 121**	**4 195**

Ordinary revenues from external customers, total assets and total liabilities, as reported to the Board of Directors, are valued in accordance with the principles consistent with those applied in the annual accounts.

Total net Turnover from external customers for the six month period ended at 30 June 2017 and 2016 was distributed geographically as follows:

	€ in thousands	
	30.06.17	**30.06.16**
Spain	61 485	50 569
Rest of Europe	11 131	7 808
USA	6 214	4 960
Middle East and North Africa	101 047	192 738
Commonwealth of Independent States	35 170	43 207
Asia	36	21
	215 083	**299 303**

Total non-current assets, other than financial instruments and deferred tax assets in the first half of 2017 and 2016 were distributed geographically as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Spain	220 960	220 660
Overseas	8 676	9 172
	229 636	**229 832**

4. Tangible fixed assets

The movements in the accounts included within tangible fixed assets, fully depreciated and provisions during first half of 2017 and 31 December 2016 were as follows:

	Balance at 31.12.15	**Exchange differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.16**
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 043	32	-	-	2	48 077
Technical installations and machinery	29 602	65	575	(491)	1 035	30 786
Other facilities, tools and furniture	52 332	32	221	(348)	1 015	53 252
Advances and work in progress	1 508	-	1 124	-	(2 209)	423
Other fixed assets	7 774	2	45	(3)	157	7 975
	149 153	131	1 965	(842)	-	150 407
Depreciation						
Buildings	(21 834)	(31)	(1 718)	-	-	(23 583)
Technical installations and machinery	(17 832)	(61)	(2 117)	491	-	(19 519)
Other facilities, tools and furniture	(35 027)	(32)	(2 625)	347	-	(37 337)
Other fixed assets	(5 788)	(2)	(277)	2	-	(6 065)
	(80 481)	(126)	(6 737)	840	-	(86 504)
Net book value	**68 672**	**5**	**(4 772)**	**(2)**	**-**	**63 903**

(Expressed in thousands of euros)

	Balance at 31.12.16	Exchange differences	Additions	Disposals	Transfers	Balance at 30.06.17
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 077	(76)	-	-	7 517	55 518
Technical installations and machinery	30 786	(158)	28	-	112	30 768
Other facilities, tools and furniture	53 252	(80)	71	-	134	53 377
Advances and work in progress	423	-	653	-	(310)	766
Other fixed assets	7 975	(4)	-	-	64	8 035
	150 407	(318)	752	-	7 517	158 358
Depreciation						
Buildings	(23 583)	76	(822)	-	(1 403)	(25 732)
Technical installations and machinery	(19 519)	142	(899)	-	-	(20 276)
Other facilities, tools and furniture	(37 337)	79	(1 196)	-	-	(38 454)
Other fixed assets	(6 065)	4	(138)	-	-	(6 199)
	(86 504)	301	(3 055)	-	(1 403)	(90 661)
Net book value	**63 903**	**(17)**	**(2 303)**	**-**	**6 114**	**67 697**

During first half of 2017, main additions to tangible assets correspond to recurring investments at permanent establishment of Kazakhstan and new information technologies, which are owned by the company Patentes Talgo, S.L.U.
Land and buildings includes the Group’s three properties located in Rivabellosa and Las Rozas (Madrid).

At 30 June 2017, tangible fixed assets with an initial cost of €51,454 thousand have been fully depreciated and were still operational (2016: €48,904 thousand).

During first half of 2017 and 2016, no valuation corrections have been either recognized or reversed due to the impairment of any individual tangible fixed asset.

None of the Group’s tangible fixed assets were subject to guarantees.

During first half 2017, the Group has reclassified the property which was classified at year end 2016 like “Non-current assets held for sale” to “Buildings”, due to its assignment to operations by its subsidiary Patentes Talgo, S.L.U. The amortization expense for the period in which it has been classified under "Non-current assets held for sale" has been adjusted.

The Group has taken out various insurance policies to cover the risks to which its tangible fixed assets elements are subjected. The coverage of these policies is considered sufficient.

(Expressed in thousands of euros)

5. Intangible assets

The movements in the intangible assets accounts fully depreciated and provisions during first half of 2017 and 31 December 2016 were as follows:

	Balance at 31.12.15	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.16
Cost						
Development	94 235	-	-	-	9 018	103 253
Industrial property	1 749	-	-	-	-	1 749
Software	11 394	31	63	(89)	312	11 711
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	9 875	-	7 008	-	(9 330)	7 553
	142 322	31	7 071	(89)	-	149 335
Amortization and impairment losses						
Development	(67 442)	-	(10 263)	-	-	(77 705)
Industrial property	(22)	-	-	-	-	(22)
Software	(9 866)	(31)	(797)	89	-	(10 605)
Maintenance contracts	(3 856)	-	(1 928)	-	-	(5 784)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(82 915)	(31)	(12 988)	89	-	(95 845)
Net book value	**59 407**	**-**	**(5 917)**	**-**	**-**	**53 490**

	Balance at 31.12.16	Exchange differences	Additions	Disposals	Transfers	Balance at 30.06.17
Cost						
Development	103 253	-	-	-	-	103 253
Industrial property	1 749	-	-	-	-	1 749
Software	11 711	(72)	-	-	134	11 773
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	7 553	-	3 443	-	(134)	10 862
	149 335	(72)	3 443	-	-	152 706
Amortization and impairment losses						
Development	(77 705)	-	(6 175)	-	-	(83 880)
Industrial property	(22)	-	-	-	-	(22)
Software	(10 605)	65	(287)	-	-	(10 827)
Maintenance contracts	(5 784)	-	(964)	-	-	(6 748)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(95 845)	65	(7 426)	-	-	(103 206)
Net book value	**53 490**	**(7)**	**(3 983)**	**-**	**-**	**49 500**

The main additions in first half 2017 are related to Development projects in Spanish territory.

At 30 June 2017, the Group held intangible assets that were fully depreciated and still operational, which had an initial cost of €60,298 thousand (2016: €58,992 thousand).

The Group has taken out various insurance policies to cover the risks to which its intangible assets are subjected. The coverage of these policies is considered sufficient.

During first half 2017 and 2016, no valuation corrections were recognized or reversed due to the impairment of any individual intangible assets. Furthermore, the impairment tests performed on the intangible assets that were not yet operational as at 30 June 2017 and 31 December 2016 did not show any signs of impairment.

