TALGO, S.A. AND SUBSIDIARIES

Abbreviated Consolidated Interim Financial Statements 30 June 2020

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

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 31 DECEMBER 2019

(Expressed in thousands of euros)

	Notes	30.06.2020	31.12.2019
ASSETS			
Non-current assets			
Tangible fixed assets	4	59 339	61 044
Intangible assets	5	45 882	44 946
Goodwill	6	112 439	112 439
Investment in associates	8	29	29
Deferred tax assets	15	27 743	28 990
Other financial assets	8	2 608	2 513
		248 040	**249 961**
Current assets			
Stock	10	157 251	129 784
Customers and other accounts receivable	9,17	167 099	165 107
Other financial assets	8	10 126	10 128
Asset accruals		2 043	2 367
Cash and cash equivalents	11	281 114	325 550
		617 633	**632 936**
TOTAL ASSETS		**865 673**	**882 897**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of financial position for the six months ended 30 June 2020.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 31 DECEMBER 2019

(Expressed in thousands of euros)

	Notes	30.06.2020	31.12.2019
EQUITY			
Capital and reserves attributable to the owners of the Parent Company			
Share capital	12	38 228	41 105
Share premium	12	871	6 784
Other reserves	12	(23 051)	(62 562)
Retained earnings	12	3 297	3 177
Treasury stock	12	252 772	303 222
Total equity		**272 117**	**291 726**
LIABILITIES			
Non-current liabilities			
Borrowings	13	239 624	219 469
Derivatives		59	68
Deferred tax liabilities	15	8 027	7 646
Provisions for other liabilities and charges	16	43 614	44 180
Government grants		1 695	1 925
		293 019	**273 288**
Current liabilities			
Suppliers and other payables	14,17	238 067	244 716
Current tax liabilities		75	166
Borrowings	13	55 664	65 829
Provisions for other liabilities and charges	16	6 731	7 172
		300 537	**317 883**
Total liabilities		**593 556**	**591 171**
TOTAL EQUITY AND LIABILITIES		**865 673**	**882 897**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of financial position for the six months ended 30 June 2020.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 2019

(Expressed in thousands of euros)

	Notes	30.06.2020	30.06.2019
Net turnover	**3**	**216 625**	**167 773**
Other income		1 220	1 052
Stock variation for work-in-progress and finished goods		2 498	1 544
Work performed and capitalized		3 726	1 582
Procurement costs		(128 037)	(57 364)
Personnel costs	18	(59 046)	(59 892)
Other operating expenses		(27 251)	(26 844)
Amortization and depreciation charge	4,5	(8 065)	(7 216)
Other results		156	140
Operating profit		**1 826**	**20 775**
Financial income	19	23	30
Financial expenses	19	(3 902)	(4 093)
Net financial result		**(3 879)**	**(4 063)**
Profit before tax		**(2 053)**	**16 712**
Income tax charge	15	(3 651)	(2 725)
Profit/(Loss) for the period from continuing operations		**(5 704)**	**13 987**
Profit/(Loss) for the period		**(5 704)**	**13 987**
Attributable to: Owners of the parent	12	(5 704)	13 987
Non-controlling interests		-	-
Basic earnings/(losses) per share attributable to the owners of the Company			
Continuing operations	12	(0.05)	0.10
Total		**(0.05)**	**0.10**
Diluted earnings/(losses) per share attributable to the owners of the Company			
Continuing operations	12	(0.05)	0.11
Total		**(0.05)**	**0.11**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim comprehensive income for the six months ended 30 June 2020.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 2019

(Expressed in thousands of euros)

	30.06.2020	30.06.2019
Result for the period	**(5 704)**	**13 987**
Other comprehensive income:		
Cash flow hedges:		
Direct assignment to equity:		
Cash flow hedge	9	(77)
Tax effect of the equity assignment	(2)	19
Transfer to results:		
Cash flow hedge	-	-
Tax effect of the cash flow hedge	-	-
Foreign currency translation differences	113	133
Total other comprehensive Income	**120**	**75**
Total comprehensive income for the period		
Attributable to:		
-Owners of the parent	(5 584)	14 062
-Non-controlling interests	-	-
Total comprehensive income for the period	**(5 584)**	**14 062**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of comprehensive income for the six months ended 30 June 2020.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 2019
(Expressed in thousands of euros)

	Share capital (Note 12)	Share premium	Other reserves (Note 12)	Retained earnings	Other equity instruments (Note 12)	Total	Non-controlling interests	Total equity
Balance at 31 December 2018	**41 105**	**6 784**	**2 851**	**281 421**	**(4 046)**	**328 115**	**-**	**328 115**
Comprehensive Income								
Profit or loss	-	-	-	13 987	-	13 987	-	13 987
Other comprehensive Income								
Currency exchange differences	-	-	133	-	-	133	-	133
Hedging derivative	-	-	(58)	-	-	(58)	-	(58)
Total comprehensive Income	**-**	**-**	**75**	**13 987**	-	**14 062**	-	**14 062**
Transactions with owners								
Acquisition of Treasury Stock (stock repurchase plan)	-	-	-	-	(34 586)	(34 586)	-	(34 586)
Other movements	-	-	**-**	-	-	-	-	-
Total transactions with owners	-	-	-	-	**(34 586)**	**(34 586)**	-	**(34 586)**
Balance at 30 June 2019	**41 105**	**6 784**	**2 926**	**295 408**	**(38 632)**	**307 591**	**-**	**307 591**
Balance at 31 December 2019	**41 105**	**6 784**	**3 177**	**303 222**	**(62 562)**	**291 726**	**-**	**291 726**
Comprehensive income								
Profit or loss	-	-	-	(5 704)	-	(5 704)	-	(5 704)
Other comprehensive Income								
Currency exchange differences	-	-	113	-	-	113	-	113
Hedging derivative	**-**	**-**	7	-	**-**	**7**	**-**	7
Total comprehensive Income	**-**	**-**	**120**	**(5 704)**	**-**	**(5 584)**	**-**	**(5 584)**
Transactions with owners								
Acquisition of Treasury Stock (stock repurchase plan)	-	-	-	-	(13 969)	(13 969)	-	(13 969)
Capital reduction	(2 877)	-	-	-	2 877	-	-	-
Redemption of Treasury Stock	-	-	-	(50 603)	50 603	-	-	-
Other equity movements	-	(5 913)	**-**	5 857	-	(56)	-	(56)
Total transactions with owners	**(2 877)**	**(5 913)**	**-**	**(44 746)**	**39 511**	**(14 025)**	-	**(14 025)**
Balance at 30 June 2020	**38 228**	**871**	**3 297**	**252 772**	**(23 051)**	**272 117**	**-**	**272 117**

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of changes in equity for the six months ended 30 June 2020.

TALGO, S.A. AND SUBSIDIARIES

ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 2019

(Expressed in thousands of euros)

	30.06.2020	30.06.2019
Cash flows from operating activities		
Cash used in operations	**(23 750)**	**7 119**
Interest paid	(3 069)	(4 517)
Interest received	15	25
Tax paid	(4 724)	(4 432)
Net cash flow generated from operating activities	**(31 528)**	**(1 805)**
Cash flows from investing activities		
Purchases of property, plant and equipment	(2 356)	(1 061)
Purchases of intangible assets	(4 932)	(2 490)
Financial assets investments	-	(10 000)
Net cash used in investing activities	**(7 288)**	**(13 551)**
Cash flows from financing activities		
Own equity instruments acquisition	(14 235)	(34 774)
Disbursements for loan repayments	(48 722)	(49 384)
Proceeds from borrowings	58 683	29 021
Lease debts	(1 346)	(958)
Net cash used / (generated) in financing activities	**(5 620)**	**(56 095)**
Net (decrease) / increase in cash, cash equivalents and bank overdrafts	**(44 436)**	**(71 451)**
Cash, cash equivalents and bank overdrafts at the beginning of period	325 550	383 733
Cash, cash equivalents and bank overdrafts at the end of period	281 114	312 282

Notes 1 to 21 form an integral part of the abbreviated consolidated statement of cash flows corresponding to the six months ended 30 June 2020.

