



**INTERIM DIRECTORS' REPORT  
OF THE CONSOLIDATED GROUP  
FOR THE SIX-MONTH PERIOD  
ENDED 30 JUNE 2017**



*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

## **EARNINGS**

Financial highlights of the first six months of 2017 were as follows:

- Profit from continuing operations amounted to EUR 15,700 thousand after tax and EUR 24,766 thousand before tax, compared with EUR 15,012 thousand and EUR 23,968 thousand, respectively, in the same period of 2016.
- The depreciation and amortisation charge and impairment losses relating to non-current assets amounted to EUR 18,602 thousand which, added to the profit for the period from continuing operations before tax, generated a cash flow of EUR 43,368 thousand, up on the figure for same period in 2016, which amounted to EUR 38,062 thousand.
- EBITDA<sup>1</sup> from continuing operations totalled EUR 86,253 thousand, up on the figure for the same period in 2016, which amounted to EUR 64,708 thousand.
- Revenue from continuing operations amounted to EUR 755,467 thousand, up on the figure for the same period in 2016, which amounted to EUR 631,868 thousand.
- The backlog<sup>2</sup> amounted to EUR 5,926,933 thousand at 30 June 2017, down slightly on the backlog for the same period in 2016 (EUR 6,227,931 thousand), enabling the continuation of the Group's normal business activities.
- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the first six months of 2017.

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<sup>1</sup> The CAF Group's EBITDA is calculated by deducting from "Profit from Operations" in the condensed consolidated statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

<sup>2</sup> Backlog represents the volume of firm backlog that will be recognised in the future under "Revenue" in the condensed consolidated statement of profit or loss. Backlog is considered firm only where obligations between the CAF Group and the customer arise. In the case of sales of trains and services, obligations are deemed to arise when the parties sign the agreement.



### **COMMERCIAL ACTIVITY**

In France, the CAF Group signed a contract with the Paris public transport operator (Régie Autonome des Transports Parisiens -RATP-) for the manufacture and supply of twelve battery-overhead maintenance locomotives. The contact value could amount to EUR 65 million if RATP exercises the option in the contract to purchase six additional locomotives.

In Germany, the public transport authority Zweckverband - Schönbuchbahn signed a contract with the CAF Group for the supply of seven trainsets and the integrated maintenance thereof for 19 years. The project comprises three-car Light Rail Vehicle units and the contract value exceeds EUR 70 million.

In the province of Utrecht in the Netherlands, a contract was entered into for the manufacture and supply of 22 trams, with the capacity to transport in excess of 300 passengers per unit, extending the supply project for 27 trams awarded in 2015. The contract value exceeds EUR 50 million. Also, in Stockholm the Group's initial contract to supply the Swedish capital with 15 trams was extended by eight tramsets to a total fleet of 23 tram units.

## INDUSTRIAL ACTIVITY

Industrial activity in the first half of 2017 focused mainly on a total of 17 projects involving almost the entire range of CAF's manufacturing processes.

The manufacturing phase of certain of these projects has been completed, such as the 20 metro-unit project for the Helsinki metro with the delivery of the last unit.

The first six months of 2017 also saw the completion of five seven-module trams for Freiburg, five of the 16 five-module trams contracted by the French city of Saint-Étienne, two five-module trams for the city of Utrecht and five of the 21 seven-module trams projected for the city of Luxembourg.

Projects involving the range of metro and commuter trainsets at the manufacturing phase included eight three-car units of the contract for 22 trains signed with the city of Medellín (Colombia), the second of the Civity-based trains for Toluca (Mexico), four trains of the contract for 35 arranged by CPTM for the Brazilian city of Sao Paulo, twelve five-car units for the city of Santiago de Chile metro, seven trains for the Istanbul metro and five train units completing the 27 manufactured for Euskotren.

Among this range of commuter trains, mention should be made of the three four-car units and the first of the three-car units for the Dutch Operator NS under the contract entered into for 118 units.

With respect to push-pull cars, four dinner-type cars under the project signed with the US operator Amtrak and the first two push-pull cars of the Scottish Caledonian project were completed.

As regards other projects already in more initial phases of manufacturing, mention should be made of the contracts entered into with the British operators Northern Arriva and TransPennine.

The most important products manufactured in the first six months of 2017 were as follows:

	<b>No. of Cars</b>
Long-distance Amtrak cars .....	4
Long-distance Caledonian cars .....	2
Euskotren commuter trains.....	15
Commuter trains for CPTM.....	32
Commuter trains for Toluca .....	5
Commuter trains for NS (four-car units) .....	12
Commuter trains for NS (three-car units) .....	3
Chile metro .....	60
Istanbul metro .....	42
Helsinki metro .....	4
Medellin metro .....	24
Trams for Freiburg .....	35
Trams for Saint Etienne .....	25
Trams for Utrecht .....	10
Trams for Luxembourg .....	35
<b>TOTAL .....</b>	<b>308</b>

## BOGIES

With welded chassis .....	598
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## WHEEL SETS AND COMPONENTS UNITS –MiRA-

Assembled axles (power car + push-pull car).....	3,717
Loose axle bodies .....	2,891
Monoblock wheels .....	25,131
Elastic wheels.....	528
Couplers.....	330
Gear units .....	1,475
Bandages .....	327



## HUMAN RESOURCES

The changes in the consolidated Group's workforce in the first six months of 2017 were as follows:

	PERMANENT EMPLOYEES	TOTAL	AVERAGE FOR THE PERIOD
30/06/16	7,128	7,451	7,424
30/06/17	7,180	7,767	7,701

The consolidated Group's total workforce grew moderately, while the permanent workforce increased very slightly.



## **ENVIRONMENTAL ACTIVITY**

Aware of the impact that industrial development has on the environment, CAF S.A.'s general corporate policy includes an environmental policy that adopts the protection of the environment as a corporate aim, as well as ensuring that the systems, equipment and rolling stock material manufactured comply with the highest standards, not only in terms of safety and efficiency, but also in terms of respect for the environment.

Since 2001 all of CAF S.A.'s manufacturing plants have been certified pursuant to ISO 14001 standard on "Environmental Management Systems" which covers the organisational structure, the planning of environmental protection activities, responsibilities, environmental goals and the resources required to develop, review and update environmental policy.

Also, in June 2017 an audit to preserve the ISO 14001:2004 Environmental Management Systems certification was successfully carried out at the Beasain, Irún and Zaragoza plants.

The efforts in this area are geared towards adopting the necessary and economically viable measures to control and, where required, to minimise important areas of environmental concern, such as emissions into the atmosphere, waste generation and energy consumption. The aim is to preserve natural resources, in line with the environmental advantages afforded by the manufacture of means of rail transport, which are viewed favourably due to their reduced environmental impact.

It should be noted that, with the aim of offering more efficient means of transport, while respecting the environment and maintaining competitiveness in an increasingly demanding market in terms of environmental respect, CAF is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout the lifecycle.

CAF integrates methodologies and tools into its design processes to evaluate and select the best product solutions and compositions through:

- Recyclability measurement pursuant to ISO 22628 standard, for enhanced materials selection
- Life Cycle Assessment pursuant to ISO 14040 standard, for environmental assessment of the product at each stage of its lifecycle

As a result, together with the new Environmental Product Declarations (EPDs) published in 2015 for the Helsinki metro and the Urbos trams for the city of Kaohsiung, six of the CAF project EPDs have now been verified and published in the International EPD System (<http://www.environdec.com>). In the first half of 2016 a preliminary recyclability study of the project for NS and its Final Design Review (FDR) were performed although no new EPDs were published and none of the projects in progress applied for EPD registration.



## INVESTMENTS

Capital expenditure by CAF in the first six months of 2017 amounted to EUR 9,224 thousand. The investments included most notably:

The investment in the new automatic axle machining and verification line at the Wheel Sets and Components Business Unit (MiiRA) is in its final phase which will conclude with final approval and start up in the second half of the year. Similarly, MiiRA's new offices were completed in early 2017 and are now fully operational.

At the Rolling Stock Business Unit, a plan commenced to improve the industrialisation model with the aim of equipping the Parent with the capacity and installations required to provide an optimal response to the considerable number of projects awarded in 2016. These measures included most notably in early 2017 the commencement of the new engineering and R&D building being constructed in Beasain and investment in manufacturing areas, such as the refitting and renovation of the refinishing warehouses applying Lean methodology, the conditioning and equipping of the new Kitting areas and the construction of a new tram test track.

With regard to investments in the Parent's other departments, the existing offices were also reorganised and extended in response to the growth in the workforce. The main departments affected by these investments were the Quality, Manufacturing Engineering, Purchasing and Planning departments.

Similarly in the IT area, the data warehousing system is currently being upgraded to provide a more modern hybrid infrastructure comprised of various types of data warehousing. A server consolidation process was also launched to equip servers with greater processing resources, thus minimising the number of incidents and reducing consumption.

Lastly, investments abroad included notably those at the Huehuetoca factory in Mexico, which commenced in 2016, geared towards upgrading its facilities and the acquisition of new painting and alumina coating booths, required to fulfil the projects the Parent will develop in Mexico in the coming months.

Also, construction of a new manufacturing plant in Newport (Wales) is expected to begin in the second half of 2017.

CAF's future plant will be situated on a lot of 46,000 m<sup>2</sup>. With a workforce estimated to reach as many as 300 employees, this new plant is designed to produce all manner of railway vehicles, performing rolling stock assembly and finishing activities as well as all the tests required prior to commissioning. The plant is also expected to have a significant effect on local providers and suppliers, creating additional indirect employment.

The plant would enable the Group to accommodate any new contracts that might be awarded in the UK, where the CAF Group aims to continue contributing to railway development in the coming years, as well as performing train maintenance and servicing activities. The plant is expected to come into operation by mid-2018.



## **TECHNOLOGICAL DEVELOPMENT**

As regards CAF and CAF I+D, in the early months of 2017 the CAF Group's new technology plan for 2017-2018 was completed which approved a total of 65 new projects for CAF and its subsidiaries. A total of 134 projects were in progress under the technology plan in 2017.

Similarly, the product plan for 2017-2018 was completed which worked on the basic development of new types of vehicle to extend CAF's product range and on improving its existing offering.