The Group performs a quarterly impairment test of the maintenance contracts associated with the intangible asset created as a result the acquisition of 49% of the company Tarvia Mantenimiento Ferroviario, S.A. The results of this test did not indicate that the “Maintenance Contracts” showed any signs of impairment.

This impairment test was performed by discounting the cash flows of the manufacturing projects, using a discount rate of 9% and a growth rate of 0.5%.

6. Goodwill

The movement in goodwill was as follows:

	€ in thousands
Balance at 31.12.15	**112 439**
Additions	-
Disposals	-
Balance at 31.12.16	**112 439**
Additions	-
Disposals	-
Balance at 30.06.17	**112 439**

Goodwill impairment tests

Goodwill has been allocated to the Group's cash generating units (CGU's) on the basis of the operating segments.

The table below shows a summary of the allocation of goodwill by segment:

	30.06.17	**31.12.16**
Rolling stock	101 886	101 886
Auxiliary machines and other	10 553	10 553
Total Goodwill	**112 439**	**112 439**

The amount recoverable from a CGU is determined on the basis of “value in use” calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates.

Management determined the budgeted gross margin on the basis of past performance and expectations about the future development of the market, keeping them in line with the margins recorded in recent years. The average weighted growth rates are consistent with the forecasts included in reports in this sector. The discount rates used are pre-tax and reflect specific risks associated with each segment.

The key hypotheses used for the value in use calculations in first half of 2017 and 2016 are detailed below:

a) Growth rate in perpetuity: The Group has assumed that cash flows grow in perpetuity at an equivalent average rate that does not exceed the average growth rate of the sector in which the Group operates, over the long term.

b) Discount rate: The Group has used the weighted average cost of capital (WACC) in its calculations. It has used the weighted average of its cost of debt and its cost of own funds or capital. In turn, to obtain the Beta used in the capital cost calculation, the Group has used the historical Betas of companies in the sector in which it operates as a best estimate.

c) Cash flow projections over 5 years: The Group's Management prepares and updates its business plan for the projects that correspond to the different segments defined. The main components of this plan are the margin projections, working capital and other structural costs. The business plan and therefore the projections have been prepared on the basis of experience and available best estimates.

d) Investments, Corporation tax and others: The projections include the investments necessary for the maintenance of the current assets, as well as those necessary for the implementation of the business plan. The corporation tax payment has been calculated on the basis of the expected average rate.

Key hypothesis:

The cash flows generated by the projects are regarded as the key hypothesis and represent the main indicator used by the Directors of the Group to monitor the performance of the business.

The key hypotheses used for the value in use calculations in first half 2017 and 2016 were: a discount rate of 9% and a growth rate of 0.5%.

Sensitivity analysis:

The Group has conducted a sensitivity analysis assuming +/- 30% variations in the net cash flows of the projects.

In addition, the Group has considered sensitivity by varying the growth rate in perpetuity, by +/- 50 basis points, as well as by varying the discount rate by +/-300 basis points.

These hypotheses have been used to analyze the CGU within the operating segment.

During 2016 and the first half of 2017, none of the CGUs evaluated has shown any signs of impairment.

7. Financial instruments by category

The breakdown of financial instruments by category is as follows:

	€ in thousands		
	Loans and Accounts receivable	**Hedge Derivatives**	**Total**
31 December 2016			
Assets on the statement of financial position			
Customers and other accounts receivable (note 9)*	321 606	-	321 606
Other financial assets (note 8)	27 361	-	27 361
Cash and cash equivalents (note 11)	38 808	-	38 808
	387 775	**-**	**387 775**
30 June 2017			
Assets on the statement of financial position			
Customers and other accounts receivable (note 9)*	382 577	-	382 577
Other financial assets (note 8)	27 460	-	27 460
Cash and cash equivalents (note 11)	67 862	-	67 862
	477 899	**-**	**477 899**

***The balances relating to public entities, with the exception of grants awarded, have been excluded from the Customers and other accounts receivable balances on the statement of financial position as they are not financial instruments.

	€ in thousands		
	Hedge Derivatives	**Financial liabilities at amortized cost**	**Total**
31 December 2016			
Liabilities on the statement of financial position			
Borrowings (note 13)	-	252 666	252 666
Suppliers and other payables (note 14)*	-	156 496	156 496
	-	**409 162**	**409 162**
30 June 2017			
Liabilities on the statement of financial position			
Borrowings (note 13)	-	302 110	302 110
Suppliers and other payables (note 14)*	-	115 383	115 383
	-	**417 493**	**417 493**

***The balances relating to advances received and social security and other taxes have been excluded from the Suppliers and other payables' balance on the statement of financial position since they are not financial instruments.

8. Other financial assets and investments in associates

The breakdown of this balance is as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Other non-current financial assets and investments in associates		
Loans to third parties and other loans (note 8 a)	973	1 201
Loans to associates (note 8 c)	1 719	1 719
Deposits and guarantees (note 8 b)	1 367	1 016
Investment in associates	10	10
Customers and other long-term receivables (note 8 d)	23 000	23 000
	27 069	**26 946**
Other current financial assets		
Loans to third parties	51	51
Deposits and guarantees	340	364
	391	**415**
Total other financial assets	**27 460**	**27 361**

a) Loans to third parties and other loans

The 'Loans to third parties' caption includes balances with related parties amounting to €666 thousand (note 18) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €307 thousand.

b) Deposits and guarantees

The 'Deposits and guarantees' caption included in the non-current assets balance at 31 December 2016 and 30 June 2017 mainly comprises a deposit made by the Group's American subsidiary, Talgo Inc., for the maintenance contract held by this subsidiary.

c) Credits to associates

This balance contains a credit granted to the company Consorcio de Alta Velocidad Meca Medina, S.A. amounting to €1,719 thousand in 2015, which accrues interest at the market rate.

d) Customers and other long-term receivables

The 'Customers and other long-term receivables' caption includes the advanced payment of €23,000 thousand satisfied to purchase 51% of Tulpar Talgo LLP. The acquisition is subject to approval by Third Parties. It is estimated that aforementioned acquisition will be materialized this year.

9. Customers and other accounts receivable

The Group's main customers are railway authorities in the countries in which the Group has a presence and other related clients.

The balances included under this caption relate to trade operations and do not accrue any interest.