SUMMARY

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE ABBREVIATED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2020
(Expressed in thousands of euros)

1. General Information

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

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

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

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

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

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

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

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

2. Summary of the main accounting policies applied in the preparation of the abbreviated consolidated interim accounts for the six months ended 30 June 2020

2.1 Basis of presentation

These Abbreviated Consolidated Interim Financial Statements are presented in accordance with IAS 34 on Interim Financial Information and were drawn up by the Directors of the Board meeting which was held on 21 July 2020. This consolidated interim financial information has been prepared based on the accountancy records kept by Talgo, S.A. and the other companies forming part of the Group, and includes the adjustments and re-classifications necessary to achieve uniformity between the accountancy and presentation criteria followed by all the companies of the Group in accordance with the International Financial Reporting Standards (henceforth IFRS).

In accordance with that established by IAS 34, interim financial information is prepared solely in order to update the most recent consolidated annual accounts drawn up by the Group, placing emphasis on new activities, occurrences and circumstances that have taken place during these six months and not duplicating the information previously published in the consolidated annual accounts of the 2019 financial year. Therefore, adequate understanding of the information, these Abbreviated Consolidated Interim Financial Statements must be read jointly with Consolidated Annual Accounts corresponding to the 2019 financial year.

The Accounting Policies adopted in the drafting of the Abbreviated Consolidated Interim Financial Statements are consistent with those established in Consolidated Annual Accounts corresponding to the 2019 financial year, except for the standards and understanding that have come into force during the first half of 2020 and are detailed below.

2.1.1 Changes in accounting criteria

During first half of 2020 financial year no changes were made in the accounting criteria with respect to the criteria applied in 2019.

2.1.2 Entry into force of new accounting standards

During first half of 2020, the following standards and interpretations came into effect and have already been adopted by the European Union. Where applicable and appropriate, the Group has applied these rules in its preparation of the Abbreviated Consolidated Interim Financial Statements.

(Expressed in thousands of euros)

2.2.1. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2020:

New standards, modifications and interpretations:		**Obligatory application for financial years starting on:**
Approved for use in the European Union		
Amendments or/and modifications		
Amendment to IAS 1 and IAS 8. Definition of "materiality" (published October 2018).	Modifications to IAS 1 and IAS 8 to align the definition of "materiality" with that contained in the conceptual framework.	1 January 2020
Modifications to IFRS 9, IAS 39 and IFRS 7. Reform of Reference Interest Rates (published in September 2019).	Modifications to IFRS 9, IAS 39 and IFRS 7 related to the ongoing reform of benchmarks.	1 January 2020
Amendment to IFRS 3. Business definition (published October 2018).	Clarifications to the business definition.	1 January 2020
Not Approved for use in the European Union at the date of this document publication		
Modifications		
Amendment to IFRS 16 Leases - Rent improvements (published May 2020).	Amendment on leases to help lessees accounting for covid-19-related rent concessions.	1 de June de 2020

Since their entry into force on 1 January 2020, the Group has been applying the aforementioned standards and interpretations, the impact of which has been taken into account in the preparation of the abbreviated consolidated interim financial statements at 30 June 2020. The status of approval of the standards by the European Union is available on the EFRAG website.

2.2.2. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2020:

New standards, modifications and interpretations:		**Obligatory application for financial years starting on :**
Not Approved for use in the European Union at the date of this document publication		
NIIF 17. Insurance contract (published in May 2017).	It replaces IFRS 4 and sets out the principles of registration, valuation, presentation and breakdown of insurance contracts in order for the entity to provide relevant and reliable information that allows users of the information to determine the effect that contracts have in the financial statements.	1 January 2021
Amendments or/and modifications		
Amendment to IAS 1. Classification of liabilities as current or non-current (published in January 2020)	Clarifications regarding the presentation of liabilities as current or non-current.	1 January 2023 (1)

(1) The IASB has proposed its postponement to 1 January 2023 (draft amendment of 3 June 2020).

2.3 Variations in the consolidation perimeter

During the first half of 2020, a change has been made in the consolidation perimeter as a result of the dissolution of Talgo Rus, a company 51% owned by Patentes Talgo, S.L.U.

2.4 Significant accounting estimates and judgements

The consolidated results and calculation of consolidated equity are sensitive to the accounting principles and policies, valuation criteria and estimations adopted by the directors of the Parent Company during the preparation of these abbreviated consolidated interim financial statements. The main principles, accounting policies and valuation criteria are detailed in Notes 2 and 4 of the consolidated annual accounts for 2019.

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

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

- Estimated loss due to impairment of goodwill.

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

- Revenue recognition by percentage of completion method.

- Useful lives of intangible and tangible fixed assets.

- Calculation of provisions.

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

Impacts and uncertainties related to COVID-19 pandemic

The global spread of SARS-CoV-2(COVID-19) to a large number of countries after its appearance in January 2020 has led to this viral outbreak being considered a pandemic by the World Health Organization since March 11.

Given the complexity of the markets due to their globalization, the consequences for the Group's operations are uncertain and will depend to a large extent on the evolution and extension of the pandemic in the coming months, as well as on the reaction and adaptation capacity of all the economic agents affected.

However, the directors and Management of the Group have made an assessment of the current situation based on the best information available. Due to the considerations mentioned above, this information may be incomplete. The following aspects of the results of this evaluation are highlighted:

- Liquidity risk. The general situation in the markets has led to an overall increase in liquidity tensions in the economy, as well as a contraction of the credit market. In this sense, the Group has increased its financial capability increasing available lines of credit and renegotiating some of its bank debt (note 13).

- Operational risk. In the first half of 2020, there has been a significant reduction in train maintenance revenues as a result of the railway traffic restrictions imposed by both the Spanish government and the various governments in the various geographical areas in which the Group operates, it not being possible to estimate at the date of preparation of these abbreviated consolidated interim financial statements, the outcome of this situation and its final impact. As a result of this situation, the Group in Spain and Saudi Arabia filed Temporary Suspension of Employment to the competent labour authorities, partially affecting a maximum of 351 people in Spain and 26 in Saudi Arabia. In addition, the Group has established specific working committees and procedures to monitor and manage the evolution of its operations at any time, in order to minimize their impact.

- Risk of changes in certain financial aggregates: The factors mentioned above, together with other specific factors, may lead to a decrease in the figures of relevant headings for the Group in the next financial statements, such as "Net Turnover", "Operating income" or "Profit before/after tax", or an increase in covenants associated with bank borrowings, although at the date of preparation of these abbreviated consolidated interim financial statements it is not possible to quantify their impact reliably. In this regard, the Group has complied with the covenants and other obligations associated with its bank debt in the first half of 2020 (note 13) and expects to maintain this situation at year end.

- Valuation risk of assets and liabilities: The Group has performed the appropriate analyses and calculations associated with the accounting valuation of certain assets (goodwill, non-current assets, tax credits, customers, etc.) and those relating to the need to recognize certain provisions or other types of liabilities (notes 6, 9, 15 and 16). In this regard, no indication of impairment of any of the items reviewed was detected. At the end of the first half of 2020 and following a conservative approach in the current situation described above, the Spanish tax group (note 15) has not activated tax loss carryforwards generated in that period. As soon as the estimates and the development of the Group's activity change in the current situation, these analyses will be recalculated and the assumptions re-estimated.

- Going concern risk: considering all the factors mentioned above, the Directors consider that at the date of preparation of these abbreviated consolidated interim financial statements, no risks related to the application of the going concern basis have materialized.

Finally, emphasize the Group's administrators and Management are constantly monitoring the evolution of the situation, with the aim of dealing, anticipate and minimize any possible impacts, be they financial or non-financial.

2.5 Contingent assets and liabilities

In Note 28 of the Group's consolidated annual accounts for the year ended 31 December 2019, information was provided about the contingent assets and liabilities as at that date.