The aforementioned projects obtained funding through grants for R&D activities from the following entities:

- Provincial Government of Gipuzkoa
- Basque Government
- Ministry of Economy and Competitiveness
- Ministry of Industry, Energy and Tourism
- European Commission

The 2017-2018 technology plan launched and to be implemented in 2017 fostered projects involving CAF, CAF I+D and various subsidiaries, continuing the close level of collaboration achieved with technology centres and universities.

The projects included in the 2017-2018 technology plan encompassed the following fields:

- Specific rolling stock products
- Digital Train, which comprises projects using Big Data technologies to gather and process operational data for use in product and maintenance enhancements
- Energy management and ecodesign, comprising projects relating to the reduction and optimisation of energy consumption in trains and in the system as a whole, energy capture and storage in various media, etc.
- Signalling (on-board and fixed)
- Traction
- Specific products and developments using basic rolling stock technologies, traction, wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

All of the above combined the execution of projects aimed at assimilating new technologies with the development of products based on such technologies and strategic projects.

The CAF Group participates in joint projects at state level and also as part of the European Union seventh Framework Programme and H2020. Noteworthy projects included:

- STARS to determine the suitability of global satellite positioning in the rolling stock industry.
- ROLL2RAIL, a two-year project led by CAF on the technical side which precedes Shift2Rail, the aim of which is to develop a series of key technologies that will provide a significant leap in innovation in the rolling stock vehicle field.
- SHIFT2RAIL. As a constituent entity of the Shift2Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is involved in various technology development projects (CONNECTA, PINTA, IMPACT, etc.) which are scheduled to continue until 2024.



The most significant engineering projects undertaken in the first six months of 2017 were as follows:

- Oaris high-speed trains for Flytoget (Norway)
- Diesel and electrical multiple units for Northern Arriva (UK)
- Electrical multiple units for TransPennine Express-First Group (UK)
- Automated metro for Istanbul (Turkey)
- LRV for Boston and Maryland Metro (US)
- Push-pull cars for Caledonian and TransPennine Express-First Group (UK)
- Units for Toluca (Mexico)
- Mexico City metro Line 1
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)

The following engineering projects were launched in the first six months of 2017:

- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Automated metro for STIB (Brussels)



## **RISK MANAGEMENT POLICY**

In 2016 the Board of Directors of CAF, S.A. reviewed its Risk Management and Control System, in the terms set out in the current General Risk Management and Control Policy, which forms part of the CAF Group's internal regulations and which is available on [www.caf.net](http://www.caf.net) in the corporate policies area.

The most significant risks facing the Group can be grouped together in the following categories:

### **1.- Financial risks**

The financial risk management policy adopted by the CAF Group focuses on managing the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance.

The Group's Financial Department identifies, assesses and hedges financial risks by establishing policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, the use of derivative and non-derivative instruments, the investment of cash surpluses and deviations from project budgets.

#### a) Market risk

##### *a.1) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises on borrowings. The Group's policy for working capital financing transactions is to resort to third-party borrowings in the form of debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure. For long-term financing transactions, the Group sets an objective, to the extent permitted by the markets, of maintaining a fixed interest rate structure.

##### *a.2) Foreign currency risk*

The various CAF Group companies operate on an international stage and, therefore, are exposed to foreign currency risk in their foreign currency transactions (currently the US dollar, the Brazilian real, the pound sterling, the New Taiwan dollar, the Swedish krona, the Australian dollar, the Saudi riyal, the Mexican peso, the Canadian dollar and the Hungarian forint, among others).

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (the euro).

CAF's standard practice is to hedge, provided that the cost is reasonable, the market risk associated with contracts denominated in currencies other than the Group's functional currency. The hedges are intended to avoid the impact of currency fluctuations on the various contracts entered into, so that the Group's results present fairly its industrial and services activity.

### *a.3) Commodity risk*

For the most significant commodities, CAF places the orders and agrees on the price when each new project commences. The risk of a rise in commodities prices having an adverse effect on the Group's contractual margins is thus hedged.

### *b) Credit and counterparty risk*

Most of the Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Group's standard practice is to hedge against certain risks of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature. The decision on whether or not to hedge is taken on the basis of the type of customer and the country in which it operates.

### *c) Liquidity and financing risk*

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover the Group's financial obligations fully and effectively.

The CAF Group manages liquidity risk using the following mechanisms:

- Seeking and selecting business opportunities with the highest possible level of self-financing, within existing market conditions, for each of the contracts. In vehicle manufacturing projects of an average term of approximately three years, the milestones for billing and executing the work may not be in the same timeframe, which results in financial resources being consumed.
- Implementing and maintaining an active working capital management policy through ongoing monitoring of compliance with billing milestones for each project commissioned.
- Maintaining a strong short-term liquidity position.
- Maintaining surplus undrawn credit balances.

### *d) Risks arising from variances with respect to project budgets*

Variances from project budgets that served as the basis for drawing up the various bids are analysed and monitored through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for those items with the actual situation regarding the costs of each project. In this way, these data are monitored on an ongoing basis over the life of the projects using a complex internal process created for this purpose in which all the departments involved in the projects participate.

## **2.- Risks arising from environmental damage**

CAF is fully committed to protecting the environment. With this objective in mind, it has implemented the principles of the EU's environmental action programme based on preventative measures and the rectification of problems at source. To this end, the Company has introduced a programme of measures in various areas of environmental concern relating to the atmosphere, spills, waste, consumption of raw materials, energy, water and noise, and has obtained certification under the ISO 14001 standard.

## **3.- Legal and contractual risks arising mainly from harm caused to third parties as a result of deficiencies or delays in the provision of services**

Tender specifications and rolling stock vehicle manufacturing contracts include numerous requirements concerning technical aspects and quality standards (with the introduction of hi-tech products), requirements relating to compliance with delivery deadlines, certification needs, manufacturing location requirements and other operational risks which usually involve penalty levels and conditions subsequent or precedent. In this respect, discrepancies may arise with regard to such requirements between the CAF Group and its customers, which may result in claims for delays, incorrect performance of work or the performance of additional work.

To handle the difficulties concerning management of its projects, the CAF Group operates a risk management system that starts when the bid is prepared and enables the Group to identify and manage the various risks it faces in the normal course of its business.

All CAF's plants use the most advanced technologies available and state-of-the-art techniques in order to optimise production pursuant to the IRIS (International Rail Industry Standard) or the ISO 9001 standard.

CAF also implements a stringent policy of taking out insurance to protect itself sufficiently from the economic consequences for the Group of any of these risks materialising.

## **4.- Occupational risks or damage to plant assets**

CAF has an Occupational Risk Prevention System in place audited by an independent firm. The Prevention System Manual created for that purpose defines, inter alia, the risk assessment, accident investigation, safety inspection, health monitoring and training activities. There is also an annual Prevention Plan for the appropriate planning of preventative measures each year. CAF also has an Employee Training Plan in this area.

## OUTLOOK

In the coming years, the CAF Group's activities will focus on furthering the development of prior years' lines of action and setting in motion new areas of action, such as:

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including taking advantage of joint ventures.
- Firm commitment to growth in the railway services business beyond fleet maintenance, such as concession arrangements, operation of railway systems, leasing, maintenance and/or refurbishing of trains and locomotives, and various value propositions to customers that might arise from the marketing of digital services (Condition Based Maintenance, fleet management, etc.).
- Significant growth in business related to the design and construction of turnkey transport systems and, when required by customers, the maintenance and operation thereof, by the Group on its own or through alliances, including capital investment, as the case may be.
- Continued investment in technology development, in relation to technologies and marketable products at component, subsystem or material level, intended to be supplied to customers in all of the Group's lines of business (wheel sets, signalling, energy, data management, inspections, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.
- Achieving further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Vectia, etc.
- Furthering the digitisation of the Group's operating procedures (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0).
- Systematic and recurring execution of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety and management across all Group business activities and areas, within a highly competitive environment. This includes:
  - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK, Urbos AXL, metro, etc.)
  - Gradual expansion of the Industrial Operations Transformation Plan.
  - Optimisation of the life cost cycle (LCC) of the product, an area that increasingly defines our competitiveness.
- Lastly, making progress in fundamental areas of business management such as, for example, Corporate Social Responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.
- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including taking advantage of joint ventures. In this regard, worth mentioning are the efforts already underway aimed at equipping us with industrial capacity in the UK in various areas of activity (services, engineering and manufacture), for an improved response to its market requirements.



#### **EVENTS AFTER THE REPORTING PERIOD**

On 11 July 2017, the Parent acquired a majority ownership interest in BWB Consulting. BWB Consulting, with registered office in the UK, is an engineering consulting firm with revenue of approximately EUR 25 million and more than 300 employees at present.

On 18 July 2017, the Parent also acquired a majority ownership interest in Rifer, S.R.L., located in Italy, with a workforce of more than 60 employees and annual revenue of around EUR 10 million, in order to strengthen its components business – MiiRA.



**CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND  
SUBSIDIARIES COMPOSING THE CAF GROUP (CONSOLIDATED)  
SUMMARISED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

**JULY 2017**



Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.



## Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group

### Condensed Consolidated Balance Sheets as at 30 June 2017 and 31 December 2016 (Notes 1 and 2) (Thousands of Euros)

Assets	30/06/17	31/12/16 (*)	Equity and liabilities	30/06/17	31/12/16 (*)
<b>Non-current assets:</b>			<b>Equity (Note 10):</b>		
<b>Intangible assets (Note 5)-</b>			<b>Shareholders' equity-</b>		
Goodwill	15	15	Registered share capital	10.319	10.319
Other intangible assets	41.323	40.129	Share premium	11.863	11.863
	<b>41.338</b>	<b>40.144</b>	Revaluation reserve	39.119	39.119
<b>Property, plant and equipment, net (Note 7)</b>	<b>222.628</b>	<b>229.309</b>	Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	775.401	758.268
<b>Investments accounted for using the equity method</b>	<b>19.552</b>	<b>18.572</b>	Profit for the period attributable to the Parent	15.960	35.013
<b>Non-current financial assets (Note 6)</b>	<b>614.670</b>	<b>666.419</b>		<b>852.662</b>	<b>854.582</b>
<b>Deferred tax assets (Note 17)</b>	<b>164.330</b>	<b>159.176</b>	<b>Valuation adjustments-</b>		
<b>Total non-current assets</b>	<b>1.062.518</b>	<b>1.113.620</b>	Hedges (Notes 10 & 14)	(5.159)	(5.908)
			Translation differences	(99.572)	(76.703)
			<b>Equity attributable to the Parent</b>	<b>(104.731)</b>	<b>(82.611)</b>
			<b>Non-controlling interests</b>	<b>747.931</b>	<b>771.971</b>
				<b>7.822</b>	<b>11.706</b>
			<b>Total equity</b>	<b>755.753</b>	<b>783.677</b>
			<b>Non-current liabilities:</b>		
			<b>Long-term provisions (Note 11)</b>	<b>5.421</b>	<b>4.646</b>
			<b>Non-current financial liabilities (Note 9)-</b>		
			Bank borrowings	611.001	648.145
			Other financial liabilities	62.332	61.428
				<b>673.333</b>	<b>709.573</b>
			<b>Deferred tax liabilities (Note 17)</b>	<b>177.833</b>	<b>172.137</b>
			<b>Other non-current liabilities</b>	<b>61.711</b>	<b>58.039</b>
			<b>Total non-current liabilities</b>	<b>918.298</b>	<b>944.395</b>
			<b>Current liabilities:</b>		
			<b>Short-term provisions (Note 11)</b>	<b>215.101</b>	<b>227.937</b>
<b>Current assets:</b>			<b>Current financial liabilities (Note 9)-</b>		
<b>Inventories (Note 8)</b>	<b>100.840</b>	<b>60.287</b>	Bank borrowings	42.778	103.075
<b>Trade and other receivables-</b>			Other financial liabilities (Note 4)	67.490	139.527
Trade receivables for sales and services (Notes 6 & 8)	1.274.308	1.306.363		<b>110.268</b>	<b>242.602</b>
Other receivables (Notes 6 & 17)	202.952	204.033	<b>Trade and other payables-</b>		
Current tax assets	15.391	13.426	Payable to suppliers	476.195	376.531
	<b>1.492.651</b>	<b>1.523.822</b>	Other payables (Notes 8, 9 & 17)	564.589	657.056
<b>Other current financial assets (Note 6)</b>	<b>100.430</b>	<b>140.480</b>	Current tax liabilities (Note 17)	1.101	969
<b>Other current assets</b>	<b>3.707</b>	<b>3.206</b>		<b>1.041.885</b>	<b>1.034.556</b>
<b>Cash and cash equivalents</b>	<b>281.417</b>	<b>392.022</b>	<b>Other current liabilities</b>	<b>258</b>	<b>270</b>
<b>Total current assets</b>	<b>1.979.045</b>	<b>2.119.817</b>	<b>Total current liabilities</b>	<b>1.367.512</b>	<b>1.505.365</b>
<b>Total assets</b>	<b>3.041.563</b>	<b>3.233.437</b>	<b>Total equity and liabilities</b>	<b>3.041.563</b>	<b>3.233.437</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated balance sheet as at 30 June 2017.

Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.



**Construcciones y Auxiliar de Ferrocarriles, S.A.  
and Subsidiaries  
composing the CAF Group**

**Condensed Consolidated Statements of Profit or Loss  
for the six-month periods ended  
30 June 2017 and 2016 (Notes 1 & 2)  
(Thousands of Euros)**

	(Debit) Credit	
	30/06/17	30/06/16 (*)
<b>Continuing operations:</b>		
Revenue (Note 15)	755.467	631.868
+/- Changes in inventories of finished goods and work in progress	(131.965)	(33.334)
In-house work on non-current assets	4.584	4.403
Procurements	(208.702)	(246.300)
Other operating income	2.271	1.623
Staff costs (Notes 9, 11 & 16)	(229.947)	(205.669)
Other operating expenses (Note 11)	(105.455)	(87.883)
Depreciation and amortisation charge (Notes 5 & 7)	(18.573)	(18.519)
Impairment and gains or losses on disposals of non-current assets (Notes 3, 6 & 7)	(29)	4.425
Other gains or losses	-	-
<b>Profit from Operations</b>	<b>67.651</b>	<b>50.614</b>
Finance income (Note 6)	3.824	3.545
Finance costs (Note 9)	(34.545)	(30.569)
Changes in fair value of financial instruments	36	135
Exchange differences	(12.499)	229
Impairment and gains or losses on disposals of financial instruments (Note 6)	(31)	(315)
<b>Financial Loss</b>	<b>(43.215)</b>	<b>(26.975)</b>
Result of companies accounted for using the equity method	330	329
<b>Profit Before Tax</b>	<b>24.766</b>	<b>23.968</b>
Income tax (Note 17)	(9.066)	(8.956)
<b>Profit for the Period from Continuing Operations</b>	<b>15.700</b>	<b>15.012</b>
Profit for the period from discontinued operations	-	-
<b>Consolidated Profit for the Period</b>	<b>15.700</b>	<b>15.012</b>
Attributable to:		
The Parent	15.960	14.760
Non-controlling interests	(260)	252
<b>Earnings per share (in euros)</b>		
Basic	0,47	0,43
Diluted	0,47	0,43

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2017.

Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.



**Construcciones y Auxiliar de Ferrocarriles, S.A.  
and Subsidiaries  
composing the CAF Group**

**Condensed Consolidated Statements of Comprehensive Income  
for the six-month periods ended  
30 June 2017 and 2016 (Notes 1 & 2)  
(Thousands of Euros)**

	30/06/17	30/06/16 (*)
<b>A) Consolidated profit for the period:</b>	<b>15.700</b>	<b>15.012</b>
<b>B) Other comprehensive income - I items not reclassified to profit or loss:</b>	<b>384</b>	<b>364</b>
Arising from actuarial gains and losses (Note 9)	384	364
Tax effect	-	-
<b>C) I items that may be reclassified subsequently to profit or loss:</b>	<b>(22.120)</b>	<b>37.849</b>
<b>Cash flow hedges:</b>	<b>16</b>	<b>(1.663)</b>
Revaluation gains/losses (Note 10)	(11)	(9.679)
Amounts transferred to profit or loss	27	8.016
<b>Translation differences:</b>	<b>(22.805)</b>	<b>40.659</b>
Revaluation gains/losses (Note 10)	(22.805)	40.659
Amounts transferred to profit or loss	-	-
<b>Share of other comprehensive income recognised for investments in joint ventures and associates:</b>	<b>670</b>	<b>(1.710)</b>
Revaluation gains/losses-		
Cash flow hedges (Note 10)	412	(1.963)
Translation differences (Note 10)	(64)	(13)
	348	(1.976)
Amounts transferred to profit or loss-		
Cash flow hedges	322	312
Translation differences (Note 10)	-	(46)
	322	266
<b>Tax effect</b>	<b>(1)</b>	<b>563</b>
<b>Total comprehensive income (A+B+C)</b>	<b>(6.036)</b>	<b>53.225</b>
Attributable to:		
The Parent	(5.776)	52.973
Non-controlling interests	(260)	252

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2017.

Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.



**Construcciones y Auxiliar de Ferrocarriles, S.A.  
and Subsidiaries composing the CAF Group**

**Condensed Consolidated Statements of Changes in Equity  
for the six-month periods ended 30 June 2017 and 2016 (Notes 1 & 2)**  
(Thousands of Euros)

	Equity attributable to the Parent							Non-Controlling Interests	Total Equity
	Shareholders' Equity					Valuation Adjustments	Translation Differences		
	Share Capital	Share Premium	Reserve for Unrealised Fair Value Gains and Losses	Other Reserves	Net Profit for the Period				
<b>Balances at 31 December 2015 (*)</b>	<b>10.319</b>	<b>11.863</b>	<b>39.119</b>	<b>734.288</b>	<b>41.041</b>	<b>(5.142)</b>	<b>(127.748)</b>	<b>11.187</b>	<b>714.927</b>
<b>Total comprehensive income</b>	-	-	-	364	14.760	(2.751)	40.600	252	53.225
<b>Transactions with shareholders or owners</b>	-	-	-	-	(17.997)	-	-	(1.354)	(19.351)
Dividends paid (Note 4)	-	-	-	-	(17.997)	-	-	(1.935)	(19.932)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	581	581
<b>Other changes in equity</b>	-	-	-	23.044	(23.044)	-	-	(537)	(537)
Business combinations	-	-	-	-	-	-	-	(537)	(537)
Transfers between equity items	-	-	-	23.044	(23.044)	-	-	-	-
<b>Balances at 30 June 2016</b>	<b>10.319</b>	<b>11.863</b>	<b>39.119</b>	<b>757.696</b>	<b>14.760</b>	<b>(7.893)</b>	<b>(87.148)</b>	<b>9.548</b>	<b>748.264</b>
<b>Balances at 31 December 2016 (*)</b>	<b>10.319</b>	<b>11.863</b>	<b>39.119</b>	<b>758.268</b>	<b>35.013</b>	<b>(5.908)</b>	<b>(76.703)</b>	<b>11.706</b>	<b>783.677</b>
<b>Total comprehensive income</b>	-	-	-	384	15.960	749	(22.869)	(260)	(6.036)
<b>Transactions with shareholders or owners</b>	-	-	-	1.619	(19.883)	-	-	(3.624)	(21.888)
Dividends paid (Note 4)	-	-	-	-	(19.883)	-	-	(3.005)	(22.888)
Transactions with non-controlling shareholders	-	-	-	1.619	-	-	-	(619)	1.000
<b>Other changes in equity</b>	-	-	-	15.130	(15.130)	-	-	-	-
Business combinations	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	15.130	(15.130)	-	-	-	-
<b>Balances at 30 June 2017</b>	<b>10.319</b>	<b>11.863</b>	<b>39.119</b>	<b>775.401</b>	<b>15.960</b>	<b>(5.159)</b>	<b>(99.572)</b>	<b>7.822</b>	<b>755.753</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2017.

Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.



## Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group

### Condensed Consolidated Statements of Cash Flows for the six-month periods ended 30 June 2017 and 2016 (Notes 1 & 2) (Thousands of Euros)

	30/06/17	30/06/16 (*)
<b>Cash flows from operating activities:</b>		
Profit before tax from continuing and discontinued operations	24.766	23.968
Adjustments for-		
Depreciation and amortisation charge (Notes 5 & 7)	18.573	18.519
Other adjustments to profit or loss (net)	37.389	17.729
Changes in working capital-	(54.478)	132.158
Other cash flows from operating activities-		
Income tax recovered/(paid)	(4.297)	(2.257)
Other amounts received/(paid) relating to operating activities	(111)	(919)
<b>Cash flows from operating activities (I)</b>	<b>21.842</b>	<b>189.198</b>
<b>Cash flows from investing activities:</b>		
Payments due to investment-		
Group companies, associates and business units	(61)	(35)
Property, plant and equipment, intangible assets and investment property (Notes 5 & 7)	(20.177)	(10.823)
Business unit (changes in the scope of consolidation)	-	-
Other financial assets, net (Note 6)	(1.586)	(24.993)
Proceeds from disposal-		
Group companies, associates and business units (Note 3)	-	581
Property, plant and equipment, intangible assets and investment property (Notes 5 & 7)	91	55
Other financial assets (Note 6)	14.181	9.252
Other cash flows from investing activities		
Interest received	2.734	1.888
<b>Cash flows from investing activities (II)</b>	<b>(4.818)</b>	<b>(24.075)</b>
<b>Cash flows from financing activities:</b>		
Proceeds/(payments) relating to equity instruments-		
Issue	2.000	-
Purchase	-	-
Proceeds/(payments) relating to financial liability instruments (Note 9)-		
Issue	6.878	99.233
Repayment and redemption	(88.441)	(247.020)
Dividends and returns on other equity instruments paid-		
Other cash flows from financing activities (Note 9)-		
Interest paid	(42.937)	(30.545)
<b>Cash flows from financing activities (III)</b>	<b>(122.500)</b>	<b>(178.332)</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents (IV)</b>	<b>(5.129)</b>	<b>799</b>
<b>Net increase in cash and cash equivalents (I+II+III+IV)</b>	<b>(110.605)</b>	<b>(12.410)</b>
Cash and cash equivalents at beginning of period	392.022	297.440
<b>Cash and cash equivalents at end of period</b>	<b>281.417</b>	<b>285.030</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2017.



*Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.*

## **Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries (the CAF Group)**

Notes to the Condensed  
Consolidated Financial Statements  
for the six-month period ended 30 June 2017

### **1. Description and activities of the Parent**

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") was incorporated for an indefinite period of time in San Sebastián (Gipuzkoa).

The Parent's object is described in Article 2 of its bylaws.

The Parent currently engages mainly in the manufacture of rolling stock materials.

The Parent, as part of its business activities, holds majority ownership interests in other companies (see Note 3).

The CAF Group's consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting of CAF on 10 de June 2017.

### **2. Basis of presentation of the half-yearly condensed consolidated financial statements**

#### ***a) Basis of presentation***

In conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of a European Union Member State and whose securities are traded on a regulated market of any Member State are required to present their consolidated financial statements for the years commenced on or after 1 January 2005 in accordance with International Financial Reporting Standards ("IFRS") previously adopted by the European Union.

The Group's consolidated financial statements for 2016 were prepared by the Parent's directors in accordance with International Financial Reporting Standards as adopted by the European Union, and the bases of consolidation, accounting policies and measurement bases described in Note 3 to those consolidated financial statements were applied in order to present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2016 and its consolidated results, the changes in consolidated equity and its consolidated cash flows for the year then ended.

These half-yearly condensed consolidated financial statements are presented in accordance with IAS 34, Interim Financial Reporting, and were authorised for issue by the Group's directors on 27 July 2017 pursuant to Article 12 of Royal Decree 1362/2007. This interim condensed consolidated financial information was prepared on the basis of the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and the other companies composing the Group, and includes all the adjustments and reclassifications required to unify the accounting and presentation policies applied by all the Group companies (in all cases, local legislation) with those applied by Construcciones y Auxiliar de Ferrocarriles, S.A. for the purposes of the consolidated financial statements.

As established in IAS 34, the interim financial information is intended only to provide an update on the content of the latest complete annual consolidated financial statements prepared by the Group, focusing on new activities, events and circumstances occurring during the six-month period, and does not duplicate information previously reported in the consolidated financial statements for 2016. Consequently, for a proper comprehension of the information included in these half-yearly condensed consolidated financial statements, they should be read together with the Group's consolidated financial statements for 2016.

The accounting policies and methods used in preparing these half-yearly condensed consolidated financial statements are the same as those used in the consolidated financial statements for 2016, except for the standards and interpretations which came into force in the first half of 2017 and are detailed below.

#### ***b) Entry into force of new accounting standards***

In the first half of 2017 no new accounting standards came into force and, accordingly, there was no significant impact on the preparation of the half-yearly condensed consolidated financial statements in this connection.

At the reporting date the Group was analysing all the effects of adopting IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments, which will come into force on 1 January 2018 and have been adopted by the European Union. The main impacts of adopting the aforementioned standards will be as follows:

IFRS 15 provides a new revenue model applicable to all contracts with customers. The core principle of the standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the new standards does not have any effect on the cash position of the contracts or the substance of the contracts with customers.

The model set out by the standard is structured in five steps:

1. Identify the contract(s) with a customer
2. Identify the various performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations identified in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

Currently, most of the Group's construction contracts are recognised by reference to the stage of completion. After the analysis by the Group, these contracts will continue to meet the requirements in order to continue to be recognised in the same way after the entry into force of IFRS 15. However, changes in the financial statements are expected which, at the date of preparation of the condensed consolidated financial statements, are being assessed by management and which, in summary, would be as follows:

In Step 1 of the revenue model the impacts would be as follows:

- In certain of the Group's contracts there are extensions which are optional for the customer and are recognised by the Group once the extension is signed with the customer. In accordance with the new standard, the original contract and the option exercised will be recognised separately rather than jointly as had hitherto been the case and, accordingly, this will affect the timing of recognition of the Group's income and expense.

In Step 2 of the revenue model the impacts would be as follows:

- With regard to the identification of goods and services in the contracts, guarantees are being provided under certain of the Group's contracts which exceed arm's length guarantees and, accordingly, they should be considered as a distinct service and their value should be taken into account; therefore, this would have an impact on the timing of recognition of Group revenue.

In Step 3 of the revenue model the impacts would be as follows:

- Most of the Group's contracts include clauses relating to possible penalties which could change the probable transaction price and, therefore, could give rise to certain consideration arrangements with customers being recognised as a reduction of income rather than as an expense. In the transition to this standard the Group will classify a portion of the contractual liability described in Note 11 as a reduction of "Trade Receivables for Sales and Services". At 31 December 2016, the impact of IFRS 15 would be a decrease in assets and liabilities of approximately EUR 82 million, with no effect on equity.

Also, management has assessed the impact that IFRS 9, Financial Instruments, could have. The current IAS 39 is superseded by IFRS 9, with significant differences with respect to the former. The impact on CAF would be summarised as follows:

- Impairment losses: a new impairment model based on expected credit losses is established, as opposed to the current incurred loss model. Under the expected credit loss model, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. Management is currently designing the impairment models adapted to this approach.
- The Group holds certain "Available-for-Sale Financial Assets" which arose from investments in the share capital of unlisted companies recognised at acquisition cost. Management is developing measurement models in order to calculate the fair value of these assets.

The impact on equity at 31 December 2016 of both standards is estimated to be positive and less than 1%.

Group management is assessing the additional disclosures so that the financial statements may be adapted, if required, after the entry into force of the standards described above.

The Group will adopt IFRS 15 and 9 as of 1 January 2018 and plans to perform the transition thereto by means of the modified transition approach, whereby previous years' figures are not restated, but rather the cumulative effect of the initial application of the standard is recognised as an initial adjustment to reserves.



### ***c) Use of estimates***

The consolidated results and the determination of consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates used by the Parent's directors in preparing the half-yearly condensed consolidated financial statements. The main accounting principles and policies and measurement bases used are indicated in Note 3 to the consolidated financial statements for 2016.

In the half-yearly condensed consolidated financial statements estimates were occasionally made by the senior executives of the Parent and of the consolidated companies in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

1. The income tax expense which, in accordance with IAS 34, is recognised in interim periods based on the best estimate of the weighted average tax rate envisaged by the Group for the full financial year;
2. The assessment of possible impairment losses on certain assets;
3. The assumptions used in the actuarial calculation of pension and other obligations to employees;
4. The useful life of the property, plant and equipment and intangible assets;
5. The fair value of certain financial assets;
6. The calculation of provisions;
7. The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised; and
8. Changes in estimated costs in the budgets for construction projects performed.

Although the aforementioned estimates were made on the basis of the best information available at the reporting date on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) at the end of 2017 or in coming years. Changes in accounting estimates would be applied, if required, prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the consolidated statement of profit or loss for the years affected.

In the six-month period ended 30 June 2017 there were no significant changes in estimates with respect to those made at 2016 year-end.

### ***d) Contingent assets and liabilities***

Note 25 to the Group's consolidated financial statements for the year ended 31 December 2016 discloses information on the contingent assets and liabilities at that date.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into several rolling stock manufacturers taking part in public tenders, one of which is a subsidiary of the CAF Group in Brazil, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive behaviour. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of

possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these interim consolidated financial statements there were no economic claims filed against this subsidiary. Also, as a result of this proceeding, a current account with a balance of EUR 208 thousand was blocked. An appeal has been filed in this connection. At the reporting date, the actions brought by CAF Brazil against the blocked account had been upheld and the decision on a final extraordinary appeal for the account to be definitively unblocked is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, have initiated court proceedings. At the date of formal preparation of these interim consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have yet to be summoned. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleas in the first half of 2016. As indicated in the consolidated financial statements for 2016, the Brazilian Court of Auditors' investigation continues in 2017.

#### ***e) Comparative information***

The information relating to 2016 contained in these half-yearly condensed consolidated financial statements is presented solely for comparison purposes with the information relating to the six-month period ended 30 June 2017.

#### ***f) Seasonality of the Group's transactions***

In view of the business activities in which the Group companies engage, as well as the stage of completion method of accounting, the Group's transactions are not cyclical or seasonal in nature. Therefore, no specific disclosures in this connection are included in these notes to the condensed consolidated financial statements for the six-month period ended 30 June 2017.