The carrying values of the 'Customers and other accounts receivable' balances approximate to their fair values.

This caption is broken down as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Customers	94 963	85 553
Construction completed not yet invoiced	288 048	233 499
Customers – group companies and associates (note 17)	-	2 911
Provision for impairment losses	(2 902)	(2 777)
Customers – Net	**380 109**	**319 186**
Public entities	4 187	20 444
Sundry debtors	1 225	1 619
Personnel	425	427
Total	**385 946**	**341 676**

At 30 June 2017, the Group´s sale commitments amounted to €2,747 Million (30 June 2016: €2,826 Million).

In general, the Group recognizes provisions for all balances over which it has reasonable doubts regarding their recoverability. Overdue balances that have not been provisioned against relate to delays in payments from customers regarding which there is no doubt in terms of their recoverability.

Movements in the provision for impairment of the Group's customer accounts receivable and other receivables balances were as follows:

	€ in thousands	
	30.06.2017	**30.06.2016**
At 1 January	**2 777**	**2 237**
Provision recognition	300	532
Disposals	(175)	(6)
At 30 June	**2 902**	**2 763**

The remaining accounts included within the customer accounts receivable and other receivable balances do not contain any assets that have suffered any impairment.
The maximum exposure to credit risk at the consolidated financial statement position date

is the carrying amount of each type of receivable account mentioned above.

The breakdown of the caption "Public Entities" is as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Public administrations tax receivables for VAT	-	12 313
Public administrations debtors for grants	818	374
Public administrations debtors for other taxes	285	666
Public administrations corporate income tax	3 084	7 091
	4 187	**20 444**

10. Stock

The composition of this caption is shown below:

	€ in thousands	
	30.06.17	**31.12.16**
Raw Materials	66 791	80 002
Work in progress	18 461	18 709
Advances	1 208	3 048
Provision for the depreciation of raw materials	(8 100)	(8 726)
	78 360	**93 033**

At 30 June 2017, the Group's commitments for the purchase of raw materials and other services amounted to €40,410 thousand (2016: €128,207 thousand).

The variation in the caption "Provision for the depreciation of raw materials" is as follows:

	Balance at 31.12.16	**Exchange differences**	**Provision**	**Application**	**Balance at 30.06.17**
Provision for the depreciation of raw materials	(8 726)	482	-	144	(8 100)
	(8 726)	**482**	**-**	**144**	**(8 100)**

The Group has taken out several insurance policies in order to cover the risks to which its stock is subjected. The coverage of these policies is considered sufficient.

11. Cash and cash equivalents

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Cash	67 862	38 808
Total	67 862	**38 808**

The balance indicated in this caption on the statement of financial position is fully and freely available.

12. Equity

Equity movement can be seen in the statement of changes in equity.

a) Share Capital and Share Premium

The variations in the number of shares and in the Share Capital accounts of the Parent Company during first half 2017 and 31 December 2016 were as follows:

		€ in thousands
	Number of shares	**Share capital**
At 31 December 2015	**136 832 900**	**41 187**
Capital increases	-	-
Capital reductions	-	-
At 31 December 2016	**136 832 900**	**41 187**
Capital increases	1 582 092	476
Capital reductions	-	-
At 30 June 2017	**138 414 992**	**41 663**

On 9 May 2017, the General Shareholders' Meeting approved an increase in the share capital of the Company by a fixed amount, through the issue of new ordinary shares with a nominal value of €0.301 and no issue premium, of the same class and series as those currently outstanding, charged against the reserves, and it offered to shareholders the option to sell their free allocation rights to shares to the Company at a guaranteed price or in the market. On 12 July 2017, the aforementioned capital increase was carried out through the issue of 1,582,092 shares for a total amount of €476 thousand; and it was registered in the Commercial Registry of Madrid on 17 July 2017. The new shares put into circulation are expected to begin trading on the market at the end of July 2017.

On 9 May 2017, the General Shareholders' Meeting approved a reduction in the share capital of the Company through the redemption of a maximum of 2,500,000 own shares, representing 1.83% of the Company's current share capital and the redemption of the treasury shares. On 19 July 2017, the Company's Board of Directors agreed to reduce the share capital through the redemption of 1,852,394 shares with a nominal value of €0.301, for a total amount of €558 thousand. As at the date of formulation of these interim financial statements, the aforementioned operation is pending inscription in the Commercial Registry, and so has not yet been recognized in the accounts.

(Expressed in thousands of euros)

As at 31 December 2016 the Parent Company’s share capital comprised 136,832,900 shares and had a nominal value of €0.301 and during first half 2017 the Parent Company’s share capital comprise 138.414.992 shares and had a nominal value of €0.301.

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in the share capital of the Parent Company, both directly and indirectly, which individually exceeded 3% of the Share Capital as at 30 June 2017:

Company	**% stake**
Trilantic Capital Investment GP Limited	32.10%
MCH Inversiones Industriales S.A.R.L.	4.70%
MCH Iberian Capital Fund III, FCR	4.20%
Universities Superannuation Scheme	3.05%
	44.05%

b) Distribution of profits

On May 11, 2017, the General Shareholders Meeting resolved to distribute of the Parent company's profit of the year 2016, as follows:

	2016
To Dividends	10 000
To Reserves	200
	10 200

c) Foreign Currency Translation.

The amount of Foreign Currency Translation recognized within other reserves corresponds entirely to the translation of the functional currency of the financial statements of the Group’s subsidiaries Talgo Inc. and Patentes Talgo Tashkent, LLC.

d) Earnings per Share.

Basic Earnings per Share.

The basic earnings per share are calculated by dividing the profit attributable to the owners of the Parent Company (net result attributable to the Group, after taxes and allocation to minority interests) by the weighted average number of ordinary shares in issue during the financial period.

	€ in thousands	
	30.06.17	**30.06.16**
Profits attributable to the Company´s Shareholders	26 058	34 616
Weighted average number of outstanding ordinary shares	136 832 900	136 832 900
Basic Earnings per Share	0.19	0.25
	0.19	**0.25**

Diluted earnings per share

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares in issue in order to reflect the potential dilutive effect of the stock options, warrants and debt convertible into shares at the end of each period.