During the first half of 2020, additional liabilities may arise in the event of a tax inspection, as a result of the different possible interpretations of the governing tax legislation, amongst other factors. In any case, the Directors consider that those liabilities, in the event that they were to arise, would not significantly affect the abbreviated consolidated financial statements.

3. Segment reporting

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

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

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

Likewise, the “Auxiliary machines and Others” segment primarily includes the manufacture and maintenance of lathes and other equipment, as well as repairs, modifications and the sale of spare parts. The “General” segment includes general corporate expenses not directly assignable to other segments.

The segment information supplied to the Board of Directors of Talgo, S.A. for decision making relating to the six-month period ended at 30 June 2020 and 30 June 2019, was obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

				30.06.20
				€ in thousands
	Rolling stock	**Auxiliary machines and others**	**General**	**Total**
Total segment revenues	186 048	30 577	-	216 625
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**186 048**	**30 577**	**-**	**216 625**
Amortization and depreciation charge	5 706	283	2 076	8 065
Operating result	**17 060**	**5 187**	**(20 421)**	**1 826**
Financial income	15	-	8	23
Financial expenses	(3 124)	(348)	(430)	(3 902)
Result before tax	**13 951**	**4 839**	**(20 843)**	**(2 053)**
Total Assets	**737 594**	**91 088**	**36 991**	**865 673**
Total Liabilities	**468 840**	**50 703**	**74 013**	**593 556**
Fixed asset investments	**5 644**	**49**	**1 595**	**7 288**

				30.06.19
				€ in thousands
	Rolling stock	**Auxiliary machines and others**	**General**	**Total**
Total segment revenues	148 533	19 240	-	167 773
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**148 533**	**19 240**	**-**	**167 773**
Amortization and depreciation charge	6 271	113	832	7 216
Operating result	**35 620**	**3 589**	**(18 434)**	**20 775**
Financial income	29	1	-	30
Financial expenses	(2 946)	(370)	(777)	(4 093)
Result before tax	**32 703**	**3 220**	**(19 211)**	**16 712**
Total Assets	**737 940**	**77 046**	**38 527**	**853 513**
Total Liabilities	**451 071**	**28 558**	**66 293**	**545 922**
Fixed asset investments	**2 221**	**41**	**2 850**	**5 112**

Ordinary revenues from external customers, total assets and total liabilities, as reported to the Board of Directors, are valued according to uniform criteria.

Total net Turnover from external customers for the six-month period ended at 30 June 2020 and 2019 was distributed geographically as follows:

	€ in thousands	
	30.06.20	**30.06.19**
Spain	151 547	88 675
Rest of Europe	17 768	10 469
USA	9 438	9 006
Middle East and North Africa	19 895	28 139
Commonwealth of Independent States	17 440	30 443
Asia	537	1 041
	216 625	**167 773**

Total non-current assets, other than financial instruments and deferred tax assets in the first half of 2020 and 2019 were distributed geographically as follows:

	€ in thousands	
	30.06.20	**31.12.19**
Spain	206 812	206 888
Overseas	10 848	11 541
	217 660	**218 429**

4. Tangible fixed assets

The movements in the accounts included within tangible fixed assets, fully depreciated and provisions during first half of 2020 and 2019 financial year were as follows:

						€in thousands
	Balance at 31.12.19	**Exchange differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 30.06.20**
Cost						
Land	9 894	-	-	-	-	9 894
Right-of-use asset	9 310	-	341	-	-	9 651
Buildings	48 324	3	-	-	15	48 342
Technical installations and machinery	31 215	6	66	-	31	31 318
Other facilities, tools and furniture	55 700	3	89	(2)	134	55 924
Advances and work in progress	2 426	-	1 758	-	190	4 374
Other fixed assets	10 071	-	102	(1)	1	10 173
	166 940	12	2 356	(3)	371	169 676
Depreciation						
Right-of-use asset	(2 186)	9	(1 346)	-	-	(3 523)
Buildings	(28 486)	(3)	(680)	-	-	(29 169)
Technical installations and machinery	(24 094)	(6)	(845)	-	-	(24 945)
Other facilities, tools and furniture	(43 745)	(3)	(1 245)	2	-	(44 991)
Other fixed assets	(7 385)	-	(324)	-	-	(7 709)
	(105 896)	(3)	(4 440)	2	-	(110 337)
Net book value	**61 044**	**9**	**(2 084)**	**(1)**	**371**	**59 339**

€ in thousands

	Balance at 31.12.18	Transition to NIIF 16	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.19
Cost							
Land	9 894	-	-	-	-	-	9 894
Right-of-use asset	-	52	5 912	3 465	(119)	-	9 310
Buildings	55 522	18	-	3	(7 517)	298	48 324
Technical installations and machinery	30 857	37	-	156	(153)	318	31 215
Other facilities, tools and furniture	53 927	19	-	145	(432)	2 041	55 700
Advances and work in progress	2 611	-	-	3 895	-	(4 080)	2 426
Other fixed assets	8 648	2	-	21	(23)	1 423	10 071
	161 459	128	5 912	7 685	(8 244)	-	166 940
Depreciation							
Right-of-use asset	-	(3)	-	(2 220)	37	-	(2 186)
Buildings	(29 067)	(18)	-	(1 617)	2 216	-	(28 486)
Technical installations and machinery	(22 457)	(35)	-	(1 714)	112	-	(24 094)
Other facilities, tools and furniture	(41 575)	(18)	-	(2 400)	248	-	(43 745)
Other fixed assets	(6 802)	(1)	-	(605)	23	-	(7 385)
	(99 901)	(75)	-	(8 556)	2 636	-	(105 896)
Net book value	**61 558**	**53**	**5 912**	**(871)**	**(5 608)**	**-**	**61 044**

The entry into force of IFRS 16 on 1 January 2019, led the Group to increase its fixed assets and debt (note 13.b) by €5,912 thousand at that date. This increase corresponded to the recognition of assets for right-of-use relating to contracts, which meet the definition of a lease under IFRS 16.

The nature of the activities of the right-to-use assets relates, in essence, to the rental of offices and premises for the development of the Group's activities.

The main additions to tangible assets in the first half of 2020 relate mainly to the acquisition of computer equipment, technical installations and machinery by the subsidiary Patentes Talgo, S.L.U.

The caption Land and buildings includes the Group’s two properties located in Rivabellosa and Las Rozas (Madrid).

At 30 June 2020, tangible fixed assets with an initial cost of €67,702 thousand have been fully depreciated and were still operational (30 June 2019: €54,942 thousand).

During first half of 2020 and 2019 financial year, no valuation corrections have been either recognized or reversed due to the impairment of any individual tangible fixed asset, since it is estimated that the fair value, reduced by the costs of sale, will be higher than the value by which the asset is registered in books.

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

The Group has taken out various insurance policies to cover the risks to which its tangible assets are subject and any claims that may be filed against it in connection with its business activities, on the understanding that such policies sufficiently cover the risks to which they are subject.

