Talgo

TALGO, S.A. AND SUBSIDIARIES

Abbreviated Consolidated Interim Financial Statements 30 June 2018

*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 2018 AND 31 DECEMBER 2017

(Expressed in thousands of euros)

	Notes	30.06.2018	31.12.2017
ASSETS			
Non-current assets			
Tangible fixed assets	4	63 724	65 389
Intangible assets	5	40 726	47 403
Goodwill	6	112 439	112 439
Investment in associates	8	10	10
Deferred tax assets	15	21 659	21 040
Other financial assets	8	4 070	26 908
		242 628	**273 189**
Current assets			
Stock	10	71 382	69 056
Customers and other accounts receivable	9,17	321 904	254 248
Other financial assets	8	87	89
Asset accruals		3 525	2 818
Cash and cash equivalents	11	193 534	243 195
		590 432	**569 406**
TOTAL ASSETS		**833 060**	**842 595**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of financial position for the six months ended 30 June 2018.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 31 DECEMBER 2017

(Expressed in thousands of euros)

	Notes	30.06.2018	31.12.2017
EQUITY			
Capital and reserves attributable to the owners of the Parent Company			
Share capital	12	41 105	41 105
Share premium	12	6 784	6 784
Other reserves	12	(121)	(121)
Retained earnings	12	2 452	1 684
Treasury stock	12	273 719	264 083
Total equity		**323 939**	**313 535**
LIABILITIES			
Non-current liabilities			
Borrowings	13	260 589	272 263
Deferred tax liabilities	15	6 520	6 151
Provisions for other liabilities and charges	16	28 724	28 023
Government grants		2 597	3 222
		298 430	**309 659**
Current liabilities			
Suppliers and other payables	14,17	181 276	188 819
Current tax liabilities		53	53
Borrowings	13	24 228	25 400
Provisions for other liabilities and charges	16	5 134	5 129
		210 691	**219 401**
Total liabilities		**509 121**	**529 060**
TOTAL EQUITY AND LIABILITIES		**833 060**	**842 595**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of financial position for the six months ended 30 June 2018.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 2017

(Expressed in thousands of euros)

	Notes	30.06.2018	30.06.2017
Net turnover		**163 029**	**215 083**
Other income		842	1 305
Stock variation for work-in-progress and finished goods		(1 624)	996
Work performed and capitalized by the Company		586	1 594
Procurement costs		(51 638)	(92 047)
Personnel costs	18	(54 677)	(51 641)
Other operating expenses		(27 045)	(26 804)
Amortization and depreciation charge	4,5	(11 072)	(10 481)
Other results		296	73
Operating profit		**18 697**	**38 078**
Financial income	19	34	7
Financial expenses	19	(4 817)	(4 644)
Net financial result		**(4 783)**	**(4 637)**
Profit before tax		**13 914**	**33 441**
Income tax charge	15	(3 913)	(7 383)
Profit for the period from continuing operations		**10 001**	**26 058**
Profit for the period		**10 001**	**26 058**
Attributable to: Owners of the parent	12	10 001	26 058
Non-controlling interests		-	-
Basic earnings per share attributable to the owners of the Company			
Continuing operations	12	0.07	0.19
Total		**0.07**	**0.19**
Diluted earnings per share attributable to the owners of the Company			
Continuing operations	12	0.07	0.19
Total		**0.07**	**0.19**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim comprehensive income for the six months ended 30 June 2018.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 2017

(Expressed in thousands of euros)

	30.06.2018	30.06.2017
Profit for the period	**10 001**	**26 058**
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	768	(2 052)
Total other comprehensive Income	**768**	**(2 052)**
Total comprehensive income for the period		
Attributable to:		
-Owners of the parent	10 769	24 006
-Non-controlling interests	-	-
Total comprehensive income for the period	**10 769**	**24 006**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of comprehensive income for the six months ended 30 June 2018.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 2017

(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 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	-	-	-	-	-	(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**
Balance at 31 December 2017	**41 105**	**6 784**	**1 684**	**264 083**	**-**	**(121)**	**313 535**	**-**	**313 535**
Comprehensive income									
Profit or loss	-	-	-	10 001	-	-	10 001	-	10 001
Other comprehensive Income	-	-	-	-	-	-	-	-	-
Currency exchange differences	-	-	768	-	-	-	768	-	768
Total comprehensive Income	**-**	**-**	**768**	**10 001**	**-**	**-**	**10 769**	**-**	**10 769**
Transactions with owners									
Equity reclassifications	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	(365)	-	-	(365)	-	(365)
Total transactions with owners	**-**	**-**	**-**	**(365)**	**-**	**-**	**(365)**	-	**(365)**
Balance at 30 June 2018	**41 105**	**6 784**	**2 452**	**273 719**	**-**	**(121)**	**323 939**	**-**	**323 939**

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 2018.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 2017
(Expressed in thousands of euros)