	€ in thousands	
	30.06.17	**30.06.16**
Profits attributable to the Company´s Shareholders	26 058	34 616
Profit used to determine diluted earnings per share	26 058	34 616
Weighted average number of ordinary shares in circulation	136 832 900	136 832 900
Weighted average number of ordinary shares for the purposes of diluted earnings per share	136 832 900	136 832 900
Diluted Earnings per Share	0.19	0.25
	0.19	**0.25**

e) Treasury stock

On 23 February 2017, the Board of Directors of the parent Company agreed to carry out a repurchase program of their own shares (the “Repurchase Program”) in accordance with the authorization conferred on them by the General Shareholders’ Meeting held on 28 March 2015, under item 12 on the agenda and pursuant to the provisions of Regulation 596/2914 and Delegated Regulation (EU) 2016/1052 from the Commission, dated 8 March 2016, which supplemented Regulation (EU) nº 596/2014 concerning market abuse with regards to the regulatory technical standards relating to the conditions applicable to repurchase programs and stabilization measures.

In accordance with the provisions of that resolution, the Repurchase Program aims to reduce the Company’s share capital through the redemption of shares, following the agreement subjected to and approved by the General Shareholders’ Meeting held on 9 May 2017, all in the context of the capital increase agreements charged against reserves, with the aim of rewarding the shareholders (“scrip dividend”) as proposed and approved in the aforementioned General Shareholders’ Meeting.

Through the execution of the Repurchase Program, during the period from 6 April 2017 to 19 June 2017, the Company acquired a total of 1,852,394 shares for a total disbursed amount of €9,999,656.61, whereby reaching the maximum limit established as the Maximum Investment in the Repurchase Program (of 2,500,000 shares or €10 million).
Following the completion of the Repurchase Program, the Company launched a process

(Expressed in thousands of euros)

to redeem all of the shares acquired, which is pending approval as at the date of formulation of these consolidated abbreviated financial statements.

As at 30 June 2017, the Company held 1,852,394 shares in treasury stock, having recorded no operations involving its own shares at the end of 2016. The corresponding details are presented below:

	Number of shares	Acquisiton Price	Quotation	Stock price	%
Shares in Treasury stock June 30, 2017	1 852 394	5.4	5.3	9 818	1.36%
Shares in Treasury stock December 31, 2016	-	-	-	-	-

The acquisition of the aforementioned shares was carried out in accordance with the Share Repurchase Plan, whose term are defined in Note 34 of the consolidated annual accounts for 2016, which were approved by the Board of Directors on 23 February 2017.

On 6 April 2017, the Company commenced the repurchase program of its own treasury stock. That process was completed on 19 June 2017, following the acquisition of 1,852,394 shares for €9,999,656.61 in total.

On 31 May 2017, the Board of Directors resolved to carry out a capital increase, charged to reserves, and they fixed the maximum reference value for that execution at €10 million. The maximum number of new shares to be issued during the execution of the capital increase was set at 1,824,438 shares, as agreed by the General Shareholders' Meeting held on 9 May 2017 (through which an optional dividend was arranged, in shares or cash).

The price at which the Company undertook to purchase from its shareholders the free allocation rights corresponding to the aforementioned execution of the capital increase was established at a gross fixed amount of €0.072 per right.

All Company´s shareholders who acquired shares prior to 13 June 2017 and whose operations were settled prior to 15 June 2017 received a free allocation right for each Talgo share that they held. Therefore, those shareholders will be entitled to receive one new share for every 75 old shares.

On 28 June 2017, the negotiation period for the free allocation rights corresponding to the capital increase agreed on 9 May 2017 came to an end. The owners of 86.72% of the free allocation rights (118,656,900 rights in total) will receive new shares in the Company. Therefore, the definitive number of ordinary shares with a nominal unitary value of €0.301 that will be issued under the capital increase is 1,582,092 shares, and so the nominal amount of the capital increase will amount to €476,209.69.

On the other hand, during the term established for this purpose, the owners of 13.28% of the free allocation rights accepted the Company's irrevocable commitment to purchase their rights. As a result, the Company purchased 18,175,928 rights for a total gross amount of €1,308,666.82. The Parent Company renounced the shares corresponding to the free allocation rights acquired by virtue of the aforementioned purchase commitment. The payment in cash to the shareholders that opted to sell their free allocation rights to the Company was made on 30 June 2017.

13. Borrowings

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Non-current		
Debt with credit institutions	256 954	207 448
Other financial liabilities	19 754	19 816
	276 708	227 264
Current		
Debt with credit institutions	22 433	22 370
Other financial liabilities	2 969	3 032
	25 402	25 402
Total borrowings	**302 110**	**252 666**

a) Debt with credit institutions

On 19 December 2012, the subsidiary Patentes Talgo, S.L.U. signed a financing contract with the European Investment Bank of up to €50,000 thousand, and being its balance of €32,000 thousand at 30 June 2017 (€34,000 thousand 31 December 2016).

During the first half 2017 financial year, €22,000 thousand of the aforementioned loan was classified as a long-term (€24,000 thousand 31 December 2016) liability and €10,000 thousand was classified as a short-term liability during first half 2017 and 31 December 2016.

The aforementioned contract contains a number of associated obligations and covenants known as the Guarantee Ratio, the Commitment Ratio, the Financial Expense Ratio and the Credit Ratio, which the aforementioned subsidiary has complied with since the beginning of the contract.

Patentes Talgo, S.L.U. has also complied with the other commercial obligations and restrictions established in the aforementioned financing agreement.

At 16 April 2015 the Parent Company and the Subsidiary Patentes Talgo, S.L.U. have signed a loan agreement, amounting to €100,000 thousand, and being its balance of €80,000 thousand at 30 June 2017, it accrues interest at a market rate. The aforementioned contract contains a number of associated obligations and covenants, which the Group has complied with since the beginning of the contract.

On July 29, 2016, the subsidiary Patentes Talgo, S.L.U. has entered loan agreements amounting to €50,000 thousand euros with two financial institutions, €25,000 thousand euros with each of them, which accrue a fixed market interest rate. It is recorded in the long-term as the amortization is carried out by the total in the maturity of the same. These contracts contain a number of associated obligations and covenants that the Group has fulfilled during the term of the agreement. In addition, in the short term, interest and commissions accrued are recorded in the amount of €182 thousand euros.