5. Intangible assets

The movements in the intangible assets accounts fully depreciated and provisions during first half of 2020 and 2019 financial year were as follows:

€ in thousands

	Balance at 31.12.19	Exchange differences	Additions	Disposals	Transfers	Balance at 30.06.20
Cost						
Development	116 670	-	-	-	81	116 751
Industrial property	1 749	-	-	-	-	1 749
Software	15 425	3	-	-	815	16 243
Right-of-use asset	3 967	-	-	-	-	3 967
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	16 167	-	4 932	-	(1 267)	19 832
	179 047	3	4 932	-	(371)	183 611
Amortization and impairment losses						
Development	(106 380)	-	(1 447)	-	-	(107 827)
Industrial property	(22)	-	-	-	-	(22)
Software	(12 674)	(3)	(817)	-	-	(13 494)
Right-of-use asset	(1 728)	-	(397)	-	-	(2 125)
Maintenance contracts	(11 568)	-	(964)	-	-	(12 532)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(134 101)	(3)	(3 625)	-	-	(137 729)
Net book value	**44 946**	**-**	**1 307**	**-**	**(371)**	**45 882**

€ in thousands

	Balance at 31.12.18	Exchange differences	Transition to NIIF 16	Additions	Disposals	Transfers	Balance at 31.12.19
Cost							
Development	115 510	-	-	-	-	1 160	116 670
Industrial property	1 749	-	-	-	-	-	1 749
Software	15 414	18	(2 931)	84	-	2 840	15 425
Right-of-use asset	-	-	2 931	-		1 036	3 967
Maintenance contracts	25 069	-	-	-	-	-	25 069
Advances and work in progress	6 796	-	-	14 407	-	(5 036)	16 167
	164 538	18	-	14 491	-	-	179 047
Amortization and impairment losses							
Development	(103 188)	-	-	(3 192)	-	-	(106 380)
Industrial property	(22)	-	-	-	-	-	(22)
Software	(12 245)	(18)	1 004	(1 415)	-	-	(12 674)
Right-of-use asset	-		(1 004)	(724)			(1 728)
Maintenance contracts	(9 640)	-	-	(1 928)	-	-	(11 568)
Impairment losses	(1 729)	-	-	-	-	-	(1 729)
	(126 824)	(18)	-	(7 259)	-	-	(134 101)
Net book value	**37 714**	**-**	**-**	**7 232**	**-**	**-**	**44 946**

The main additions are related to Development projects the Group runs in Spain.

The Group has contracted various finance lease operations on its intangible assets, which have been classified, following the entry into force of IFRS 16, as assets with a right-to-use (note 13.b). The cost of intangible assets subject to finance leases corresponds to the right to use various IT platforms.

At 30 June 2020, the Group held intangible assets that were fully depreciated and still operational, which had an initial cost of €113,695 thousand (30 June 2019: 111,142 thousand).

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

During first half 2020 and 2019 financial year, no valuation corrections were recognized or reversed due to the impairment of any individual intangible assets. Furthermore, the impairment tests performed on the intangible assets that were not yet operational, as at 30 June 2020 and 31 December 2019, did not show any signs of impairment.

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

This impairment test was performed by discounting the cash flows of the manufacturing projects, using a discount rate of 6.1% and a growth rate of 0.5%.

6. Goodwill

The movement in goodwill was as follows:

	€ in thousands
Balance at 31.12.18	**112 439**
Additions	-
Disposals	-
Balance at 31.12.19	**112 439**
Additions	-
Disposals	-
Balance at 30.06.20	**112 439**

Goodwill impairment tests

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

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

	€ in thousands	
	30.06.20	**31.12.19**
Rolling stock	101 886	101 886
Auxiliary machines and other	10 553	10 553
Total Goodwill	**112 439**	**112 439**

The amount recoverable from a CGU is determined on the basis of "value in use" calculations.

These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates.

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

The key hypotheses used for the value in use calculations in first half of 2020 and 2019 are detailed below:

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

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

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

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

Key hypothesis:

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

The key hypotheses used for the value in use calculations in 2019 financial year and first half 2020 were: a discount rate of 6.1% and a growth rate of 0.5%.

Sensitivity analysis:

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

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

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

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

During 2019 and the first half of 2020, none of the CGUs evaluated has shown any signs of impairment.

7. Financial instruments by category

The breakdown of financial instruments by category is as follows:

	€ in thousands		
	Loans and Accounts receivable	**Money Market Funds investments**	**Total**
30 June 2020			
Assets on the statement of financial position			
Customers and other accounts receivable (note 9)*	154 766	-	154 766
Other financial assets (note 8)	2 728	10 035	12 763
Cash and cash equivalents (note 11)	281 114	-	281 114
	438 608	**10 035**	**448 643**
31 December 2019			
Assets on the statement of financial position			
Customers and other accounts receivable (note 9)*	159 087	-	159 087
Other financial assets (note 8)	2 642	10 028	12 670
Cash and cash equivalents (note 11)	325 550	-	325 550
	487 279	**10 028**	**497 307**

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

	€ in thousands		
	Financial liabilities at amortized cost	**Hedge Derivatives**	**Total**
30 June 2020			
Liabilities on the statement of financial position			
Borrowings (note 13)	295 288	-	295 228
Derivatives	-	59	59
Suppliers and other payables (note 14)*	169 678	-	169 678
	464 966	**59**	**465 025**
30 December 2019			
Liabilities on the statement of financial position			
Borrowings (note 13)	285 298	-	285 298
Derivatives	-	68	68
Suppliers and other payables (note 14)*	171 288	-	171 288
	456 586	**68**	**456 654**

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

8. Other financial assets and investments in associates

The breakdown of this balance is as follows:

	€ in thousands	
	30.06.20	**31.12.19**
Other non-current financial assets and investments in associates		
Loans to third parties and other loans (note 8 a)	807	807
Deposits and guarantees (note 8 b)	1 801	1 706
Investment in associates	29	29
	2 637	**2 542**
Other current financial assets		
Money market funds investments (note 8 c)	10 035	10 028
Loans to third parties	51	51
Deposits and guarantees	40	49
	10 126	**10 128**
Total Other financial assets	**12 763**	**12 670**

a) Loans to third parties and other loans

The ‘Loans to third parties’ caption includes balances with related parties amounting to €654 thousand (notes 17 and 18) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €153 thousand.

b) Deposits and guarantees

The ‘Deposits and guarantees’ caption included in the non-current assets balance at 31 December 2019 and 30 June 2020 mainly comprises a deposit made by the Group’s American subsidiary, Talgo Inc., for the maintenance contract held by this subsidiary.

c) Money market funds investments

On April 19, 2019, the company Patentes Talgo, S.L.U. has formalized an investment in a money market fund in the amount of €10,000 thousand, representing a total of 98,570.724 shares in the fund. This investment is characterized by its high liquidity component and whose return is linked to the value of the investment at the date of its recovery.

9. Customers and other accounts receivable

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

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

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

This caption is broken down as follows:

	€ in thousands	
	30.06.20	**31.12.19**
Customers	61 503	128 049
Construction completed not yet invoiced	90 363	29 131
Customers – group companies and associates (note 17)	2 292	3 797
Provision for impairment losses	(4 924)	(4 523)
Customers – Net	**149 234**	**156 454**
Public entities	15 323	7 566
Sundry debtors	1 844	586
Personnel	698	501
Total	**167 099**	**165 107**

At 30 June 2020, the Group´s sale commitments amounted to €3,304 million (30 June 2019: €3,251 million).

The Group recognizes appropriate provisions based on the expected loss model on its financial assets under IFRS 9.

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

	€ in thousands	
	30.06.20	**30.06.19**
At 1 January	**4 523**	**4 522**
Provision recognition	413	96
Disposals	(12)	(39)
At 30 June	**4 924**	**4 579**

The remaining accounts included within the customer accounts receivable and other receivable balances do not contain any assets that have suffered any impairment.

The maximum exposure to credit risk at the consolidated financial statement position date is the carrying amount of each type of receivable account mentioned above.

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

	€ in thousands	
	30.06.20	**31.12.19**
Public administrations tax receivables for VAT	5 429	1 966
Public administrations debtors for grants	2 990	1 546
Public administrations debtors for other taxes	2 880	539
Public administrations corporate income tax	4 024	3 515
	15 323	**7 566**

10. Stock

The composition of this caption is shown below:

	€ in thousands	
	30.06.20	**31.12.19**
Raw Materials	119 179	93 631
Work in progress	24 965	22 418
Advances	22 301	22 186
Provision for the depreciation of raw materials	(9 194)	(8 451)
	157 251	**129 784**

At 30 June 2020, the Group's commitments for the purchase of raw materials and other services amounted to €373.913 thousand (30 June 2019: €343,628 thousand).