#### ***g) Materiality***

In determining the disclosures to be made in these notes to the condensed consolidated financial statements on the various line items in the condensed consolidated financial statements or on other matters, in accordance with IAS 34 the Group took into consideration materiality with respect to the half-yearly condensed consolidated financial statements.

#### ***h) Events after the reporting period***

At 30 June 2017, the Group had a firm backlog of EUR 5,927 million.

On 11 July 2017, the Parent company acquired a majority ownership interest in BWB Consulting. BWB Consulting, with registered office in the UK, is an engineering consulting firm with revenue of approximately EUR 25 million and more than 300 employees at present.

Also, on 18 July 2017, the Parent company acquired a majority ownership in Rifer, S.R.L. registered in Italy with more than 60 people and a revenue about EUR 10 million. The purpose of the acquisition is to strengthen the business of components (MiiRA).

There were no additional significant events after the reporting period of the interim consolidated financial statements.

### **3. Changes in the composition of the Group**

Note 2-f to the consolidated financial statements for the year ended 31 December 2016 provides relevant information on the Group companies that were consolidated at that date and on those accounted for using the equity method.

No significant business combinations, other acquisitions, disposals or increases/decreases in the Group's ownership interests in subsidiaries or associates were carried out in the first six months of 2017.

### **4. Dividends payable by the Parent**

The dividends payable by the Parent in July 2017 and 2016, respectively, which relate in both cases to approved dividends out of the previous year's profit, are shown below. They all correspond to ordinary shares. The Group recognised these amounts (net of the corresponding withholding tax) with a credit to "Current Financial Liabilities - Other Financial Liabilities" in the condensed consolidated balance sheets as at 30 June 2017 and 2016:

	30/06/17			30/06/16		
	% of Par Value	Euros per Share	Amount (Thousands of Euros)	% of Par Value	Euros per Share (*)	Amount (Thousands of Euros)
Total Dividends Payable (Note 9)	193%	0.58	19,883	174%	0.525	17,997

(\*) Based on the number of shares subsequent to the share split described in Note 14 to the consolidated financial statements for 2016.

## 5. Intangible assets

The changes in the six-month period ended 30 June 2017 in the intangible asset accounts and in the related accumulated amortisation were as follows:

	Thousands of Euros			
	Development Expenditure	Computer Software and Other	Goodwill	Total
<b>Balance at 31/12/16</b>				
Cost	118,434	21,575	15	140,024
Accumulated amortisation	(67,076)	(16,183)	-	(83,259)
Impairment losses	(16,621)	-	-	(16,621)
<b>Net balance at 31/12/16</b>	<b>34,737</b>	<b>5,392</b>	<b>15</b>	<b>40,144</b>
<b>Cost-</b>				
Translation differences	(1)	(47)	-	(48)
Additions	6,664	1,275	-	7,939
Disposals	-	(8)	-	(8)
Transfers (Note 8)	(538)	147	-	(391)
<b>Cost at 30/06/17</b>	<b>124,559</b>	<b>22,942</b>	<b>15</b>	<b>147,516</b>
<b>Accumulated amortisation-</b>				
Translation differences	1	29	-	30
Additions or charge for the year	(5,434)	(789)	-	(6,223)
Disposals	-	7	-	7
Transfers (Note 8)	-	(112)	-	(112)
<b>Accumulated amortisation at 30/06/17</b>	<b>(72,509)</b>	<b>(17,048)</b>	<b>-</b>	<b>(89,557)</b>
<b>Impairment losses-</b>				
<b>Impairment losses at 30/06/17</b>	<b>(16,621)</b>	<b>-</b>	<b>-</b>	<b>(16,621)</b>
<b>Net balance at 30/06/17</b>	<b>35,429</b>	<b>5,894</b>	<b>15</b>	<b>41,338</b>

The additions in the first half of 2017 recognised as “Development Expenditure” relate to the costs incurred in projects to develop new products and projects, as the Group considered that there were no reasonable doubts regarding the economic and commercial returns thereon.

In the first six months of 2017 and 2016 there was no impairment of, or substantial changes in, the return estimates and assumptions regarding the development projects on which impairment had been recognised in prior years.

## 6. Financial assets

### a) Breakdown and disclosure

The detail, by nature and category for measurement purposes, of the Group's financial assets at 30 June 2017 and 31 December 2016 is as follows:

	Thousands of Euros						
	30/06/17						
	Held-for-Trading Financial Assets (**)	Other Financial Assets at FV through P/L	Available-for-Sale Financial Assets (*)	Loans and Receivables (*)	Held-to-Maturity Investments	Hedging Derivatives (***)	Total
Equity instruments	-	-	9,473	-	-	-	9,473
Derivatives	-	-	-	-	-	18,213	18,213
Other financial assets	-	-	-	570,543	16,441	-	586,984
<b>Long-term/non-current</b>	-	-	<b>9,473</b>	<b>570,543</b>	<b>16,441</b>	<b>18,213</b>	<b>614,670</b>
Derivatives	-	-	-	-	-	11,349	11,349
Other financial assets	54,954	-	-	138	33,989	-	89,081
<b>Short-term/current</b>	<b>54,954</b>	-	-	<b>138</b>	<b>33,989</b>	<b>11,349</b>	<b>100,430</b>
<b>Total</b>	<b>54,954</b>	-	<b>9,473</b>	<b>570,681</b>	<b>50,430</b>	<b>29,562</b>	<b>715,100</b>

(\*) Related impairment losses, net (Note 6-b)

(\*\*) At fair value (Level 1)

(\*\*\*) At fair value (Level 2)

	Thousands of Euros						
	31/12/16						
	Held-for-Trading Financial Assets (**)	Other Financial Assets at FV through P/L	Available-for-Sale Financial Assets (*)	Loans and Receivables (*)	Held-to-Maturity Investments	Hedging Derivatives (***)	Total
Equity instruments	-	-	9,437	-	-	-	9,437
Derivatives	-	-	-	-	-	12,861	12,861
Other financial assets	-	-	-	626,924	17,197	-	644,121
<b>Long-term/non-current</b>	-	-	<b>9,437</b>	<b>626,924</b>	<b>17,197</b>	<b>12,861</b>	<b>666,419</b>
Derivatives	-	-	-	-	-	45,382	45,382
Other financial assets	54,732	-	-	618	39,748	-	95,098
<b>Short-term/current</b>	<b>54,732</b>	-	-	<b>618</b>	<b>39,748</b>	<b>45,382</b>	<b>140,480</b>
<b>Total</b>	<b>54,732</b>	-	<b>9,437</b>	<b>627,542</b>	<b>56,945</b>	<b>58,243</b>	<b>806,899</b>

(\*) Related impairment losses, net (Note 6-b)

(\*\*) At fair value (Level 1)

(\*\*\*) At fair value (Level 2)

At 30 June 2017, the Group had recognised EUR 14,867 thousand (31 December 2016: EUR 15,652 thousand) under "Non-Current Financial Assets - Held-to-Maturity Investments" in relation to guarantees connected with the increase in the borrowings of the subsidiary Ctrens - Companhia de Manutenção, S.A. (see Note 9). This guarantee, which bears interest at market rates and consists of six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

At 30 June 2017, the Group had recognised impairment losses on equity instruments amounting to EUR 2,085 thousand (31 December 2016: EUR 2,073 thousand) and recognised EUR 12 thousand in the first six months of 2017 with a charge to "Impairment and Gains or Losses on Disposals of Financial Instruments".

The current portion of "Held-for-Trading Financial Assets" and "Held-to-Maturity Investments" columns includes basically the investments made by the Group in government debt securities, repos, deposits, commercial paper, term deposits and fixed-income investment funds. These amounts include EUR 23,643 thousand held in deposit or reserve accounts related to the borrowings of the subsidiary Provetren (31 December 2016: EUR 26,480 thousand). These deposits will be unavailable until the borrowings are repaid in full and the overhaul work on the train fleet is carried out, respectively. These deposits may be released by means of guarantees provided for the same amount.

The detail of the non-current portion of "Loans and Receivables" is as follows:

	Thousands of Euros	
	30/06/17	31/12/16
Loans to employees	4,859	4,687
Share ownership scheme obligations	-	56
Non-current tax receivables	52,268	58,754
Provisions for tax payables	(14,478)	(15,917)
Non-current trade receivables	502,595	554,924
Loans to associates (Note 12)	25,214	24,336
Loans to third parties	85	84
<b>Total</b>	<b>570,543</b>	<b>626,924</b>

At 30 June 2017, the Group had recognised a net amount of EUR 37,790 thousand under "Non-Current Financial Assets – Loans and Receivables" in connection with VAT refundable by foreign tax authorities (31 December 2016: EUR 42,837 thousand). In the six-month period ended 30 June 2017, EUR 50 thousand were reversed with a credit to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying half-yearly condensed consolidated statement of profit or loss.

"Non-Current Trade Receivables" includes EUR 5,484 thousand and EUR 1,208 thousand at short term (31 December 2016: EUR 6,015 thousand and EUR 1,173 thousand, respectively) relating to a finance lease of rolling stock, under which the Group will receive constant monthly lease payments over a period of 120 months.

In 2010 the Group entered into concession arrangements in Brazil and Mexico, the conditions of which are described in Note 9-e to the consolidated financial statements for 2016. These concessions are accounted for in accordance with the financial asset model under IFRIC 12, since the related requirements are met and, pursuant to this standard, the various services provided (construction, operation/maintenance and financing) were accounted for separately. Consequently, at 30 June 2017 the Group recognised EUR 497,111 thousand under "Non-Current Financial Assets - Loans and Receivables" (31 December 2016: EUR 548,909 thousand) and EUR 127,853 thousand under "Current Assets - Other Receivables" (31 December 2016: EUR 137,601 thousand) in relation to construction activities and services performed to date, net of billings made. The services started to be provided basically in the first half of 2011 in the case of Line 8 (Brazil) and in the second half of 2012 in the case of Line 12 (Mexico).

Under both contracts the future cash flows from payments are determined and guaranteed in full from the date the contracts are signed. The only potentially variable amount in the payments relates solely to any possible penalties relating to the technical performance of the rolling stock material made available to the customer. There is no demand risk for the CAF

Group in these contracts, since the financial flows to be received are unrelated to passenger numbers.