On December 19, 2016, the subsidiary Patentes Talgo, S.L.U. entered into a loan agreement in the amount of €55,000 thousand, having been extended by €6,500 thousand during the year 2017. It bears a fixed market interest rate. It is recorded in the long-term as the amortization is made by the total in the maturity of the same. The aforementioned agreement contains a number of associated obligations and covenants that the Group has fulfilled during the term of the agreement. In addition, in the short term, interest and accrued fees are recorded for €70 thousand.

During the first half 2017 financial year, the subsidiary Patentes Talgo, S.L.U. has entered loan agreements amounting to €55,000 thousand euros with three financial institutions, one of this loan in the amount €25,000 thousand euros and the rest in amount €15,000 thousand euros each one of them, which accrue a fixed market interest rate. It is recorded in the long-term as the amortization is carried out by the total in the maturity of the same. These contracts contain a number of associated obligations and covenants that the Group has fulfilled during the term of the agreement. In addition, in the short term, interest and commissions accrued are recorded in the amount of €77 thousand euros.

At 30 June 2017, the Group held lines of credit amounting to €170,000 thousand (€175,000 thousand at 31 December 2016) not maintaining outstanding balances of the aforementioned lines of credit at the end of the 2016 fiscal year or at June 30, 2017.

The breakdown of the 'Debt with credit institutions' balances by year of maturity is shown below:

							€ in thousands
30 June 2017	**2017**	**2018**	**2019**	**2020**	**2021**	**Subsequent years**	**Totals**
Debt with credit institutions	10 129	19 689	19 696	126 787	41 864	61 222	**279 387**

31 December 2016	**2017**	**2018**	**2019**	**2020**	**Subsequent years**	**Totals**
Debt with credit institutions	22 370	19 616	19 705	111 500	56 627	**229 818**

b) Other financial liabilities

The Other current and non-current financial liabilities captions are broken down as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Non-current		
Debts due to reimbursable advances	18 592	19 050
Other debts	1 162	766
	19 754	**19 816**
Current		
Debts due to reimbursable advances	2 930	2 968
Other debts	39	64
	2 969	**3 032**
Total other financial liabilities	**22 723**	**22 848**

b.1) Debts due to reimbursable advances

This caption includes debts that the Group’s subsidiary Patentes Talgo, S.L.U. holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Education and Science. These loans accrue interest at a lower rate than charged in the market, as such the Group recognizes a grant to reflect the difference between the two rates.

b.2) Other Debts

This caption at 30 June 2017 included mainly non-current debt convertible into grants amounting to €1,122 thousand (2016 €727 thousand). These are funds received from the European Commission for the research project "Roll2Rail" and “Shift2Rail”.

The fair values of other borrowings approximate their carrying amount.

14. Suppliers and other payables

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Suppliers	105 873	146 947
Associate company suppliers (note 17)	2 857	-
Advances on orders	42 480	11 507
Social Security and other taxes	8 758	5 845
Personnel	6 653	9 549
Total	**166 621**	**173 848**

15. Income tax

The Parent Company and its subsidiary, Patentes Talgo, S.L.U., have formed the consolidated Tax Group 65 /06 since 2006.

In the year 2010, the subsidiary Talgo Kazakhstan, S.L. was incorporated into the aforementioned tax group and during 2017 has been incorporated the company Motion Rail, S.A.

The tax on the Group's profit before tax differs from the theoretical amount that would be obtained using the weighted average tax rate applicable to the profits of the consolidated companies as follows:

	€ in thousands	
	30.06.17	**30.06.16**
Profit before tax	**33 441**	**43 977**
Consolidated tax at 25%	8 360	10 994
Tax effects of:		
Differences due to deferring tax rates in each country	1 365	1 910
Permanent differences	37	(3 445)
Activation of deductions	(670)	(840)
Tax credits for loss carryforwards	(1 709)	-
Prior period adjustments	-	742
Tax expense	**7 383**	**9 361**

At the end of the year, the tax Group 65/06 was subject to an inspection by the tax authorities with respect to the consolidated Group's tax returns for the years 2012 onwards for corporate income tax and 2013 onwards for the remaining taxes. The Parent company and its subsidiary Patentes Talgo S.L.U. have received on July 10, 2017 from tax authorities a notification of partial verification of corporate income tax for the years 2012 to 2015 and personal income from the years 2013 to 2015.

The analysis of deferred taxes based on the timing of their recovery is as follows:

	€ in thousands	
	30.06.17	**31.12.16**
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	25 513	23 492
	25 513	**23 492**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered in more than 12 months	5 786	5 205
	5 786	**5 205**
Deferred tax assets (net)	**19 727**	**18 287**

The movement in the deferred tax asset balance during the first half 2017 and 31 December 2016 was as follows:

						€ in thousands
	Balance at 31.12.16	**Exchange differences**	**Additions**	**Disposals**	**Other Movements**	**Balance at 30.06.17**
Guarantees	2 545	-	3 103	(2 556)	11	3 103
Deductions	-	-	670	-	-	670
Tax credits	16 926	(716)	1 709	-	-	17 919
Other concepts	4 021	-	270	(459)	(11)	3 821
	23 492	**(716)**	**5 752**	**(3 015)**	**-**	**25 513**

						€ in thousands
	Balance at 31.12.15	**Exchange differences**	**Additions**	**Disposals**	**Other Movements**	**Balance at 31.12.16**
Guarantees	1 752	-	2 556	(1 565)	(198)	2 545
Deductions	-	-	1 515	(3 060)	1 545	-
Tax credits	2 018	385	5 912	-	8 611	16 926
Other concepts	4 428	-	577	(1 003)	19	4 021
	8 198	**385**	**10 560**	**(5 628)**	**9 977**	**23 492**

The aforementioned deferred tax assets were registered on the statement of financial position on the basis that the Directors of the Parent Company consider that, given the most accurate estimate of the Group's future results, these assets will be feasibly recoverable.

				€ in thousands
	Tax credits	**Deductions**	**Other Concepts**	**Total**
Balance at 31 December 2015	**2 018**	**-**	**6 180**	**8 198**
Credit/(Charge) to income statement	-	3 060	565	3 625
Other movements and transfers	14 908	(3 060)	(179)	11 669
Balance at 31 December 2016	**16 926**	**-**	**6 566**	**23 492**
Credit/(Charge) to income statement	1 709	670	358	2 737
Other movements and transfers	(716)	-	-	(716)
Balance at 30 June 2017	**17 919**	**670**	**6 924**	**25 513**

b) Other Concepts and tax credits

The Other concepts caption is generated mainly due to temporary differences arising from the allocations made during the financial year to: provisions for bad debt, penalties and other similar concepts; as well as for the amortization and depreciation of fixed assets and for commitments held with personnel.