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

	Balance at 31.12.19	Exchange differences	Provision	Application	€ in thousands Balance at 30.06.20
Provision for the depreciation of raw materials	(8 451)	(7)	(831)	95	(9 194)
	(8 451)	**(7)**	**(831)**	**95**	**(9 194)**

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

11. Cash and cash equivalents

The breakdown of this caption is as follows:

	€ in thousands 30.06.20	31.12.19
Cash	281 114	312 028
Cash equivalents	-	13 522
Total	**281 114**	**325 550**

The balance included under the heading "Cash equivalents" at 31 December 2019 corresponded to a deposit made by the subsidiary Talgo Inc., which was cancelled during the first half of 2020. The balance indicated in this caption on the statement of financial position is fully and freely available.

12. Equity

Equity movement is broken down in the statement of changes in equity.

a) Share Capital and Share Premium

The variations in the number of shares and in the Share Capital account of the Parent Company during first half 2020 and 2019 financial year were as follows:

	Number of shares	€ in thousands Share capital
At 31 December 2018	**136 562 598**	**41 105**
Capital increases	-	-
Capital reductions	-	-
At 31 December 2019	**136 562 598**	**41 105**
Capital increases	-	-
Capital reductions	(9 559 382)	(2 877)
At 30 June 2020	**127 003 216**	**38 228**

As at 31 December 2019 the share capital comprised 136,562,598 shares and had a nominal value of €0.301.

On 21 May 2019 the General Shareholders' Meeting of the parent company approved a capital reduction through the redemption of a maximum of 12,973,446 treasury shares representing a maximum of 9.50% of the Parent's current share capital. On 27 February 2020 the Board of Directors of the Group's Parent agreed to reduce share capital by €2,877 thousand through the redemption of 9,559,382 own shares with a nominal value of €0.301 each amounting to €53,480 thousand, representing 7% of the Parent company current share capital, previous to the aforementioned capital reduction.

In accordance with the agreement adopted by the General Meeting, the reduction of capital is charged against freely available reserves by providing a reserve for an amount equal to the face value of the amortized shares, i.e. €2,877 thousand; which may be available only with the same requirements for the reduction of share capital, pursuing Article 335.c) of the consolidated text of the Companies Law.

The aforementioned transaction of capital reduction was filed on 10 June in the Madrid Mercantile Registry.

The share capital at 30 June 2020, after the operation described above, is represented by a total of 127,003,216 ordinary shares with a par value of €0.301.

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in the share capital of the Parent Company, both directly and indirectly, which individually exceeded 3% of the Share Capital as at 30 June 2020:

Company	**% stake**
Trilantic Capital Investment GP Limited	38.16%
Santa Lucia S.A. Cía de Seguros	5.10%
	43.26%

b) Distribution of profits

On June 10, 2020, the General Shareholders Meeting resolved to distribute of the Parent company's profit of the year 2019, as follows:

	€ in thousands
	2019
To Reserves	53 085
	53 085

c) Foreign Currency Translation.

The amount of Foreign Currency Translation recognized within other reserves corresponds entirely to the translation of the functional currency of the financial statements of the Group's subsidiaries Talgo Inc., Patentes Talgo Tashkent, L.L.C., Talgo India Private Limited and Talgo Shanghai Railways Equipment Co., Ltd.

d) Earnings per Share.

Basic Earnings per Share

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

	€ in thousands	
	30.06.20	**30.06.19**
Result attributable to the Company´s Shareholders	(5 704)	13 987
Weighted average number of outstanding ordinary shares	122 165 707	131 930 944
Basic Earnings/(Losses) per Share	(0.05)	0.10
	(0.05)	**0.10**

Diluted earnings per share

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

	€ in thousands	
	30.06.20	**30.06.19**
Result attributable to the Company´s Shareholders	(5 704)	13 987
Result used to determine diluted earnings per share	(5 704)	13 987
Weighted average number of ordinary shares in circulation	122 665 707	132 097 611
Weighted average number of ordinary shares for the purposes of diluted earnings per share	122 665 707	132 097 611
Diluted Earnings per Share	(0.05)	0.11
	(0.05)	**0.11**

e) Treasury stock

As at 30 June 2020 and at 31 December 2019, the Company held 4,083,222 and 11,228,358 shares in treasury stock. The corresponding details are presented below:

	Number of shares	**Acquisition Price**	**Quotation**	**Stock price**	**%**
Shares in Treasury stock June 30, 2020	4,083,222	5.6	4.2	17.313	3,22%
Shares in Treasury stock December 31, 2019	11,228,358	5.6	6.1	68.380	8,22%

In the first quarter of 2020 the Parent acquired a total of 2,414,246 shares at a cost of €13,969 thousand.

The acquisition of the shares was carried out in accordance with the Share Repurchase Plan, whose term are defined in Note 14 of the consolidated annual accounts for 2019, which were approved by the Board of Directors on 15 November 2018.

On 6 May 2020, the resolution adopted by the Board of Directors of the Parent Company was announced, declaring the agreement to repurchase treasury shares adopted on 15 November 2018 to have expired in full on 19 May 2020.

Following the capital reduction operation through the redemption of treasury stock described in section a) above, carried out after the completion of the Share Buyback Plan, the treasury stock at 30 June consisted of 4,083,222 own shares.

13. Borrowings

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.20	**31.12.19**
Non-current		
Debt with credit institutions (note 13.a)	217 554	198 705
Lease debts (note 13.b)	5 928	5 582
Other financial liabilities (note 13.c)	16 142	15 182
	239 624	219 469
Current		
Debt with credit institutions (note 13.a)	48 987	58 609
Lease debts (note 13.b)	1 760	3 339
Other financial liabilities (note 13.c)	4 917	3 881
	55 664	65 829
Total borrowings	**295 228**	**285 298**

a) Debt with credit institutions

On 21 December 2017, a financing contract was signed with the European Investment Bank for a maximum amount of up to €30,000 thousand, which was fully drawn during 2018 financial year. The balance as of 30 June 2020 amounts to €30,000 thousand and is classified in the non-current liability, being the date of its first repayment in the last quarter of 2021 financial year, which bears a fixed market interest rate.

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

On 16 April 2015, the Parent and the subsidiary Patentes Talgo, S.L.U. entered into a loan agreement for an initial amount of €100,000 thousand, which bore a fixed market interest rate. The amount outstanding, net of the related costs, at 2019 year-end was €32,460 thousand, which was repaid in full during the first half of 2020.

On July 29, 2016, the subsidiary Patentes Talgo, S.L.U. entered into loan agreements amounting to €50,000 thousand with two financial institutions, €25,000 thousand with each of them, which accrue a fixed market interest rate. During the first half of 2019, certain terms of these contracts were renegotiated, resulting in an early cancellation of €5,000 thousand in each of them, and a change in the maturity schedule, going from having a maturity partial depreciation schedule between 2021 and 2024.

As of 30 June 2020, the non-current and current liability of the consolidated interim financial statement is recorded at approximately €30,000 and €10,000 thousand, respectively, corresponding to those contracts.

In addition, interest and commissions accrued in the current liability amount of €225 thousand are recorded in the current liability.

These contracts contain a number of associated obligations and covenants that the Group has fulfilled during the term of the agreement.

On December 19, 2016, the subsidiary Patentes Talgo, S.L.U. entered into a loan agreement in the amount of €55,000 thousand, having been extended by €6,500 thousand during the year 2017. It bears a fixed market interest rate. During the first half of 2019, certain terms of the contract were renegotiated, extending the single maturity of the contract to 2025.

The net outstanding amount of the associated costs is recorded in the non-current liability in its entirety. The aforementioned contract contains a number of associated obligations and covenants that the Group has fulfilled during the term of the contract. In addition, interest and commissions accrued in the short term amounting to €70 thousand are registered.

During the first half 2017 financial year, the subsidiary Patentes Talgo, S.L.U. entered loan agreements amounting to €55,000 thousand with three financial institutions, one of this loan in the amount €25,000 thousand and the rest in amount €15,000 thousand each one of them, which accrue a fixed market interest rate. During first half of 2020, one of them amounted to €15,000 thousands has been repaid in advance.