	30.06.2018	30.06.2017
Cash flows from operating activities		
Cash used in operations	**(26 670)**	**3 933**
Interest paid	(4 230)	(3 861)
Interest received	34	7
Tax paid	(2 660)	(4 231)
Net cash flow generated from operating activities	**(33 526)**	**(4 152)**
Cash flows from investing activities		
Purchases of property, plant and equipment	(1 486)	(752)
Purchases of intangible assets	(1 235)	(3 443)
Net cash used in investing activities	**(2 721)**	**(4 195)**
Cash flows from financing activities		
Acquiring its shares in Treasury Stock	-	(10 000)
Disbursements for loan repayments	(13 493)	(13 490)
Proceeds from borrowings	79	62 204
Payments with equity instruments	-	(1 313)
Net cash used / (generated) in financing activities	**(13 414)**	**37 401**
Net (decrease) / increase in cash, cash equivalents and bank overdrafts	**(49 661)**	**29 054**
Cash, cash equivalents and bank overdrafts at the beginning of period	243 195	38 808
Cash, cash equivalents and bank overdrafts at the end of period	193 534	67 862

Notes 1 to 21 form an integral part of the abbreviated consolidated statement of cash flows corresponding to the six months ended 30 June 2018.

SUMMARY

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE ABBREVIATED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2018
(Expressed in thousands of euros)

1. General Information

Talgo, 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 2018

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 Directors of the Board meeting which was held on 24 July 2018. 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 2017 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 2017 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 2017 financial year, except for the standards and understanding that have come into force during the first half of 2018 and are detailed below.

2.1.1 Changes in accounting criteria

During first half of 2018 financial year no changes were made in the accounting criteria with respect to the criteria applied in 2017.

2.1.2 Entry into force of new accounting standards

During first half of 2018, 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. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2018:

(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		
IFRS 15. Revenue from contracts with customers (published in May 2014) and its clarifications (published in April 2016)	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 (published in July 2014)	Replaces the requirements for classification, valuation, recognition and derecognition of financial assets and liabilities, hedge and impairment accounting established by IAS 39	1 January 2018
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. Reclassification for Investment property (published in December 2016)	The amendment clarified that to transfer an investment to, or from, a property investment there must be an evidence of a change in use.	1 January 2018
IFRS 1. First time adoption of the IFRS (published in December 2016)	Elimination of some short-term exemptions (improvements to IFRS Period 2014-2016)	1 January 2018
IAS 28. Investments in associate or joint venture. (published in September 2014)	Clarification regarding the option of measure at fair value (improvements to IFRS Period 2014-2016)	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 to determine the exchange rate in advances on foreign currency transactions.	1 January 2018

2.2.2. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2018:

Approved for use in the European Union		**Obligatory application for financial years starting on :**
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). An asset depreciation for the use right and financial expenses will be recognized as depreciated costs	1 January 2019
Amendment to IFRS 9. Prepayment features with Negative Compensation (published October 2017)	This modification will allow the valuation at amortized cost of some financial assets to be cancelled in advance for a lesser amount than the outstanding amount of principal and interest on the principal.	1 January 2019
Not Approved for use in the European Union at the date of this document publication		
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

(Expressed in thousands of euros)

Amendments or/and modifications		
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 IAS 28. Long-term interest in associates and joint ventures (published in October 2017)	Clarifies that IFRS 9 must be applied to long-term interests in an associate or a joint ventures if equity method is not applied	1 January 2019
Amendment to IFRS. Cycle 2015-2017 (published in December 2017)	Minor amendments to a set of standards	1 January 2019
Amendment of IAS 19. Modification, reduction or settlement of a plan	Clarifies how to calculate the cost of the service for the current period and the net interest for the remainder of an annual period when a definite benefit plan is modified, reduced or liquidated.	1 January 2019

Currently, the Group has also been applying the following standards and interpretations, since their entrance into force on 1 January 2018. The impacts, barely significant, have been taken into account in the formulation of the abbreviated consolidated interim financial statements at 30 June 2018.

2.3 Variations in the consolidation perimeter

No changes were made to the consolidation perimeter during first half of 2018.

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 2 and 4 of the consolidated annual accounts for 2017.

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 2017, information was provided about the contingent assets and liabilities as at that date.