At 30 June 2017, the Group had recognised EUR 388 thousand under "Trade and Other Receivables - Other Receivables" in connection with an account receivable from Cartera Social, S.A., which had been settled in full before the date of preparation of these condensed consolidated financial statements (see Note 12).

#### **b) Impairment losses**

The changes in the first six months of 2017 and 2016 in the balance of the impairment losses on the Group's assets, including non-current tax receivables, which form part of the balance of "Non-Current Financial Assets", were as follows:

Non-Current Financial Assets	Thousands of Euros	
	30/06/17	30/06/16
<b>Balance at beginning of period</b>	<b>(17,990)</b>	<b>(14,228)</b>
Translation differences	1,388	(2,732)
Impairment losses recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets"	50	(216)
Impairment losses recognised with a charge to "Impairment and Gains or Losses on Disposals of Financial Instruments"	(12)	(249)
<b>Balance at end of period</b>	<b>(16,564)</b>	<b>(17,425)</b>

## **7. Property, plant and equipment**

#### **a) Changes in the period**

In the first six months of 2017 the Group acquired items of property, plant and equipment amounting to EUR 9,224 thousand (first six months of 2016: EUR 4,203 thousand). The main additions in the first half of 2017 relate to the automation of the wheel machining line and improvements to the wheel sets and components division at the Parent, the construction of the new engineering and R&D building in Beasain and investment in manufacturing areas in plants both in Spain and abroad. Also, in the first six months of 2017 and 2016 the Group disposed of items of property, plant and equipment with a carrying amount of EUR 172 thousand and EUR 11 thousand, respectively, which gave rise to a net loss of EUR 76 thousand and a net gain of EUR 33 thousand, respectively.

The depreciation charge in the six-month period ended 30 June 2017 amounted to EUR 12,350 thousand (30 June 2016: EUR 13,832 thousand). The translation differences in the six-month period ended 30 June 2017 amounted to a loss of EUR 3,405 thousand (30 June 2016: a gain of EUR 3,277 thousand).

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 30 June 2017, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,549 thousand (31 December 2016: EUR 1,690 thousand). EUR 133 thousand were allocated to profit or loss in the six-month period ended 30 June 2017 (six-month period ended 30 June 2016: EUR 327 thousand).

### b) Impairment losses

The changes in impairment losses in the first six months of 2017 and 2016 were as follows:

	Thousands of Euros	
	30/06/17	30/06/16
<b>Balance at beginning of period</b>	<b>(10,743)</b>	<b>(8,484)</b>
Translation differences	23	35
Disposals	-	10
Impairment losses charged to profit or loss for the period	-	-
<b>Balance at end of period</b>	<b>(10,720)</b>	<b>(8,439)</b>

### c) Property, plant and equipment purchase commitments

At 30 June 2017 and 31 December 2016, the Group had firm capital expenditure commitments amounting to approximately EUR 4,108 thousand and EUR 8,189 thousand, respectively.

Also, in the second half of the year 2017 the Group foresees to start the construction of a new facility in the United Kingdom expecting an investment of about € 38 million.

## 8. Inventories and construction contracts

The detail of "Inventories" at 30 June 2017 and 31 December 2016 is as follows:

	Thousands of Euros	
	30/06/17	31/12/16
Raw materials and other supplies, work in progress and finished and semi-finished goods	66,047	23,930
Advances to suppliers	34,793	36,357
<b>Total</b>	<b>100,840</b>	<b>60,287</b>

The Group recognises the advances received from its customers in connection with contracts in the backlog with a credit to "Trade and Other Payables - Other Payables". At 30 June 2017, the balance amounted to EUR 455,901 thousand (31 December 2016: EUR 575,337 thousand).

Also, the Group recognises under "Trade and Other Receivables - Trade Receivables for Sales and Services" the amount relating to "Amounts to be Billed for Work Performed", which represented approximately 66% of the aforementioned line item at 30 June 2017 (31 December 2016: 64%). At 30 June 2017 and 31 December 2016, the balances billed included EUR 137,790 thousand in relation to the contract with Metro de Caracas, the balance of which is past due and relates to work performed and billed to the customer and the collection of which is considered to be covered by the insurance policy in force and through offset against liabilities to the customer, basically the provision indicated in Note 11 and as described in Note 12 to the consolidated financial statements for 2016. "Trade Receivables" includes retentions at 30 June 2017 amounting to EUR 3,846 thousand (31 December 2016: EUR 3,752 thousand).

The Group derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales and non-recourse factoring of trade receivables. At 30 June 2017, the unmatured receivables settled by the Group through the aforementioned non-recourse factoring transactions amounted to EUR 84,692 thousand (31 December 2016: EUR 107,190 thousand).



## 9. Financial liabilities

The detail, by type and category for measurement purposes, of the Group's financial liabilities at 30 June 2017 and 31 December 2016 is as follows:

Financial Liabilities: Type/Category	Thousands of Euros				
	30/06/17				
	Held-for- Trading Financial Liabilities	Other Financial Liabilities at FV through PL	Accounts Payable	Hedging Derivatives (Note 14)	Total
Bank borrowings	-	-	611,001	-	611,001
Other financial liabilities (excluding hedging derivatives)	-	-	43,835	-	43,835
Hedging derivatives	-	-	-	18,497	18,497
<b>Non-current payables/Non-current financial liabilities</b>	-	-	<b>654,836</b>	<b>18,497</b>	<b>673,333</b>
Bank borrowings	-	-	42,778	-	42,778
Other financial liabilities (excluding hedging derivatives)	-	-	39,862	-	39,862
Hedging derivatives	-	-	-	27,628	27,628
<b>Current payables/Current financial liabilities</b>	-	-	<b>82,640</b>	<b>27,628</b>	<b>110,268</b>
<b>Total</b>	-	-	<b>737,476</b>	<b>46,125</b>	<b>783,601</b>

Financial Liabilities: Type/Category	Thousands of Euros				
	31/12/16				
	Held-for- Trading Financial Liabilities	Other Financial Liabilities at FV through PL	Accounts Payable	Hedging Derivatives (Note 14)	Total
Bank borrowings	-	-	648,145	-	648,145
Other financial liabilities (excluding hedging derivatives)	-	-	47,854	-	47,854
Hedging derivatives	-	-	-	13,574	13,574
<b>Non-current payables/Non-current financial liabilities</b>	-	-	<b>695,999</b>	<b>13,574</b>	<b>709,573</b>
Bank borrowings	-	-	103,075	-	103,075
Other financial liabilities (excluding hedging derivatives)	-	-	23,059	-	23,059
Hedging derivatives	-	-	-	116,468	116,468
<b>Current payables/Current financial liabilities</b>	-	-	<b>126,134</b>	<b>116,468</b>	<b>242,602</b>
<b>Total</b>	-	-	<b>822,133</b>	<b>130,042</b>	<b>952,175</b>

### a) Bank borrowings

The subsidiary Ctrens - Companhia de Manutenção, S.A. arranged a financing agreement with Banco Nacional de Desenvolvimento Econômico e Social (BNDES) in relation to the concession arrangement with CPTM. At 30 June 2017, the outstanding balance was BRL 700,341 thousand (EUR 186,291 thousand, of which EUR 170,459 thousand mature at long term and EUR 15,832 thousand at short term) (31 December 2016: EUR 194,106 thousand at long term and EUR 16,034 thousand at short term).

On 7 December 2012, the subsidiary Provetren, S.A. de C.V. entered into a long-term financing agreement amounting to a maximum of USD 300 million. At 30 June 2017, the financial liability recognised amounted to USD 148,954 thousand (EUR 130,528 thousand, of which EUR 107,600

thousand mature at long term and EUR 22,928 thousand at short term) (31 December 2016: EUR 126,621 thousand at long term and EUR 25,188 thousand at short term).

The main loan conditions are detailed in Note 16 to the consolidated financial statements for 2016.

In the first half of 2017 the Parent entered into and made drawdowns against new financing facilities with maturities of between two and five years for a total amount of EUR 4,917 thousand at a fixed interest rate, and had repaid loans amounting to EUR 11,987 thousand. At 30 June 2017, the Parent had made drawdowns against loans amounting to EUR 311,957 thousand at long term and EUR 2,500 thousand at short term (31 December 2016: EUR 306,378 thousand at long term and EUR 15,074 thousand at short term). EUR 262 million of the amount drawn down bear interest at a fixed market rate (EUR 13 million are hedged by an interest-rate swap, see Note 14).

At 30 June 2017, the subsidiary CAF Investment Projects, S.A. (formerly, Inversiones en Concesiones Ferroviarias, S.A.) had taken out a loan with an outstanding balance of EUR 20,000 thousand, drawn down in July 2016. This loan is guaranteed by the Parent, has a term of eight years and a grace period of six years, and bears interest tied to Euribor. This loan establishes the obligation to maintain a minimum ratio between the contribution received from the lender and the amount invested by CAF Investment Projects, S.A. in foreign companies. At 30 June 2017, this ratio was being achieved.

In the first half of 2017 the subsidiary CAF Brasil Industria e Comercio, S.A. had repaid in full the drawdowns made at 31 December 2016 (EUR 43,177 thousand). The remaining financial debt of EUR 2,503 thousand, of which EUR 1,518 thousand mature at short term, relates to loans received by other subsidiaries and interest payable.

At 30 June 2017, the consolidated companies had undrawn credit facilities maturing at less than one year with banks amounting to EUR 149,776 thousand.

The effect of the translation differences in the first six months of 2017 on "Non-Current Financial Liabilities - Bank Borrowings" and "Current Financial Liabilities - Bank Borrowings" was a decrease of EUR 25,452 thousand and EUR 3,330 thousand, respectively.

#### **b) Other financial liabilities**

The detail of "Non-Current Financial Liabilities - Other Financial Liabilities" and "Current Financial Liabilities - Other Financial Liabilities" (excluding hedging derivatives) in the condensed consolidated balance sheet as at 30 June 2017 and the consolidated balance sheet as at 31 December 2016 is as follows:

Non-Current Financial Liabilities - Other Financial Liabilities	Thousands of Euros	
	30/06/17	31/12/16
Refundable advances	39,878	43,696
Employee benefit obligations	3,232	3,165
Other	725	993
	<b>43,835</b>	<b>47,854</b>

Current Financial Liabilities - Other Financial Liabilities	Thousands of Euros	
	30/06/17	31/12/16
Refundable advances	13,640	15,482
Net dividend payable (Note 4) (*)	20,829	-
Payable to non-current asset suppliers	3,794	6,671
Other	1,599	906
	<b>39,862</b>	<b>23,059</b>

(\*) Including dividends payable to non-controlling interests amounting to EUR 3,005 thousand.