The net outstanding amount are recorded in the non-current and current liability as of June 30, 2020 amounted to €10,000 and €30,000 thousand, respectively. These contracts contain a number of associated obligations and covenants that the Group has fulfilled during the term of the agreement. In addition, in the short term, interest and commissions accrued are recorded in the amount of €25 thousand.

On December 21, 2018, the Group through the company Patentes Talgo, S.L.U. entered into a loan agreement in the amount of €10,000 thousand, which accrues a fixed market interest rate and with a grace period of 12 months. It is registered in the non-current and current liabilities with the amount to €8,0000 and €2,000, respectively, as of June 30, 2020. In addition, interest and commissions accrued amounting to €67 thousand are registered in the current liabilities.

On January 14, 2019, the subsidiary company Patentes Talgo, S.L.U. has entered into a loan agreement amounting to 10,000 thousand, linked to a fixed market interest rate. The debt incurred is repaid within a period of 5 years from the end of the 12-month grace period, with the payment of the first installment being 24 months after the date of formalization, so that the entire outstanding debt is registered in non-current and current liabilities with the amount to €8,0000 and €2,000, respectively, as of June 30, 2020. In addition, €55 thousand are recorded in the non-current liability regarding commissions and interest accrued.

In the first half of the 2019 financial year, the Group through the company Patentes Talgo, S.L.U. entered into a loan agreement amounting to 7,500 thousand linked to a fixed market interest rate. The contract is amortized in 5 years, starting from the end of the grace period of the principal of 12 months from the date of disbursement. The outstanding debt is recorded in the non-current and current liability in the amount of €5,625 and €1,500 thousand, respectively, as of 30 June 2020. In addition, €19 thousand are recorded in the non-current liability regarding commissions and interest accrued.

On January 11, 2019, the dependent company Patentes Talgo, S.L.U. entered into a loan agreement amounting to 10,000 thousand, linked to 6-months Euribor rate. The contract is amortized in 8 half-yearly installments, being the last installment in February 2024. As of June 30, 2020, the contract is registered in the non-current and current liability in the amount of €7,500 and €2,500 thousands, respectively. In addition, €51 thousand are recorded in the non-current liability regarding commissions and interest accrued.

On 23 June 2020, the subsidiary Patentes Talgo, S.L.U. entered into two loan agreements amounting to €15,000 thousand and €10,000 thousand, tied to a fixed interest rate and with a single maturity date of 2023, and, therefore, all the debt is included under non-current liabilities at 30 June 2020. In addition, €6 thousand of fees and accrued interest are recognised under current liabilities.

On 15 April 2020, the Group's Parent, Talgo, S.A., arranged a loan of €32,500 thousand tied to a floating interest rate and with a single repayment date set in 2023. The outstanding amount net of the associated costs is recognised in full under non-current liabilities at 30 June 2020.

In addition, €91 thousand of fees and accrued interest are recognised under current liabilities.

At 30 June 2020, the Group held lines of credit amounting to €145.000 thousand (€75,000 thousand at 31 December 2019) not maintaining outstanding balances of the aforementioned lines of credit at the end of the 2019 fiscal year or at June 30, 2020.

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

						€ in thousands
30 June 2020	**2020**	**2021**	**2022**	**2023**	**Subsequent years**	**Total**
Debt with credit institutions	9 905	52 119	27 113	79 637	97 767	**266 541**
31 December 2019	**2020**	**2021**	**2022**	**2023**	**Subsequent years**	**Total**
Debt with credit institutions	58 609	52 150	27 146	22 146	97 263	**257 314**

b) Lease debts

Within this heading of the interim consolidated financial statement has, among others, debts incurred for lease contracts that meet the requirements of IFRS 16 , as explained in notes 4 and 5. With the entry into force of this standard on 1 January 2019 and the disappearance of the distinction between operating and finance leases, the Group unified and recognised the contracts that meet the definition of a lease under a single model.

c) Other financial liabilities

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

	€ in thousands	
	30.06.20	**31.12.19**
Non-current		
Debts due to reimbursable advances	11 192	12 904
Other debts	4 950	2 278
	16 142	**15 182**
Current		
Debts due to reimbursable advances	4 765	3 752
Other debts	152	129
	4 917	**3 881**
Total other financial liabilities	**21 059**	**19 063**

c.1) Debts due to reimbursable advances

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

c.2) Other Debts

This caption at 30 June 2020 included mainly non-current debt convertible into grants amounting to €4,803 thousand (€2,185 thousand at 31 December 2019). These are funds received from the European Commission for the research project "Roll2Rail", “Shift2Rail” and “RODEMAV”, whose fair values approximate their carrying amount.

14. Suppliers and other payables

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.20	**31.12.19**
Suppliers	153 684	149 579
Associate and multigroup companies’ suppliers (note 17)	9 983	8 903
Advances on orders	61 439	63 285
Social Security and other taxes	6 950	10 143
Personnel	6 011	12 806
Total	**238 067**	**244 716**

15. Income tax

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

In the year 2010, the subsidiary Talgo Kazakhstan, S.L.U. was incorporated into the aforementioned tax group and during 2017 was incorporated the company Motion Rail, S.A.U. and the latter left in 2019.

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

	€ in thousands	
	30.06.20	**30.06.19**
Profit/(Loss) before tax	**(2 053)**	**16 712**
Consolidated tax at 25%	(513)	4 178
Tax effects of:		
Differences due to deferring tax rates in each country	(289)	(1 177)
Permanent differences	127	75
Activation of deductions	-	(351)
Tax loss carryforwards pending activation	4 326	-
Tax expense	**3 651**	**2 725**

On 10 July 2017, the Parent and its subsidiary Patentes Talgo, S.L.U. received notification from the tax authorities of the partial review of Income tax for the years 2012 to 2015 and of the withholdings and payments on account (income from employment and professional

activities) for Personal Income tax for the periods from May 2013 (the Company)/April 2013 (its subsidiary) to December 2015.

As a result of the aforementioned procedure, in October 2019 assessments were signed in disagreement by both companies (for Personal Income tax) and by the Company, as the parent of the tax group (for Income tax), which were confirmed by settlement agreements notified in November 2019, the accounting impact of the aforementioned assessments has been detailed in note 25 to the 2019 consolidated annual accounts.

In December 2019, the Company and its subsidiary filed economic-administrative claims against the aforementioned settlement agreements. In addition, a request was made in January 2020 for the automatic suspension of the execution of the debt through the provision of a bank guarantee amounting to 21.2 million euros. The suspension has been granted.

The Parent company's directors and its tax advisers consider that they correctly declared the adjusted taxes and have therefore filed the aforementioned claims. However, as indicated in note 4.1.b of the 2019 consolidated annual accounts, after evaluating the uncertainty associated with the matters under discussion, derived from the scarce and disparate doctrine existing in relation to the issues discussed, made the corresponding accounting adjustments, which affected the reduction of tax assets and the recording of provisions at the end of 2019.

Additionally, the tax Group has open to verification the last 4 financial years for the rest of taxes that are not being subject to verification but applicable. In the rest of the countries where the Group operates, all the taxes that are applicable to the different companies are open to verification in the financial years that indicate their respective tax legislations.

As a result of, amongst other things, the different possible interpretations of the tax legislation in force, additional liabilities may arise in the event of a tax inspection. However, the directors consider that any liabilities that may arise would not significantly affect these consolidated annual accounts.