During the first half of 2018, 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 2018 and 30 June 2017, was obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

				30.06.18
				€ in thousands
	Rolling stock	**Auxiliary machines and others**	**General**	**Total**
Total segment revenues	149 401	13 628	-	163 029
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**149 401**	**13 628**	**-**	**163 029**
Amortization and depreciation charge	9 655	200	1 217	11 072
Operating result	**30 229**	**5 156**	**(16 688)**	**18 697**
Financial income	31	3	-	34
Financial expenses	(3 631)	(473)	(713)	(4 817)
Result before tax	**26 629**	**4 686**	**(17 401)**	**13 914**
Total Assets	**713 964**	**86 160**	**32 936**	**833 060**
Total Liabilities	**399 640**	**34 253**	**75 228**	**509 121**
Fixed asset investments	**1 776**	**30**	**915**	**2 721**

				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 2018 and 2017 was distributed geographically as follows:

	€ in thousands	
	30.06.18	**30.06.17**
Spain	84 279	61 485
Rest of Europe	8 182	11 131
USA	9 600	6 214
Middle East and North Africa	27 549	101 047
Commonwealth of Independent States	33 309	35 170
Asia	110	36
	163 029	**215 083**

Total non-current assets, other than financial instruments and deferred tax assets in the first half of 2018 and 2017 were distributed geographically as follows:

	€ in thousands	
	30.06.18	**31.12.17**
Spain	209 186	217 047
Overseas	7 703	8 184
	216 889	**225 231**

4. Tangible fixed assets

The movements in the accounts included within tangible fixed assets, fully depreciated and provisions during first half of 2018 and 31 December 2017 were as follows:

	Balance at 31.12.16	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.17
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 077	(119)	-	-	7 517	55 475
Technical installations and machinery	30 786	(250)	339	(2)	52	30 925
Other facilities, tools and furniture	53 252	(125)	294	(126)	363	53 658
Advances and work in progress	423	-	1 619	-	(1 051)	991
Other fixed assets	7 975	(7)	71	(34)	636	8 641
	150 407	(501)	2 323	(162)	7 517	159 584
Depreciation						
Buildings	(23 583)	120	(2 305)	-	(1 403)	(27 171)
Technical installations and machinery	(19 519)	228	(1 789)	2	-	(21 078)
Other facilities, tools and furniture	(37 337)	122	(2 381)	33	-	(39 563)
Other fixed assets	(6 065)	5	(357)	34	-	(6 383)
	(86 504)	475	(6 832)	69	(1 403)	(94 195)
Net book value	**63 903**	**(26)**	**(4 509)**	**(93)**	**6 114**	**65 389**

(Expressed in thousands of euros)

	Balance at 31.12.17	Exchange differences	Additions	Disposals	Transfers	Balance at 30.06.18
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	55 475	25	-	-	10	55 510
Technical installations and machinery	30 925	51	329	-	117	31 422
Other facilities, tools and furniture	53 658	27	169	(27)	149	53 976
Advances and work in progress	991	-	984	-	(279)	1 696
Other fixed assets	8 641	2	4	-	3	8 650
	159 584	105	1 486	(27)	-	161 148
Depreciation						
Buildings	(27 171)	(25)	(925)	-	-	(28 121)
Technical installations and machinery	(21 078)	(51)	(857)	-	-	(21 986)
Other facilities, tools and furniture	(39 563)	(15)	(1 159)	26	-	(40 711)
Other fixed assets	(6 383)	(3)	(220)	-	-	(6 606)
	(94 195)	(94)	(3 161)	26	-	(97 424)
Net book value	**65 389**	**11**	**(1 675)**	**(1)**	**-**	**63 724**

During first half of 2018, main additions to tangible assets correspond to investments at permanent establishment of Kazakhstan, Arabia 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 2018, tangible fixed assets with an initial cost of €53,947 thousand have been fully depreciated and were still operational (2017: €51,454 thousand).

During first half of 2018 and 2017, no valuation corrections have been either recognized or reversed due to the impairment of any individual tangible fixed asset, since it is estimated that the fair value, reduced by the costs of sale, will be higher than the value by which the asset is registered in books.

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

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 2018 and 31 December 2017 were as follows:

	Balance at 31.12.16	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.17
Cost						
Development	103 253	-	-	-	851	104 104
Industrial property	1 749	-	-	-	-	1 749
Software	11 711	(127)	9	-	4 315	15 908
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	7 553	-	9 211	-	(5 166)	11 598
	149 335	(127)	9 220	-	-	158 428
Amortization and impairment losses						
Development	(77 705)	-	(12 361)	-	-	(90 066)
Industrial property	(22)	-	-	-	-	(22)
Software	(10 605)	117	(1 008)	-	-	(11 496)
Maintenance contracts	(5 784)	-	(1 928)	-	-	(7 712)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(95 845)	117	(15 297)	-	-	(111 025)
Net book value	**53 490**	**(10)**	**(6 077)**	**-**	**-**	**47 403**

	Balance at 31.12.17	Exchange differences	Additions	Disposals	Transfers	Balance at 30.06.18
Cost						
Development	104 104	-	-	-	185	104 289
Industrial property	1 749	-	-	-	-	1 749
Software	15 908	31	10	-	82	16 031
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	11 598	-	1 225	-	(267)	12 556
	158 428	31	1 235	-	-	159 694
Amortization and impairment losses						
Development	(90 066)	-	(6 211)	-	-	(96 277)
Industrial property	(22)	-	-	-	-	(22)
Software	(11 496)	(32)	(736)	-	-	(12 264)
Maintenance contracts	(7 712)	-	(964)	-	-	(8 676)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(111 025)	(32)	(7 911)	-	-	(118 968)
Net book value	**47 403**	**(1)**	**(6 676)**	**-**	**-**	**40 726**

The main additions in first half 2018 are related to Development projects in Spanish territory.