Similarly, the Group has registered any deferred tax assets on the statement of financial position that are associated with the negative tax bases generated by the subsidiary Talgo Inc. amounting to €9,309 thousand, considered, based on their current assessment of the business of the subsidiary that is likely to be generated, in the future, taxable income to allow its recovery.

At 30 June 2017, the negative taxable bases pending offset in the USA, relating to the subsidiary Talgo Inc., amounted to €39,535 thousand (€45,147 thousand at 31 December 2016) and their expiry dates are detailed below:

	€ in thousands	**Final year**
2002	2 612	2022
2003	5 181	2023
2004	12 931	2024
2005	8 149	2025
2006	6 932	2026
2012	3 730	2032
	39 535	

Deferred tax liabilities

The movement in the deferred tax liabilities balance during the financial years 2016 and 2017 was as follows:

	€ in thousands		
	Cash flow hedge	**Other concepts**	**Total**
Balance at 31 December 2015	**-**	**4 092**	**4 092**
Credit / (Charge) to income statement	-	1 113	1 113
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at 31 December 2016	**-**	**5 205**	**5 205**
Credit / (Charge) to income statement	-	581	581
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at 30 June 2017	**-**	**5 786**	**5 786**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

16. Provisions for other liabilities and charges

€ in thousands

	Non-current			Current		
	Other provisions	Guarantee provision	Subtotal	Other provisions	Guarantee provision	Subtotal
Balance at 31/12/2016	**18 161**	**9 964**	**28 125**	**797**	**3 749**	**4 546**
Provisions	1 399	197	**1 596**	-	1 624	**1 624**
Applications	(2 187)	-	**(2 187)**	(35)	(1 041)	**(1 076)**
Transfers	-	409	**409**	-	(409)	**(409)**
Balance at 30/06/2017	**17 373**	**10 570**	**27 943**	**762**	**3 923**	**4 685**

At the 2016 year-end and the first half 2017 financial year, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years and other obligations included in the contracts signed.

The 'Other provisions' caption primarily includes the reasonable estimates made by the Group regarding the contractual obligations associated with the maintenance contracts signed, which mainly relates to the costs of large maintenance works signed with customers.

At 30 June 2017, the Group had a volume of bank guarantees and surety bonds amounting to €818 million (2016: €801 million), of which €741 million (2016: €720 million) correspond to manufacturing projects, either as performance bonds or advances received.

The remaining sum comprises bank guarantees provided to public entities for the awarding of grants, for bidding in tender competitions and for other items.

At 30 June 2017, the amount available from the bank guarantee lines amounted to €298 million (€323 million in 2016).

By virtue of the agreement signed between the Consorcio Español Alta Velocidad Meca-Medina and the end customer, all of the members of the Consortium shall be jointly and severally liable to the end customer, and each member of the consortium may, in any case, make a claim against the other parties, according to the distribution of the execution of the contract.

The Group's Management is not aware of any contingent liabilities that it may have in the normal course of its business, other than those provided for at the end of the first half of 2017.

a) Commitments to purchase fixed assets

At 30 June 2017, the Group had commitments to purchase fixed assets amounting to

€9,633 thousand (30 June 2016: €3,337 thousand).

b) Operating lease commitments

The directors of the consolidated Group do not expect any material changes in the future operating lease expense, with respect to the expenditure incurred during 2016 and the first half 2017 financial year.

17. Related party and foreign currency transactions

The Group conducts all of its transactions with related parties at market prices. In addition, the transfer prices are adequately supported and so, the Directors of the Parent Company consider that there is no significant risk that any significant liabilities may arise in the future for this concept.

All the accounts and transactions between the consolidated companies were eliminated during the consolidation process and so are not disclosed in this note.

The details of the transactions conducted between the Group and other related parties are detailed below:

a) Transactions with the Parent Company's significant shareholders

The loans granted to the shareholders are detailed in note 8.a.

b) Transactions with the Parent Company’s Board members

During the first half 2017, the remunerations accrued to the members of the Board of Directors for the performance of this role amounted to €330 thousand (30 June 2016: €320 thousand).

c) Commercial transactions with related parties:

		€ in thousands
	30.06.2017	**30.06.2016**
External services:		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	6 071	11 177
Expenses	**6 071**	**11 177**

d) Breakdown of supplier / customer balances with group companies and associates:

	€ in thousands	
	30.06.17	**31.12.16**
Customers – group companies and associates (note 9)	-	2 911
Customers – group companies and associates	**-**	**2 911**

	€ in thousands	
	30.06.17	**31.12.16**
Suppliers – group companies and associates (note 14)	2 857	-
Suppliers – group companies and associates	**2 857**	**-**

At 30 June 2017 and at the 2016 year-end, the "Customers and Suppliers–group companies and associates" caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A.

e) Foreign currency transactions

The amounts involved in the transactions that were carried out in foreign currencies are as follows:

	€ in thousands	
	30.06.2017	**30.06.2016**
Purchases	6 571	7 732
Sales	11 784	9 043

18. Employee benefit expenses

a) The breakdown of this caption is as follows:

	€ in thousands	
	30.06.17	**30.06.16**
Wages, salaries and similar	39 342	35 322
Contributions and provisions for defined pension contributions and other obligations	962	910
Other welfare charges	11 337	10 975
	51 641	**47 207**

The 'Wages, salaries and similar' caption includes compensation costs, which amounted to €62 thousand as at 30 June 2017 (30 June 2016: €296 thousand) and the cost relating to the remuneration paid to Senior Management explained in note 18 b.

(Expressed in thousands of euros)

b) Compensation for the Senior Management and Directors of the Group:

During the first half 2017, the remuneration paid to the senior management team, which is understood to comprise the members that form the Steering Committee, amounted to €1,158 thousand in terms of fixed and short-term variable remuneration (€1,114 thousand in the first half of 2016). The remuneration paid to the Group's Directors in terms of fixed and short-term variable remuneration amounted to €825 thousand as at 30 June 2017 (€805 thousand as at 30 June 2016).