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

		€ in thousands
	30.06.20	**31.12.19**
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	27 743	28 990
	27 743	**28 990**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered in more than 12 months	8 027	7 646
	8 027	**7 646**
Deferred tax assets (net)	**19 716**	**21 344**

The movement in the deferred tax asset balance during the first half 2020 and 2019 financial year was as follows:

						€ in thousands
	Balance at 31.12.19	Exchange differences	Additions	Disposals	Other Movements	Balance at 30.06.20
Temporary differences						
Guarantees	4 190	-	3 308	(4 200)	10	3 308
Other concepts	3 863	-	387	(515)	120	3 855
Tax Credits						
Tax loss carryforwards	18 284	23	-	(444)	64	17 927
Deductions	2 653	-	-	-	-	2 653
	28 990	**23**	**3 695**	**(5 159)**	**194**	**27 743**

						€ in thousands
	Balance at 31.12.18	Exchange differences	Additions	Disposals	Other Movements	Balance at 31.12.19
Temporary differences						
Guarantees	4 524	-	4 200	(4 506)	(28)	4 190
Other concepts	4 564	-	958	(1 659)	-	3 863
Tax Credits						
Tax loss carryforwards	17 709	105	7 207	(8 494)	1 757	18 284
Deductions	1 735	-	1 122	-	(204)	2 653
	28 532	**105**	**13 487**	**(14 659)**	**1 525**	**28 990**

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

				€ in thousands
	Tax credits	Deductions	Other Concepts	Total
Balance at 31 December 2018	**17 709**	**1 735**	**9 088**	**28 532**
Credit/(Charge) to income statement	7 209	1 122	(1 007)	7 324
Other movements and transfers	(6 634)	(204)	(28)	(6 866)
Balance at 31 December 2019	**18 284**	**2 653**	**8 053**	**28 990**
Credit/(Charge) to income statement	(444)	-	(1 020)	(1 464)
Other movements and transfers	87	-	130	217
Balance at 30 June 2020	**17 927**	**2 653**	**7 163**	**27 743**

b) Other Concepts and tax credits

The Other concepts caption is generated mainly due to temporary differences arising from the allocations made during the financial year to provisions for major repairs, amortization of fixed assets and other similar concepts.

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

At 30 June 2020, the tax loss carryforwards pending offset in the USA, relating to the subsidiary Talgo Inc., amounted to €26.851 thousand (€27,201 thousand at 31 December 2019) and their expiry dates are detailed below:

	€ in thousands	**Final year**
2004	7 680	2024
2005	8 304	2025
2006	7 065	2026
2012	3 802	2032
	26 851	

At June 30, 2020, the tax loss carryforwards, both activated and non-activated, pending to be offset of the Tax Group 65/06 are the following:

Year	**€ in thousands**
2018	23 945
2019	28 800
2020	17 302
	70 047

The movement in the deferred tax liabilities balance during the first half 2020 and 2019 financial year was as follows:

			€ in thousands
	Cash flow hedge	**Other concepts**	**Total**
Balance at 31 December 2018	**-**	**6 889**	**6 889**
Credit / (Charge) to income statement	-	757	757
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at 31 December 2019	**-**	**7 646**	**7 646**
Credit / (Charge) to income statement	-	381	381
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at 30 June 2020	**-**	**8 027**	**8 027**

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

16. Provisions for other liabilities and charges

The changes in provisions for other liabilities and expenses under current and non-current liabilities in the first half of 2020 were as follows:

						€ in thousands
	Non-current			**Current**		
	Other provisions	**Guarantee provision**	**Total**	**Other provisions**	**Guarantee provision**	**Total**
Balance at 31/12/2019	**30 059**	**14 121**	**44 180**	**-**	**7 172**	**7 172**
Provisions	1 881	-	**1 881**	-	-	**-**
Applications	(1 895)	(996)	**(2 891)**	-	-	**-**
Transfers	-	441	**441**	-	(441)	**(441)**
Exchange differences	-	3	**3**	-	-	**-**
Balance at 30/06/2020	**30 045**	**13 569**	**43 614**	-	**6 731**	**6 731**

At the 2019 year-end and the first half 2020 financial year, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years and other obligations included in the contracts signed.

The ‘Other provisions’ caption includes, on the one hand, the provision recognised in 2019 relating to the tax assessments signed in disagreement explained in note 15 and in the consolidated annual accounts for 2019, on the other hand, the reasonable estimates made by the Group in connection with contractual obligations relating to maintenance contracts signed with customers, mainly in connection with major maintenance costs.

At 30 June 2020, the Group had a volume of bank guarantees and surety bonds amounting to €739 million (June 2019: €952 million), of which €519 million (June 2019: €847 million) correspond to manufacturing projects, either as performance bonds or advances received.

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

At 30 June 2020, the amount available from the bank guarantee lines amounted to €1.058 million (€842 million at the closing of June 2019).

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

The Group's Management is not aware of any contingent liabilities that it may have in the normal course of its business, other than those provided for at the end of the first half of 2020.

a) Commitments to purchase fixed assets

At 30 June 2020, the Group had commitments to purchase fixed assets amounting to €6,116 thousand (30 June 2019: €2,773 thousand).

b) Lease commitments

The directors of the consolidated Group do not expect significant changes in the future lease contracts, in force at the first half 2020 financial year and December 2019.

17. Related party and foreign currency transactions

The Group conducts all of its transactions with related parties at market prices. In addition, the transfer prices are adequately supported and so, the Directors of the Parent Company consider that there is no significant risk that any significant liabilities may arise in the future for this concept. All the accounts and transactions between the consolidated companies were eliminated during the consolidation process and so are not disclosed in this note.

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

a) Transactions with the Parent Company's significant shareholders

The loans granted to the managers are detailed in notes 8.a. and 18.

b) Transactions with the Parent Company's Board members

During the first half 2020, the remunerations accrued to the members of the Board of Directors for the performance of this role amounted to €271 thousand (30 June 2019: €392 thousand).

c) Commercial transactions with related parties:

		€ in thousands
	30.06.20	**30.06.19**
External services:		
Inmajor, S.A.	-	19
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	539	228
Expenses	**539**	**247**

At 30 June 2020 and from 31 December 2019 Inmajor, S.A. has lost its status as a related party.

d) Commercial balances with related parties:

	€ in thousands	
	30.06.20	**31.12.19**
Customers – group companies and associates (note 9)	2 292	3 797
Customers – group companies and associates	**2 292**	**3 797**

	€ in thousands	
	30.06.20	**31.12.19**
Suppliers – group companies and associates (note 14)	9 983	8 903
Suppliers – group companies and associates	**9 983**	**8 903**

e) Foreign currency transactions

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

	€ in thousands	
	30.06.2020	**30.06.2019**
Purchases	10 896	11 413
Sales	23 236	32 119

18. Employee benefit expenses

a) The breakdown of this caption is as follows:

	€ in thousands	
	30.06.20	**30.06.19**
Wages, salaries and similar	43 751	45 086
Contributions and provisions for defined pension contributions and other obligations	1 200	1 149
Other welfare charges	14 095	13 657
	59 046	**59 892**

The ‘Wages, salaries and similar’ caption includes compensation costs, which amounted to €195 thousand as at 30 June 2020 (30 June 2019: €290 thousand) and the cost relating to the remuneration paid to Senior Management explained in note 18.b.

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

During the first half 2020, the remuneration paid to the senior management team, which is understood to comprise the members that form the Steering Committee, amounted to

€1,020 thousand in terms of fixed and short-term variable remuneration (€1,211 thousand in the first half of 2019). The remuneration paid to the Group's Directors in terms of fixed and short-term variable remuneration amounted to €718 thousand as at 30 June 2020 (€1.037 thousand as at 30 June 2019).

The Group has taken out life insurance for all its employees, including management personnel. The cost of this insurance for management personnel amounted to €27 thousand at 30 June 2020 (€26 thousand at 30 June 2019). The amount corresponding to the pension plan of this same collective amounted to €49 thousand at 30 June 2020 and 2019. In addition, the Group has taken out civil liability insurance policies for some members of its Senior Management, whose coverage is considered sufficient.

During 2015, the subsidiary Patentes Talgo, S.L.U. granted loans to members of the management team for the purchase of shares of the Parent Company amounting to €879 thousand. This loan has been partially repaid along with its interest during the first half of the 2017 financial year, amounted to €654 thousand at 30 June 2020. The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread (note 8).