At 30 June 2018, the Group held intangible assets that were fully depreciated and still operational, which had an initial cost of €62,314 thousand (2017: €60,298 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 2018 and 2017, 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 2018 and 31 December 2017 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 31.12.16	**112 439**
Additions	-
Disposals	-
Balance at 31.12.17	**112 439**
Additions	-
Disposals	-
Balance at 30.06.18	**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:

	30.06.18	**31.12.17**
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 2018 and 2017 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 2018 and 2017 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.

The combination of the above variables has also been subjected to sensitivity analysis.

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

During 2017 and the first half of 2018, 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 2017			
Assets on the statement of financial position			
Customers and other accounts receivable (note 9)*	244 575	-	244 575
Other financial assets (note 8)	27 007	-	27 007
Cash and cash equivalents (note 11)	243 195	-	243 195
	514 777	**-**	**514 777**
30 June 2018			
Assets on the statement of financial position			
Customers and other accounts receivable (note 9)*	315 000	-	315 000
Other financial assets (note 8)	4 167	-	4 167
Cash and cash equivalents (note 11)	193 534	-	193 534
	512 701	**-**	**512 701**

***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 2017			
Liabilities on the statement of financial position			
Borrowings (note 13)	-	297 663	297 663
Suppliers and other payables (note 14)*	-	98 646	98 646
	-	**396 309**	**396 309**
30 June 2018			
Liabilities on the statement of financial position			
Borrowings (note 13)	-	284 817	284 817
Suppliers and other payables (note 14)*	-	100 972	100 972
	-	**385 789**	**385 789**

***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	
	30.06.18	**31.12.17**
Other non-current financial assets and investments in associates		
Loans to third parties and other loans (note 8 a)	952	922
Loans to associates (note 8 c)	1 719	1 719
Deposits and guarantees (note 8 b)	1 399	1 267
Investment in associates	10	10
Customers and other long-term receivables (note 8 d)	-	23 000
	4 080	**26 918**
Other current financial assets		
Loans to third parties	51	51
Deposits and guarantees	36	38
	87	**89**
Total other financial assets	**4 167**	**27 007**

a) Loans to third parties and other loans

The ‘Loans to third parties’ caption includes balances with related parties amounting to €695 thousand (note 18) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €257 thousand.

b) Deposits and guarantees

The ‘Deposits and guarantees’ caption included in the non-current assets balance at 31 December 2017 and 30 June 2018 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) Other financial assets

The ‘Customers and other long-term receivables’ caption included the advanced payment of €23,000 thousand satisfied to purchase 51% of Tulpar Talgo subject to certain suspensive conditions. Since the aforementioned suspensive conditions have not been fulfilled, during the first semester of 2018 the aforementioned amount has been reimbursed.

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	
	30.06.18	**31.12.17**
Customers	133 828	44 925
Construction completed not yet invoiced	169 681	200 575
Customers – group companies and associates (note 17)	8 540	524
Provision for impairment losses	(4 400)	(4 838)
Customers – Net	**307 649**	**241 186**
Public entities	8 209	11 054
Sundry debtors	5 588	1 613
Personnel	458	395
Total	**321 904**	**254 248**

At 30 June 2018, the Group´s sale commitments amounted to €2,739 Million (30 June 2017: €2,747 Million).

The Group has retroactively applied IFRS 9 and, based on the new expected loss recognition model, has registered appropriate provisions for financial assets.

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

	€ in thousands	
	30.06.2018	**30.06.2017**
At 1 January	**4 838**	**2 777**
Provision recognition	833	300
Disposals	(1 271)	(175)
At 30 June	**4 400**	**2 902**

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	
	30.06.18	**31.12.17**
Public administrations tax receivables for VAT	-	2 285
Public administrations debtors for grants	1 305	1 381
Public administrations debtors for other taxes	300	360
Public administrations corporate income tax	6 604	7 028
	8 209	**11 054**

10. Stock

The composition of this caption is shown below:

	€ in thousands	
	30.06.18	**31.12.17**
Raw Materials	56 312	58 512
Work in progress	15 467	16 679
Advances	7 626	1 842
Provision for the depreciation of raw materials	(8 023)	(7 977)
	71 382	**69 056**

At 30 June 2018, the Group's commitments for the purchase of raw materials and other services amounted to €89,433 thousand (2017: €40,410 thousand).