The Group has taken out life insurance for all of its employees, including management personnel. The cost of this insurance for management personnel amounted to €21 thousand at 30 June 2017 (€19 thousand at 30 June 2016). The amount corresponding to the pension plan of this same collective amounted to €38 thousand at 30 June 2017 (€37 thousand at 30 June 2016). In addition, the Group has taken out civil liability insurance policies for some members of its Senior Management, whose coverage is considered sufficient.

During 2015, the subsidiary Patentes Talgo, S.L.U. granted loans to members of the management team for the purchase of shares of the Parent Company amounting to €879 thousand. This loan has been partially repaid along with its interest during the first half of the 2017 financial year, amounted to €666 thousand at 30 June 2017. The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread (note 8).

The distribution of the average headcount by job category and gender at 30 June 2017 and 2016 is as follows:

	30.06.2017		30.06.2016	
	Men	**Women**	**Men**	**Women**
Board members and Senior Management	11	2	11	2
Management	32	3	35	3
Middle management	194	22	207	25
Technicians	1 574	218	1 479	214
	1 811	**245**	**1 732**	**244**

19. Financial income and expenses

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.17	**30.06.16**
Interest expenses:		
Bank borrowings and other charges	(4 255)	(3 564)
Exchange differences	(389)	-
Financial expenses	**(4 644)**	**(3 564)**
Interest income on short term deposits with credit institutions	6	6
Interest income on short term deposits with related parties	1	1
Exchange differences	-	286
Financial income	**7**	**293**
Net financial result	**(4 637)**	**(3 271)**

20. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

	€ in thousands	
	30.06.2017	**30.06.2016**
Profit for the year before tax	**33 441**	**43 977**
Adjustments for:		
- Depreciation of tangible fixed assets (note 4)	3 055	3 576
- Amortization of intangible assets (note 5)	7 426	5 796
- Net change in provisions (note 16)	(43)	1 134
- (Gain)/loss in the fair value of derivative financial instruments	-	-
- Financial expenses (note 19)	4 255	3 564
- Financial income (note 19)	(7)	(7)
- Result from the loss of the joint control	-	-
- Allocation of grants	(692)	(916)
- Other income and expenses	(1 690)	506
Changes in working capital (excluding the effects of the acquisition and exchange differences on consolidation):	**(41 812)**	**(135 633)**
Stocks (note 10)	14 055	829
Other financial assets (note 8)	251	(1 548)
Customers and other account receivables (note 9)	(48 418)	(115 442)
Suppliers and other payables (note 14)	(7 700)	(19 472)
Cash flows from operating activities:	**3 933**	**(78 003)**

21. Events after the consolidated statement of financial position date

No subsequent events have taken place between the close of the abbreviated interim financial statements and the date of which they were prepared.

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTORS' REPORT AS AT 30 JUNE 2017
(Expressed in thousands of euros)

Organizational structure

The main responsibilities of the Group's Board of Directors include: strategy management, allocation of resources, management of risks and operational control, as well as ownership of the accounts and financial reports prepared by the Group.

The Group's Steering Committee comprises both members of the Board of Directors, as well as the heads of each one of the business lines (segments) and other key management personnel. During these meetings, the Committee analyses the performance of the business along with other aspects relating to the Group's strategy.

Strategy

In recent years, the Group's strategy has allowed it to: generate stable margins in the key Rolling Stock business line; research and develop new markets and gradually increase the volume of business it undertakes internationally, with the overseas business gaining weight over the domestic business in recent years, indicating a clear trend for the future.

The key to the success of the Group's strategy has been the development of the business towards products and services that add greater value and are adapted to the needs demanded in the market.

Business model

The Group's business model is sufficiently flexible to be adapted to the conditions of the market in the global economic context.

It offers value to the Group's stakeholders over the long term, supported by the Group's financial model, which has allowed it to gradually increase revenues whilst maintaining stable margins and generating profitability for the interested parties.

Over the last three years, the Group has strengthened its strategic position, through significant investments in the development of new products, to meet the demands of the market, i.e. the need for more efficient, higher capacity trains, such as the case of AVRIL and EMU. It has also increased production capacity at its manufacturing facilities in Spain (which it owns) in order to handle the growth in its order portfolio, which is mainly being driven by the international market.

Business performance

The Group's EBITDA at the end of the first half of 2017 amounted to €48.2 million, compared with €57.1 million in the previous period.

The Group's EBIT at the end of the first half of 2017 amounted to €38.1million, compared with €47.2 million in the previous period.

The profit after tax at the end of the first half of 2017 amounted to €26.1 million, €34.6 million in the previous period, which shows an improvement of 29.7%

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTORS' REPORT AS AT 30 JUNE 2017
(Expressed in thousands of euros)

At the end of the first half of 2017, the Group's order backlog amounted to €2.747 million (€2.605 million at 31 December 2016)

Business performance

During 2017, the Group has continued to deliver the construction contracts that it held in its portfolio, including the 603 coaches for the Kazakhstan Railways and the 36 high-speed trains for the Mecca-Medina route for the Saudi Arabian SRO state railway company. Similarly, the project awarded for the construction of 2 Intercities trains for the Uzbek Railways has finalized with the delivery to the client.

On the other hand, following the awarding on December 2, 2016 by RENFE, on April 7, 2017 Patentes Talgo, S.L.U. and RENFE signed a contract to supply 15 high-speed trains and their maintenance for 30 years. The aforementioned contract also includes an option for 15 additional trains along with its maintenance for 30 years and an extension of the contract of maintenance of the 30 complete trains for 10 additional years. Apart from the foregoing, the subsidiary Talgo Inc. in the United States, has started the overhaul of 38 units for the Los Angeles Metro (LACMTA) in the facilities rented to Milwaukee City Hall with an option to refurbish 36 additional units. This last contract implies the entry of the Group in the market of large operations of maintenance of railway units, which means a relevant milestone in the history of Talgo and that the company hopes that it can continue reporting additional contracts in the future.

During the first half of 2017, the Group has continued in Spain to perform maintenance activities for RENFE Operadora and ADIF or its stock of hauled, Intercity and high-speed trains. Similarly, it has continued to provide train maintenance services through its permanent establishments in Russia, Kazakhstan and Uzbekistan for the national railway companies Temir Zholy and Temir Yollari, respectively and through its subsidiaries in Germany and the USA for Deutsche Bahn and Amtrak, respectively.