#### *Refundable advances*

Various research and development programmes have led to the award of certain grants to conduct research and development projects to the Group. This aid is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project. These grants consist of:

- Grants to partially meet the expenses and costs of these projects.
- Refundable advances in the form of loans, generally interest-free, which usually have an initial grace period of three years and are repaid in a period of over ten years.

Grants must be refunded together with the related interest if the R&D investments envisaged under the projects are not ultimately made.

#### *Employee benefit obligations*

At 30 June 2017, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying condensed consolidated balance sheet included approximately EUR 3,232 thousand and EUR 2,824 thousand, respectively (31 December 2016: EUR 3,165 thousand and EUR 2,529 thousand, respectively), relating to the present value estimated by the directors of the future payments to be made to the Parent's employees who were included in the pre-retirement plan approved in 2013, or with whom hand-over contracts had been entered into. In this connection, the Group recognised an amount of EUR 1,722 thousand with a charge to "Staff Costs" in the accompanying condensed consolidated statement of profit or loss in the first six months of 2017 (charge of EUR 1,028 thousand in the first six months of 2016).

In relation to the outsourced obligations assumed with certain employees, which are detailed in Note 15 to the consolidated financial statements for 2016, future modifications thereto and the accrual for services rendered are recognised against profit or loss for the related year and, accordingly, in the six-month periods ended 30 June 2017 and 2016 an expense of EUR 965 thousand and EUR 957 thousand, respectively, was recognised under "Staff Costs".

## **10. Equity**

### ***a) Issued capital***

At 30 June 2017, the Parent's share capital amounted to EUR 10,318,505.75, represented by 34,280,750 fully subscribed and paid shares of EUR 0.301 par value each, traded by the book-entry system. CAF shares are traded on the Spanish stock market interconnection system at the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. The Parent has maintained the same share capital over the last two years.

The Annual General Meeting, held on 10 June 2017, resolved to empower the Parent's Board of Directors, for a period of five years from that date, to issue fixed-income securities or ordinary debt instruments of a similar nature, as well as fixed-income or other securities convertible into or exchangeable for shares of the Parent or other Group companies, on one or more occasions, directly or through Group companies. This agreement supersedes and revokes the agreement held in the Annual General Meeting of the Parent held on 7 June 2014, under the fifth point of agenda. At the date of preparation of the accompanying half-yearly condensed consolidated financial statements no ordinary, convertible or exchangeable securities had been issued subsequent to the aforementioned resolution.

## b) Valuation adjustments

### *Cash flow hedges*

"Valuation Adjustments" in the condensed consolidated balance sheet includes the net amount of changes in the value of financial derivatives designated as cash flow hedging instruments.

The changes in "Valuation Adjustments" in the first six months of 2017 were as follows:

	Thousands of Euros
<b>Balance at 31/12/16</b>	<b>(5,908)</b>
Income and expense recognised in equity	401
Transfers to profit or loss	349
Tax effect	(1)
<b>Balance at 30/06/17</b>	<b>(5,159)</b>

### *Translation differences*

This heading in the condensed consolidated balance sheet includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and, above all, the differences arising on the translation to euros of the balances in the functional currencies of the consolidated companies whose functional currency is not the euro.

The changes in "Translation Differences" in the first six months of 2017 and 2016 were as follows:

	Thousands of Euros	
	30/06/17	30/06/16
<b>Balance at the beginning of the period</b>	<b>(76,703)</b>	<b>(127,748)</b>
Net change in the period	(22,869)	40,600
<b>Balance at the end of the period</b>	<b>(99,572)</b>	<b>(87,148)</b>

The currency with highest fluctuations in translation differences in the first six months of 2017 was the Brazilian real.

## c) Capital management

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital, ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 30 June 2017 and 31 December 2016, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (see Note 6). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of Euros	
	30/06/17	31/12/16
Net financial debt:		
Interest-bearing refundable advances (Note 9-b)	16,400	15,769
Bank borrowings - Non-current liabilities (Note 9-a)	611,001	648,145
Bank borrowings - Current liabilities (Note 9-a)	42,778	103,075
Financial assets - Non-current assets (Note 6-a)	(14,867)	(15,652)
Current financial assets (Note 6-a)	(88,943)	(94,480)
Cash and cash equivalents	(281,417)	(392,022)
	<b>284,952</b>	<b>264,835</b>
Equity:		
Attributable to the Parent	747,931	771,971
Non-controlling interests	7,822	11,706
	<b>755,753</b>	<b>783,677</b>

## **11. Provisions and contingent liabilities**

### ***a) Breakdown***

The detail of provisions and contingent liabilities is as follows:

	Thousands of Euros	
	30/06/17	31/12/16
Long-term provisions for contingent liabilities and commitments	5,421	4,646
Short-term provisions	215,101	227,937
<b>Total</b>	<b>220,522</b>	<b>232,583</b>

### ***b) Long-term provisions for contingent liabilities and commitments***

In the first six months of 2017 there were no significant changes with respect to 2016 with EUR 853 thousand being charged mainly to "Staff Costs" in the accompanying condensed consolidated statement of profit or loss (first six months of 2016: charge of EUR 431 thousand).

### ***c) Short-term provisions***

"Short-Term Provisions" in the accompanying condensed consolidated balance sheet includes the provisions recognised by the Group to cover mainly warranty expenses, contractual support services and other matters arising from its business activities. The consolidated companies credited EUR 10,712 thousand to "Other Operating Expenses" in the accompanying condensed consolidated statement of profit or loss for the first six months of 2017 (first six months of 2016: EUR 5,694 thousand credited thereto) relating to the difference between the provisions required in this connection at 30 June 2017 and the provisions recognised at 30 June 2016. The expenses incurred in the first six months of 2017 and 2016 in connection with the provision of contractual warranty services (approximately EUR 21,869 thousand and EUR 23,348 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying condensed consolidated statements of profit or loss for the first six months of 2017 and 2016.

The changes in “Short-Term Provisions” and “Long-Term Provisions” in 2017 and 2016 were as follows (in thousands of euros):

	Short-Term Provisions					Long-Term Provisions
	Contractual Liability	Warranty and Support Services	Litigation	Other Provisions	Total Short-Term Provisions	
<b>Balance at 31/12/15</b>	<b>121,096</b>	<b>101,608</b>	<b>4,160</b>	<b>1,902</b>	<b>228,766</b>	<b>4,526</b>
Net charge for the year	9,674	31,423	2,302	4,238	47,637	1,782
Amounts used charged to profit or loss	(6,778)	(39,792)	(4,754)	(187)	(51,511)	(1,562)
Translation differences	614	1,864	72	504	3,054	(95)
Transfers	(9)	-	-	-	(9)	(5)
<b>Balance at 31/12/16</b>	<b>124,597</b>	<b>95,103</b>	<b>1,780</b>	<b>6,457</b>	<b>227,937</b>	<b>4,646</b>
Net charge for the year	(5,092)	20,644	-	(1,515)	14,037	853
Amounts used charged to profit or loss	(2,846)	(21,869)	(34)	-	(24,749)	30
Translation differences	(231)	(1,552)	(57)	(281)	(2,121)	(111)
Transfers	197	(200)	-	-	(3)	3
<b>Balance at 30/06/17</b>	<b>116,625</b>	<b>92,126</b>	<b>1,689</b>	<b>4,661</b>	<b>215,101</b>	<b>5,421</b>

The provisions for contractual liability relate mainly to delays in deliveries, in accordance with the production and shipment schedule and the contractual obligation agreed upon, and to provisions for onerous contracts. The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts.

The Group recognised a provision amounting to EUR 66,535 thousand (same amount at 31 December 2016) as a result of contractual liability assumed with Metro Caracas (see Note 8).

At 30 June 2017, the Group was in litigation with a client for a construction project with cross claims being filed for delays in complying with the contractual milestones signed by the consortium to which CAF belongs. The litigation is at a preliminary stage and, therefore, the possible impact thereof is difficult to determine; however, the Parent’s directors consider this situation unlikely to give rise to losses for the Group because there are factors causing the delays that are not attributable, under any circumstance, to the consortium, the damage suffered by the customer is smaller than the amounts claimed and claims have been filed for cost overruns incurred by the consortium which are attributable to the client.

## **12. Related parties**

The Group’s “related parties” are deemed to be, in addition to the subsidiaries, associates and jointly-controlled entities, the Parent’s “key management personnel” (its directors and managers, and their close family members) and the entities over which key management personnel may exercise significant influence or control.

The transactions performed by the Group with its related parties (significant shareholders, Board members and executives of the Parent and other related parties) in the first six months of 2017 and 2016 are disclosed below. The terms and conditions of the transactions with related parties are equivalent to those in transactions performed on an arm's length basis and the corresponding payments in kind were charged.

Expenses and Income	Thousands of Euros			
	30/06/17			
	Significant Shareholders	Group Employees, Companies or Entities	Other Related Parties	Total
<b>Expenses:</b>				
Purchases of goods and services	-	-	1,133	1,133
	-	-	<b>1,133</b>	<b>1,133</b>
<b>Income:</b>				
Sales	-	-	18,180	18,180
Finance income	-	-	875	875
	-	-	<b>19,055</b>	<b>19,055</b>

Expenses and Income	Thousands of Euros			
	30/06/16			
	Significant Shareholders	Group Employees, Companies or Entities	Other Related Parties	Total
<b>Expenses:</b>				
Purchases of goods and services	-	-	1,254	1,254
	-	-	<b>1,254</b>	<b>1,254</b>
<b>Income:</b>				
Sales	-	-	14,158	14,158
Finance income	-	-	1,181	1,181
	-	-	<b>15,339</b>	<b>15,339</b>

Sales to "Other Related Parties" in the first six months of 2017 and 2016 were made mainly to Ferrocarriles Suburbanos, S.A. de C.V., Plan Metro, S.A. and Ferrocarril Interurbano S.A. de C.V., in which the CAF Group holds non-controlling ownership interests along with other shareholders.