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

	Balance at 31.12.17	Exchange differences	Provision	Application	Balance at 30.06.17
Provision for the depreciation of raw materials	(7 977)	(157)	-	111	(8 023)
	(7 977)	(157)	-	111	(8 023)

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	
	30.06.18	**31.12.17**
Cash	187 392	235 539
Cash equivalents	6 142	7 656
Total	**193 534**	**243 195**

The balance included in "Cash equivalents" corresponds to a deposit made by the subsidiary Talgo, Inc. whose maturity is daily and which accrues a yearly market interest rate. 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 2018 and 31 December 2017 were as follows:

		€ in thousands
	Number of shares	**Share capital**
At 31 December 2016	**136 832 900**	**41 187**
Capital increases	1 582 092	476
Capital reductions	(1 852 394)	(558)
At 31 December 2017	**138 562 598**	**41 105**
Capital increases	-	-
Capital reductions	-	-
At 30 June 2018	**136 562 598**	**41 105**

As at 31 December 2017 and at June 2018 the Parent Company's share capital comprised 136,562,598 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 2018:

Company	**% stake**
Trilantic Capital Investment GP Limited	35.02%
MCH Inversiones Industriales S.A.R.L.	4.66%
MCH Iberian Capital Fund III, FCR	4.23%
Santa Lucia S.A. Cía de Seguros	5.02%
	48.93%

b) Distribution of profits

On May 10, 2018, the General Shareholders Meeting resolved to distribute of the Parent company's profit of the year 2017, as follows:

	2017
To Reserves	(1 541)
	(1 541)

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., Patentes Talgo Tashkent, LLC. and Talgo India Private Limited.

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	
	30.06.18	**30.06.17**
Profits attributable to the Company´s Shareholders	10 001	26 058
Weighted average number of outstanding ordinary shares	136 562 598	136 832 900
Basic Earnings per Share	0.07	0.19
	0.07	**0.19**

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	
	30.06.18	**30.06.17**
Profits attributable to the Company´s Shareholders	10 001	26 058
Profit used to determine diluted earnings per share	10 001	26 058
Weighted average number of ordinary shares in circulation	136 562 598	136 832 900
Weighted average number of ordinary shares for the purposes of diluted earnings per share	136 562 598	136 832 900
Diluted Earnings per Share	0.07	0.19
	0.07	**0.19**

e) Treasury stock

As at 30 June 2018 and at 31 December 2017, the Company held 22,431 shares in treasury stock. The corresponding details are presented below:

	Number of shares	Acquisiton Price	Quotation	Stock price	%
Shares in Treasury stock June 30, 2018	22 431	5.4	5.1	115	0.02%
Shares in Treasury stock December 31, 2017	22 431	5.4	4.2	94	0.02%

The acquisition of the aforementioned shares was carried out in accordance with the Share Repurchase Plan, whose term are defined in Note 14 of the consolidated annual accounts for 2017, which were approved by the Board of Directors on 23 February 2017.

13. Borrowings

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.18	**31.12.17**
Non-current		
Debt with credit institutions	237 422	249 313
Financial lease creditors	1 937	1 937
Other financial liabilities	21 230	21 013
	260 589	272 263

(Expressed in thousands of euros)

Current		
Debt with credit institutions	21 685	21 365
Financial lease creditors	605	605
Other financial liabilities	1 938	3 430
	24 228	25 400
Total borrowings	**284 817**	**297 663**

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 €22,000 thousand at 30 June 2018 (€32,000 thousand 31 December 2017).

During the first half 2018 financial year, €12,000 thousand of the aforementioned loan was classified as a long-term (€22,000 thousand 31 December 2017) liability and €10,000 thousand was classified as a short-term liability during first half 2018 and 31 December 2017.

On 21 December 2017, an additional financing contract was signed to the former for a maximum amount of up to 30,000 thousand euros, which have not been drawn at the end of the financial year. The aforementioned contract shall accrue a fixed market interest rate when a disposal occurs.

The aforementioned contracts contain a number of associated obligations and covenants known as the Guarantee Ratio, the Commitment Ratio, the Financial Expense Ratio, which the Group has complied with since the beginning of the contract. In addition, in the short term, interest and commissions accrued in the amount of €23 thousand are registered.

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

On April 16, 2015 the Parent company and the subsidiary Patentes Talgo S.L.U. formalized a loan contract by an initial amount of €100,000 thousand, which bears a fixed market interest rate. The aforementioned contract contains a number of associated and covenant obligations that the Group has fulfilled.

Once the costs associated with this loan have been deducted, in the long term it is registered a total amount of €59,637 thousand, while in the short term it is registered an amount of €9,984 thousand. In addition, in the short term, interests and commissions accrued in the amount of €484 thousand are registered.

On July 29, 2016, the subsidiary Patentes Talgo, S.L.U. entered into 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 €347 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 €61 thousand.

During the first half 2017 financial year, the subsidiary Patentes Talgo, S.L.U. 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 2018, the Group held lines of credit amounting to €100,000 thousand (€135,000 thousand at 31 December 2017) not maintaining outstanding balances of the aforementioned lines of credit at the end of the 2017 fiscal year or at June 30, 2018.