The Group, following the innovation policy and diversification of its product portfolio, and among other projects, is performing optimization tests on the prototype of the new AVRIL High-Speed train and has continued with the development of a Talgo smart urban train. and other transversal projects for optimization in areas such as interoperability, digitization, signage, safety, passenger experience and accessibility, energy efficiency and sustainability, lightening of materials, noise and vibration, element joints, traction, abrasion and wear, ice and snow.

Within the company's R&D&i strategy and for the development of some of these projects, Talgo actively collaborates with a relevant role in the European Union's Shift2rail innovation initiative within the 2020 Horizon program.

Following this line, the Group has continued its investment policy in research and development activities that seek to continually improve its products and maintenance services. This is an additional effort for the Group, apart from the annual recurrent investment for the maintenance of existing infrastructures and resources.

Similarly, and as a result of the establishment of new train maintenance centers in countries such as Kazakhstan, Russia and, in the near future, Saudi Arabia, new investments are currently being made.

As disclosed in note 5 Intangible Assets, the Group has been undertaking an additional investment effort for the launch of new R&D products.

Significant events after the statement of financial position date

The subsequent events are detailed in note 21.

Research and development activities

Continual commitment to innovation and sustainable development has earned Talgo international recognition as a highly competitive rolling stock manufacturer and enabled it to successfully participate in different railway tenders on a global scale. Today, Talgo trains are seen traveling across Spain, Russia, Kazakhstan, Uzbekistan, Saudi Arabia and the USA.

In Talgo, we strongly believe that innovation must be a systematic and structured process, leading the Group towards a totally new business approach that enhances the social and cultural character of the company.

This is why, day after day, Talgo focuses on further development of the corporate innovation concept, centered not only on the evolution of its products, but on the improvement of tools and services as well. In this way a system is created allowing timely foreseeing future challenges, encouraging technology surveillance and foresight activities, and, thus, enhancing the atmosphere of disruptive, unconventional thinking by stimulating creativity and developing new ideas, the source of internal and external value.

To achieve this, in Talgo we are working hard to maintain our Innovation Management System: following our continued evolution approach each year we design new powerful corporate initiatives, like, for example, "Knowledge Management", which intended to foster and increase one of the most valuable Group´s assets – knowledge, is implemented through the creation, codification, recovery and sharing of the Group's strategic expertise, therefore, supporting learning and innovation, at the same time as encouraging employees´ participation and development. All this must be at every moment closely intertwined with the Group´s business objectives, strategies and priorities, helping to face new challenges effectively and quickly respond to the emerging market demands.

Another initiative already underway and firmly established in Talgo is "Technological Radar". This tool enables to identify, select, capture and monitor all external information that could be transformed into corporate knowledge and add value to the Group's technological development, helping to minimize risks during the decision-making process and providing better strategic foresight capacities to handle possible technological changes in the railway sector in a more effective way.

Furthermore, it is noteworthy to mention other corporate tools aimed at promoting creativity and innovation, known as "Innovative stimulus".

On the other hand, Talgo continues its policy of investment in research and development activities which seek to continually improve Group´s products and maintenance services. It is worth highlighting, among others, the completion of research and design works on the construction of the new generation high-speed train AVRIL, which has obtained the European TSI certificate, at the same time as continue of development of the first Talgo smart urban train.

Finally, with the aim of participating in European innovation projects that favor the technological development of the European railway sector, Talgo participates in the H2020 program, mainly through the program Shift2Rail. It is a remarkable European initiative on rail technology innovation planned for the period 2016-2023, are distributed of 5 individual programmes: rolling stock, signaling, infrastructure, passenger and freight services. It is financed partially by the participating railway companies (50%) and partially by the European Commission (50%), under the Horizon 2020 program. From the very beginning Talgo was one of the companies which actively promoted the Shift2Rail initiative and is now an associated partner of the "Innovation Programme 1", aimed at enhancing the passenger rolling stock attractiveness. In particular, Talgo main areas of collaboration include traction system, new generation car body shells, running gear, energy efficiency, mitigation of noise and vibrations.

Due to all the above, Talgo has evolved from a reputable national-scale Group, into a rail products manufacturer, whose innovative potential is targeted towards foreign markets and capable of rivaling the best state-of-the-art technologies worldwide.

Nevertheless, from the very beginning, Talgo has always placed its priorities, and will continue doing so, on the design and manufacture of customized products, guaranteeing full compliance with the specific client´s needs, and offering tailored solutions, which is possible thanks to the Group´s size, structure and corporate values. This approach to work and client attention distinguishes Talgo from its competitors, being this aspect greatly appreciated at tender procedures.

At present, Talgo keeps looking forward to the future with enthusiasm, ready and willing to face new technological challenges. Only continuous improvement of rail systems, seen from a global perspective, will drive this more than 70-year-old dream towards future advancement, characterizing Talgo as a Group with innovative spirit, which, in fact, has always been its identity hallmark.

Risk policy

The Directors consider that the Group's main risks are typical for the businesses in which it operates and are inherent to the industry and the current macroeconomic environment. The Group actively manages its main risks and considers that the controls that it has designed and implemented in this sense are effective for the mitigation of their impact in the event that they materialize.

The main objective of the Group's financial risk management policy is to ensure the availability of funds to fulfil its commitments to third parties. That management is based on the identification of risks, and the analysis of the tolerance and coverage of the instruments to mitigate those risks.

Quality and the environment

Quality, the environment and the prevention of risks are fundamental elements in the Group's business and culture.

During the performance of its activities, the Group places a strong emphasis on improving its management systems in a sustainable and safe way in order to obtain the maximum satisfaction of its clients, employees and suppliers.

This commitment is promoted and encouraged at all levels of the organization and across all of the countries in which the Group has a presence.

The principles that govern these activities are captured in the Group's policy for quality, prevention and the environment, which complies with the guidelines set out by the following regulations: ISO 9001, ISO 14001 and IRIS.

Information about delaying payments to suppliers

The Group's Spanish companies are making a concerted effort to gradually adjust their payment periods to reflect the provisions of Law 15/2010.

The maximum legal payment period applicable to Spanish companies is 60 days.

Own shares

The Group has own shares as of June 30, 2017 for the amount of €10,000 thousand representing 1.35% of the share capital, the acquisition of the portfolio has been made to comply with the obligations contained in note 12c.