### **13. Remuneration and other benefits of the Parent's directors and senior executives**

In the first six months of 2017 and 2016, the Parent recognised approximately EUR 857 thousand and EUR 685 thousand in relation to remuneration, attendance fees and life insurance premiums earned by the members of its Board of Directors, whereas the directors of the subsidiaries did not earn any amounts in this connection. At 30 June 2017 and 31 December 2016, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, amounted to EUR 968 thousand in the first six months of 2017 (first six months of 2016: EUR 1,106 thousand)

In the first six months of 2017 and 2016 there were no other transactions with senior executives.

#### 14. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (as explained in Note 17 to the consolidated financial statements for 2016). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the condensed consolidated balance sheet as at 30 June 2017 and the consolidated balance sheet as at 31 December 2016 is as follows:

Measurement	Thousands of Euros			
	Fair Value		Cash Flows	
	30/06/17	31/12/16	30/06/17	31/12/16
<b>Hedges-</b>				
USD currency forwards	(6,741)	(36,255)	-	-
GBP currency forwards	(5,596)	(6,014)	-	-
MXP currency forwards	(9,082)	(8,219)	-	-
BRL currency forwards	(6,840)	(9,115)	-	-
CHF currency forwards	(131)	(131)	-	-
EUR currency forwards	7,904	(9,134)	-	-
AUD currency forwards	158	47	-	-
SEK currency forwards	(1,443)	(439)	-	-
NZD currency forwards	-	-	-	-
SAR currency forwards	4,218	2,047	-	-
TWD currency forwards	1,139	900	-	-
ZAR currency forwards	-	-	-	-
HUF currency forwards	15	2	-	-
CAD currency forwards	-	-	-	-
TRY currency forwards	(12)	-	-	-
Forward rate agreements	(22)	(54)	(130)	(5,434)
<b>Measurement at end of period (*)</b>	<b>(16,433)</b>	<b>(66,365)</b>	<b>(130)</b>	<b>(5,434)</b>

(\*) Before considering the related tax effect

The associate S.E.M. Los Tranvías de Zaragoza, S.A. had arranged various financial swaps relating to the nominal value of its financial debt at 30 June 2017, in addition to the hedges disclosed in the foregoing table. These swaps were designated as cash flow interest rate hedges, and the negative value thereof attributable to the Group amounted to EUR 5,065 thousand, net of the related tax effect.

The detail of the periods of expiry of the cash flow interest rate hedges is as follows:

Expiry (in Currency)	30/06/17		
	2017	2018	2019 and Subsequent Years
Euribor swap (EUR)	-	-	EUR 13,333,333
LIBOR swap (USD)	USD 5,327,645	USD 18,598,760	USD 95,633,624



The detail of the periods of expiry of the foreign currency hedges is as follows:

Expiry (in Currency)	30/06/17		
	2017	2018	2019 and Subsequent Years
<b>Sales hedges-</b>			
<b>Fair value hedges</b>			
USD currency forwards (*)	542,353,394	82,040,332	55,313,750
GBP currency forwards	35,127,773	141,996,808	94,706,436
EUR currency forwards	11,789,614	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	61,902,978	242,970,271	185,708,935
NZD currency forwards	-	-	-
SAR currency forwards	490,954,194	-	-
AUD currency forwards	14,657,634	56,370,188	13,471,738
TWD currency forwards	463,285,969	-	-
MXP currency forwards	2,233,118,406	35,027,380	-
CAD currency forwards	1,129,291	-	-
HUF currency forwards	1,004,718,416	-	-
TRY currency forwards	2,609,414	1,775,740	-
<b>Purchase hedges-</b>			
<b>Fair value hedges</b>			
USD currency forwards	29,651,389	-	34,109,000
EUR currency forwards	149,659,110	48,652,300	-
GBP currency forwards	4,444,042	-	-
MXP currency forwards	59,767,000	-	-
BRL currency forwards	628,825	-	-

(\*) Including the hedge of a net investment in CAF USA, Inc. and in Provretren, S.A. de C.V. amounting to USD 251,898 thousand.

Expiry (in Currency)	31/12/16		
	2017	2018	2019 and Subsequent Years
<b>Sales hedges-</b>			
<b>Fair value hedges</b>			
USD currency forwards (*)	644,214,550	79,234,468	55,313,750
GBP currency forwards	36,442,339	138,283,706	94,422,445
EUR currency forwards	15,623,445	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	224,317,236	19,185,635	-
AUD currency forwards	14,789,903	55,404,595	9,806,539
TWD currency forwards	463,285,969	-	-
SAR currency forwards	490,954,194	-	-
MXP currency forwards	2,723,626,945	-	-
CAD currency forwards	880,705	-	-
HUF currency forwards	975,898,338	-	-
<b>Purchase hedges-</b>			
<b>Fair value hedges</b>			
USD currency forwards	39,634,913	-	34,109,000
EUR currency forwards	163,634,381	49,009,054	-
BRL currency forwards	11,654,562	-	-
MXP currency forwards	59,767,000	-	-
GBP currency forwards	5,677,835	-	-

(\*) Including the hedge of a net investment in CAF USA, Inc. and in Provretren, S.A. de C.V. amounting to USD 233,521 thousand.

In the first half of 2017 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 745 thousand mainly as a result of changes in the estimated amounts of the hedged items.

Following is a reconciliation of the remeasurement at the end of each period to the carrying amounts recognised in the consolidated balance sheets (in thousands of euros):

	30/06/17	31/12/16
Non-current assets	18,213	12,861
Current assets	11,349	45,382
Non-current liabilities	(18,497)	(13,574)
Current liabilities	(27,628)	(116,468)
<b>Balance sheet net total</b>	<b>(16,563)</b>	<b>(71,799)</b>
Fair value	(16,433)	(66,365)
Cash flow	(130)	(5,434)
<b>Total derivatives, remeasured</b>	<b>(16,563)</b>	<b>(71,799)</b>

## 15. Segment reporting

The criteria applied by the Parent to define its operating segments are disclosed in Note 6 to the consolidated financial statements for the year ended 31 December 2016. There were no changes in the basis of segmentation used.

The detail of revenue, by geographical area, at 30 June 2017 and 2016 is as follows:

Revenue by Geographical Area	Thousands of Euros	
	30/06/17	30/06/16
Domestic market	100,275	140,322
Exports		
a) European Union	255,262	125,428
b) OECD countries	240,450	212,559
c) Other countries	159,480	153,559
<b>Total</b>	<b>755,467</b>	<b>631,868</b>

The breakdown of sales, by product group and type of service provided, is as follows (in thousands of euros):

	30/06/17	30/06/16
High-speed	17,840	23,787
Regional and commuter	263,939	162,089
Metros	135,955	133,122
Tram and light rail	66,034	55,917
Bogies, refitting and other	18,165	16,918
<b>Trains</b>	<b>501,933</b>	<b>391,833</b>
<b>Services</b>	<b>184,646</b>	<b>169,521</b>
<b>Wheel sets and components</b>	<b>38,215</b>	<b>37,920</b>
<b>Other</b>	<b>30,673</b>	<b>32,594</b>
<b>Total</b>	<b>755,467</b>	<b>631,868</b>

The reconciliation of revenue by segment to consolidated revenue at 30 June 2017 and 2016 is as follows:

Revenue	Thousands of Euros					
	30/06/17			30/06/16		
	External Revenue	Inter-Segment Revenue	Total Revenue	External Revenue	Inter-Segment Revenue	Total Revenue
Rolling stock	717,252	-	717,252	593,948	-	593,948
Components (MiiRA)	38,215	17,584	55,799	37,920	14,826	52,746
(-) Adjustments and eliminations to inter-segment revenue	-	(17,584)	(17,584)	-	(14,826)	(14,826)
<b>Total</b>	<b>755,467</b>	<b>-</b>	<b>755,467</b>	<b>631,868</b>	<b>-</b>	<b>631,868</b>

The reconciliation of profit (loss) by segment to consolidated profit at 30 June 2017 and 2016 is as follows:

	Thousands of Euros	
	30/06/17	30/06/16
Rolling stock	53,330	37,547
Components and parts (MiiRA)	(298)	234
General (*)	(37,332)	(22,769)
<b>Profit after tax</b>	<b>15,700</b>	<b>15,012</b>

(\*) Including, in addition to unallocated general expenses, financial profit or loss and the unallocated income tax expense of the "Rolling Stock" and "Components and Parts" segments, since both segments relate to various legal entities and there is no reasonable basis for allocating the aforementioned items to these segments.

## 16. Average headcount

The average headcount at 30 June 2017 and 2016 was as follows:

	Number of Employees	
	30/06/17	30/06/16
Men	6,612	6,450
Women	1,089	974
<b>Total</b>	<b>7,701</b>	<b>7,424</b>

## 17. Tax matters

The Group calculated the provision for income tax at 30 June 2017 in accordance with the applicable tax legislation. However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof.

The account payable arising from the calculation of the income tax expense for the six-month period ended 30 June 2017 is recognised under "Trade and Other Payables - Current Tax Liabilities" in the accompanying condensed consolidated balance sheet.

In relation to the tax assets recognised, the Group's directors apply a recognition policy based on an assessment of backlog.



At 30 June 2017, the Group recognised EUR 62,766 thousand under "Trade and Other Receivables - Other Receivables" in the condensed consolidated balance sheet in relation to balances receivable from public authorities for tax settlements, mainly for VAT. Also, the Group recognised EUR 25,059 thousand under "Trade and Other Payables - Other Payables" in the accompanying condensed consolidated balance sheet, mainly in relation to employee personal income tax withholdings, employer social security costs and VAT.

In the first half of 2017 the stay of the appeal for judicial review described in Note 18 to the consolidated financial statements for 2016 was lifted. There were no other changes in this connection. Also, on 20 June 2017, the provincial tax authorities of Guipúzcoa notified the Parent of the commencement of a partial audit of income tax for the years 2012 to 2015 of the Parent and the tax group no. 03/07/G. The Group's directors do not expect any liabilities to arise as a result of the aforementioned tax audits.

#### **18. Explanation added for translation to English**

These condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a)). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.