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

€ in thousands

30 June 2018	**2018**	**2019**	**2020**	**2021**	**2022**	**Subsequent years**	**Totals**
Debt with credit institutions	21 685	7 888	126 519	41 789	-	61 226	**259 107**

31 December 2017	**2018**	**2019**	**2020**	**2021**	**Subsequent years**	**Totals**
Debt with credit institutions	21 365	19 694	126 533	41 865	61 221	**270 678**

b) Other financial liabilities

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

	€ in thousands	
	30.06.18	**31.12.17**
Non-current		
Debts due to reimbursable advances	19 146	18 929
Other debts	2 084	2 084
	21 230	**21 013**
Current		
Debts due to reimbursable advances	1 798	3 291
Other debts	140	139
	1 938	**3 430**
Total other financial liabilities	**23 168**	**24 443**

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 2018 included mainly non-current debt convertible into grants amounting to €1,667 thousand (2017 €2,044 thousand). These are funds received from the European Commission for the research project "Roll2Rail", "Shift2Rail" and "RODEMAV". 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	
	30.06.18	**31.12.17**
Suppliers	91 058	86 416
Associate company suppliers (note 17)	3 037	3 036
Advances on orders	71 573	81 807
Social Security and other taxes	8 731	8 366
Personnel	6 877	9 194
Total	**181 276**	**188 819**

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	
	30.06.18	**30.06.17**
Profit before tax	**13 914**	**33 441**
Consolidated tax at 25%	3 479	8 360
Tax effects of:		
Differences due to deferring tax rates in each country	729	1 365
Permanent differences	81	37
Activation of deductions	(376)	(670)
Tax credits for loss carryforwards	-	(1 709)
Prior period adjustments	-	-
Tax expense	**3 913**	**7 383**

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. 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. This verification is still in progress at 30 June 2018, without the conclusions of the same being shown.

As a result, among others, of the different possible interpretations of the current tax legislation, additional liabilities could arise as a result of an inspection. In any case, the administrators consider that these liabilities, if they occur, would not significantly affect the financial statements.

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

	€ in thousands	
	30.06.18	**31.12.17**
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	21 659	21 040
	21 659	**21 040**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered in more than 12 months	6 520	6 151
	6 520	**6 151**
Deferred tax assets (net)	**15 139**	**14 889**

The movement in the deferred tax asset balance during the first half 2018 and 31 December 2017 was as follows:

€ in thousands

	Balance at 31.12.17	**Exchange differences**	**Additions**	**Disposals**	**Other Movements**	**Balance at 30.06.18**
Guarantees	3 100	-	3 269	(3 165)	-	3 204
Deductions	-	-	375	-	-	375
Tax credits	14 198	173	-	-	-	14 371
Other concepts	3 742	-	270	(303)	-	3 709
	21 040	**173**	**3 914**	**(3 468)**	**-**	**21 659**

€ in thousands

	Balance at 31.12.16	**Exchange differences**	**Additions**	**Disposals**	**Other Movements**	**Balance at 31.12.17**
Guarantees	2 545	-	3 111	(2 518)	(38)	3 100
Deductions	-	-	1 101	(1 101)	-	-
Tax credits	16 926	(1 007)	-	(1 721)	-	14 198
Other concepts	4 021	-	531	(810)	-	3 742
	23 492	**(1 007)**	**4 743**	**(6 150)**	**(38)**	**21 040**

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 2016	**16 926**	**-**	**6 566**	**23 492**
Credit/(Charge) to income statement	-	1 101	314	1 415
Other movements and transfers	(2 728)	(1 101)	(38)	(3 867)
Balance at 31 December 2017	**14 198**	**-**	**6 842**	**21 040**
Credit/(Charge) to income statement	-	375	71	446
Other movements and transfers	173	-	-	173
Balance at 30 June 2018	**14 371**	**375**	**6 913**	**21 659**

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 €6,183 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 2018, the negative taxable bases pending offset in the USA, relating to the subsidiary Talgo Inc., amounted to €40,196 thousand (€39,535 thousand at 31 December 2017) and their expiry dates are detailed below:

	€ in thousands	**Final year**
2001	1 050	2021
2002	3 001	2022
2003	5 072	2023
2004	12 658	2024
2005	7 977	2025
2006	6 786	2026
2012	3 652	2032
	40 196	

At June 30, 2018, the negative tax bases pending to be offset of the Tax Group 65/06 are the following:

Year	€ in thousands
2015	32 768
	32 768

Deferred tax liabilities

The movement in the deferred tax liabilities balance during the financial years 2017 and 2018 was as follows:

	€ in thousands		
	Cash flow hedge	**Other concepts**	**Total**
Balance at 31 December 2016	**-**	**5 205**	**5 205**
Credit / (Charge) to income statement	-	946	946
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at 31 December 2017	**-**	**6 151**	**6 151**
Credit / (Charge) to income statement	-	369	369
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at 30 June 2018	**-**	**6 520**	**6 520**

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 31/12/2017	**17 435**	**10 588**	**28 023**	**1 251**	**3 878**	**5 129**
Provisions	1 413	826	**2 239**	42	1 030	**1 072**
Applications	(1 422)	(459)	**(1 881)**	(99)	(625)	**(724)**
Transfers	-	343	**343**	-	(343)	**(343)**
Balance at 30/06/2018	**17 426**	**11 298**	**28 724**	**1 194**	**3 940**	**5 134**

At the 2017 year-end and the first half 2018 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 2018, the Group had a volume of bank guarantees and surety bonds amounting to €999 million (2017: €818 million), of which €925 million (2017: €741 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 2018, the amount available from the bank guarantee lines amounted to €337 million (€298 million in 2017).

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 2018.

a) Commitments to purchase fixed assets

At 30 June 2018, the Group had commitments to purchase fixed assets amounting to €4,840 thousand (30 June 2017: €9,633 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 2017 and the first half 2018 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 2018, the remunerations accrued to the members of the Board of Directors for the performance of this role amounted to €330 thousand (30 June 2017: €330 thousand).

c) Commercial transactions with related parties:

		€ in thousands
	30.06.2018	**30.06.2017**
External services:		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	553	6 071
Expenses	**553**	**6 071**

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

		€ in thousands
	30.06.18	**31.12.17**
Customers – group companies and associates (note 9)	8 540	524
Customers – group companies and associates	**8 540**	**524**

		€ in thousands
	30.06.18	**31.12.17**
Suppliers – group companies and associates (note 14)	3 037	3 036
Suppliers – group companies and associates	**3 037**	**3 036**

At 30 June 2018 and at the 2017 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	
	30.06.2018	**30.06.2017**
Purchases	15 367	6 571
Sales	19 474	11 784

18. Employee benefit expenses

a) The breakdown of this caption is as follows:

	€ in thousands	
	30.06.18	**30.06.17**
Wages, salaries and similar	41 511	39 342
Contributions and provisions for defined pension contributions and other obligations	1 048	962
Other welfare charges	12 118	11 337
	54 677	**51 641**

The 'Wages, salaries and similar' caption includes compensation costs, which amounted to €476 thousand as at 30 June 2018 (30 June 2017: €62 thousand) and the cost relating to the remuneration paid to Senior Management explained in note 18. b.

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

During the first half 2018, the remuneration paid to the senior management team, which is understood to comprise the members that form the Steering Committee, amounted to €1,226 thousand in terms of fixed and short-term variable remuneration (€1,217 thousand in the first half of 2017). The remuneration paid to the Group's Directors in terms of fixed and short-term variable remuneration amounted to €826 thousand as at 30 June 2018 (€825 thousand as at 30 June 2017).

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 €24 thousand at 30 June 2018 (€21 thousand at 30 June 2017). The amount corresponding to the pension plan of this same collective amounted to €42 thousand at 30 June 2018 (€38 thousand at 30 June 2017). 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 €695 thousand at 30 June 2018. 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 2018 and 2017 is as follows:

	30.06.2018		30.06.2017	
	Men	Women	Men	Women
Board members and Senior Management	12	3	11	2
Management	34	3	32	3
Middle management	219	25	194	22
Technicians	1 639	220	1 574	218
	1 904	**251**	**1 811**	**245**

19. Financial income and expenses

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.18	30.06.17
Interest expenses:		
Bank borrowings and other charges	(4 661)	(4 255)
Exchange differences	(156)	(389)
Financial expenses	**(4 817)**	**(4 644)**
Interest income on short term deposits with credit institutions	4	6
Interest income on short term deposits with related parties	30	1
Financial income	**34**	**7**
Net financial result	**(4 783)**	**(4 637)**

20. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

	€ in thousands	
	30.06.2018	30.06.2017
Profit for the year before tax	**13 914**	**33 441**
Adjustments for:		
- Depreciation of tangible fixed assets (note 4)	3 161	3 055
- Amortization of intangible assets (note 5)	7 911	7 426
- Net change in provisions (note 16)	706	(43)
- (Gain)/loss in the fair value of derivative financial instruments	-	-
- Financial expenses (note 19)	4 661	4 255
- Financial income (note 19)	(34)	(7)
- Result from the loss of the joint control	-	-
- Allocation of grants	(625)	(692)
- Other income and expenses	(1 439)	(1 690)
Changes in working capital (excluding the effects of the acquisition and exchange differences on consolidation):	**(54 925)**	**(41 812)**
Stocks (note 10)	(1 960)	14 055
Other financial assets (note 8)	23 000	251
Customers and other account receivables (note 9)	(68 403)	(48 418)
Suppliers and other payables (note 14)	(7 562)	(7 700)
Cash flows from operating activities:	**(26 670)**	**3 933**

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.

Business performance

The Group's EBITDA at the end of the first half of 2018 amounted to €29.8 million, compared with €48.2 million in the previous period.

The Group's EBIT at the end of the first half of 2018 amounted to €18.7million, compared with €38.1 million in the previous period.

The profit after tax at the end of the first half of 2018 amounted to €10 million, €26.1 million in the previous period.

At the end of the first half of 2018, the Group's order backlog amounted to €2,739 million

TALGO, S.A. AND SUBSIDIARIES

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

(€2,747 million at 31 December 2017)

Business performance

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. In relation with the aforementioned contract, the testing and certification of trains are being finalized in Saudi Arabia, as well as the demonstration trips agreed with the client, in order to start the commercial operation in the forthcoming months.

On the other hand, following the awarding by RENFE for the supply 15+15 optional high-speed trains and their maintenance for 30 years the Group, since the signing of the contracts, is working in the development of the project to comply with the deadlines established in them, having recently begun the work of integration of underframes and bodyshells of cars. Apart from the foregoing, and within in the business line of large operations of maintenance of railway units, the subsidiary Talgo Inc. in the United States, is developing, in the facilities rented to Milwaukee City Hall, the overhaul of 74 units for the Los Angeles Metro (LACMTA) once the option to refurbish 36 additional units was awarded to Talgo Inc.

On February 5, 2018, RENFE awarded the Group's Parent company in Spain a contract for the transformation of Hotel trains series 7 to compositions suitable to circulate at 330 km/h, whose contract has been signed during this June. At present, the first engineering and factory dismantling works of the cars that correspond to this project have been started.

During the first half of 2018, 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. In the same way, the work for the preparation of the maintenance operations in Saudi Arabia of the Mecca-Medina high-speed trains, including basically all the collection of spare materials and hiring of personnel.

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, comfort, noise and vibration, element joints, traction and wear.

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

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 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.

From the very beginning of its activity and, if possible, with more emphasis in recent years, Talgo promotes innovation as the fundamental pillar on which the present is sustained and, above all, the future of the company. In addition, this principle is understood from a corporate point of view, without focusing solely on product, but on generating and improving initiatives that involve the whole innovation ecosystem that encompasses Talgo, taking advantage of all the collective creative potential and generating an even more powerful innovative culture. In this way, innovation helps the company to weave a system that allows us to anticipate future challenges, promote surveillance and technological foresight activities, and generate an optimal environment for evolutionary and disruptive thinking.

To achieve this, we work with a model of corporate innovation that promotes a continuous improvement approach, encouraging year after year new initiatives at the global level. An example of this is the consolidation of the Knowledge Management System of Talgo, which serves to strengthen and grow the main asset of the organization: the knowledge of its employees. Its purpose is to better share existing knowledge and to generate more quickly new knowledge, basic requirements to achieve improvements in projects and processes of all kinds, including innovation. To this end, among other initiatives, it has promoted the creation of Communities and collaborative Groups that serve as a forum to share and work in a transversal way on key knowledge of the company.

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.

Moreover, the tools of "open innovation" that are used to allow an evolution towards an even wider concept of collaborative innovation are also noteworthy, in which the individual creativity of the workers and other agents is exploited, as well as the different approaches of each one, we get innovative and effective solutions to the company's challenges. These tools are exemplified through creative problem-solving sessions and through challenges open to the public, both inside and outside the company.

On the other hand, Talgo continues its policy of investment in research and development activities which seek to continually improve Group´s processes, products and maintenance services. It is worth highlighting, among others, collaborations in projects and working groups with different national and European partners, including universities and technological centers of high reputation, as well as some of the main railway industries. Some of the major collaborations of this kind are framed within the Shift2Rail programme, which is also included in the European Commission's "Horizon 2020" initiative, where Talgo has a very important role in some of the key traction projects, lightening of primary structure, rolling systems, energy efficiency and noise and vibration improvement.

Thanks to the aforementioned, Talgo has gone from being a local company, whose innovative processes focused on the satisfaction of a single internal customer, to be a company whose innovative activity focuses on the international market, and that not only competes with the state of the art of technology worldwide, but tries to anticipate the needs of its customers of the future.

Since its beginnings Talgo bet and keeps betting on the design and manufacture of tailored products, with the aim of satisfying the specific needs of the clients through customized solutions; what is favored by the size, structure and values of the company. This philosophy of work and of permanent attention to the client makes the difference in front of its competitors, being a very valued aspect in the commercial competitions.

Talgo continues looking to the future convinced to confront and overcome new challenges, taking advantage of the innovative and creative capacity of its excellent human capital; and understanding the railway as a whole system, which only seen from its most global perspective will allow this dream, over 75 years, to go ahead driven by an innovative spirit that has been from the outset its 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 Parent company has 22,431 own shares as of June 30, 2018 (note 12e).