During 2019, the Company has agreed to launch a Long-Term Incentive Plan, with a three-year time horizon (2019-2021), as a variable remuneration system aimed at both executive directors and members of the management team of the Parent company or its subsidiaries (eligible group). This share-based remuneration plan is linked on the one hand to the fulfilment of strategic objectives linked to the consolidated Group's business plan (EBITDA, gross margin, cash flows, backlog) and on the other hand to the increase in the value of the share, all of which is linked to the permanence until the end of the aforementioned time horizon. The aforementioned plan may be paid in cash or in shares of the Parent, after three years from the start of the plan, the best estimate being that it will be paid with shares of the Parent at the end of 2019. The maximum amount under the plan approved by the Parent company's shareholders at the Annual General Meeting is €3.1 million.

Taking into account the terms and conditions of the aforementioned plan, the Group recognises a personnel expense on consolidation for the services received, as well as the corresponding increase in equity, for the fair value of the equity instruments offered determined on the grant date. No amount has been accrued for this plan during the first half of 2020.

The distribution of the average headcount by job category and gender at 30 June 2020 and 2019 is as follows:

	30.06.2020		30.06.2019	
	Men	**Women**	**Men**	**Women**
Board members and Senior Management	11	3	11	3
Management	39	4	38	3
Middle management	297	46	239	31
Technicians	1 981	287	1 760	237
	2 328	**340**	**2 048**	**274**

19. Financial income and expenses

The breakdown of this caption is as follows:

	€ in thousands	
	30.06.20	**30.06.19**
Interest expenses:		
- Bank borrowings and other charges	(3 086)	(4 059)
- Exchange differences	(816)	(34)
Financial expenses	**(3 902)**	**(4 093)**
- Interest income on short term deposits with credit institutions and change in the fair value of financial instruments	23	25
- Interest income on short term deposits with related parties	-	5
Financial income	**23**	**30**
Net financial result	**(3 879)**	**(4 063)**

20. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

	€ in thousands	
	30.06.20	**30.06.19**
Profit/(Loss) for the year before tax	**(2 053)**	**16 712**
Adjustments for:		
- Depreciation of tangible fixed assets (note 4)	4 440	4 048
- Amortization of intangible assets (note 5)	3 625	3 168
- Net change in provisions (note 16)	(1 010)	(2 525)
- Valuation adjustments for impairment (notes 9 and 10)	1 931	(53)
- Financial expenses (note 19)	3 086	4 059
- Financial income (note 19)	(23)	(30)
- Allocation of grants	(237)	(287)
- Other income and expenses	(594)	(1 698)
Changes in working capital (excluding the effects of the acquisition and exchange differences on consolidation):	**(32 915)**	**(16 275)**
Stocks (note 10)	(28 162)	(18 094)
Other financial assets (note 8)	(86)	(384)
Customers and other account receivables (note 9)	1 802	16 603
Suppliers and other payables (note 14)	(6 939)	(13 517)
Other assets short-term	470	(883)
Cash flows from operating activities:	**(23 750)**	**7 119**

21. Events after the consolidated statement of financial position date

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

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTORS' REPORT AS AT 30 JUNE 2020
(Expressed in thousands of euros)

Organizational structure

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

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

Strategy

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

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

Business model

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

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

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

Business performance

The Group's EBITDA at the end of the first half of 2020 amounted to €11.8 million, compared with €27.8 million in the previous period.

The Group's EBIT at the end of the first half of 2020 amounted to €1.8 million, compared with €20.8 million in the previous period.

The result after tax at the end of the first half of 2020 amounted to a loss of €5.7 million, compared with a profit of €13.9 million in the previous period.

At the end of the first half of 2020, the Group's order backlog amounted to €3,304 million (€3,251 million at 30 June 2019).

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTORS' REPORT AS AT 30 JUNE 2020
(Expressed in thousands of euros)

Business development and COVID impacts and measures

The Group has continued to execute the construction contracts, in the first half of 2020 that it held in its portfolio. Among these contracts, the 36 high-speed trains for the Mecca-Medina route for the Saudi Arabian SRO state railway company, of which 36 units have already been sent to Arabia, including the VIP train. This project has already completed the testing and approval phase, with only a few residuals tests pending on the completion of the infrastructure work. At the same time, the tests have been completed simultaneously with commercial passenger services using 12 to 16 trains to run between Mecca and Medina.

In addition, the technical development and early manufacturing phases have continued for the supply to RENFE of the 15 high-speed trains for wide UIC tritension (with maximum speed at 330 km/h) plus 15 additional trains with variable gauge, where Talgo has successfully marketed its new AVRIL high-capacity train.

During the first half of 2020, the Group has also begun technical development works on the latest contracts awarded, such as: (i) the first order for the supply of 23 trains under the framework contract with the German railways (Deutsche Bahn) for the manufacture of up to 100 self-propelled trains for a maximum speed of 230 km/h ii) the contract for the supply of two new high-speed trains for the Uzbekistan State Railway Company (UTY) identical to those already in service in the country, iii) the contract for the supply of 6 trains with capacity for nearly 500 passengers for the Egyptian National Railways (ENR), which also includes the maintenance of the trains for a period of 8 years, iv) the contract for the supply and maintenance of an AVRIL-type Testing train for the Spanish railway infrastructure manager ADIF.

In addition, during this first half of the year, Talgo has successfully continued its commercial work by adding to its order book a contract with the Danish operator DSB for the supply of 8 Talgo 230 type trains (of the same series as those of the Deutsche Bahn) as well as the supply of spare parts for maintenance purposes for 16 years. This award is part of a framework contract of up to 500 million euros, gained after an international competitive and open tendering process. DSB has chosen the Talgo 230 platform for conventional and high-performance railways as the new train model for its fleet, based on its high performance and with the aim of decarbonising its transport system.

With regard to the activity of remodelling railway material, work has continued on transformation 13 RENFE Hotel train compositions into compositions suitable for running at 330 km/h. Similarly, in 2020 improvement works continued on RENFE's high-speed trains to increase their capacity (high-capacity AVLO trains) and to install Wi-Fi. Finally, it should be noted that activities continued in the United States to refurbish 74 railway units for the Los Angeles County Metropolitan Transportation Authority (LACMTA), and with the technical phase of the contract with the Southern California Regional Rail Authority (SCRRA) to execute a program to remodel the first 50 of up to 121 railway vehicles. In addition, in February, Patentes Talgo entered into a contract to remodel 28 Series 6 cars owned by Talgo, for the company KSL Systems Private Limit, in order to operate them in India. This order reinforces Talgo's commitment to this new business line of large maintenance and refurbishment operations, as well as extending the geographical scope of the Group's international portfolio to a strategic country in the railway sector in the coming decades, as India will be.

With regard to train maintenance activity, during the first half of 2020 the Group continued to execute multi-annual train maintenance contracts in the various countries where it is established, such as Spain (RENFE and ADIF), Kazakhstan (KTZ), Uzbekistan (UTY), the United States (Amtrak and Oregon State), Germany (Deutsche Bahn and other railway operators) and Russia (RZD). As mentioned above, in Saudi Arabia, the Group, through its permanent establishment, provides advanced commercial maintenance services on 12 to 16 of the high-speed trains on passenger routes.

In some of these countries, especially in Arabia, given the increase in the fleet in operation, new staff are being incorporated and trained to carry out the necessary activities.

With respect to the maintenance equipment activity, production of lathes and measuring equipment has continued during the year. Additionally, as a complement to this production activity, the Group has continued with its maintenance work and the sale of spare parts for the equipment installed throughout the world.

The Group, continuing with its policy of innovation and diversification of its product portfolio, during this half of the year 2020 and among other projects, has continued with the development and testing of optimization and improvement for the 2nd generation of the AVRIL high speed train platform. At the same time, various transversal projects are being carried out in a wide range of areas such as interoperability, digitalization and industry 4.0, signalling, safety, passenger experience and accessibility, energy efficiency and sustainability, lightening of materials and mechatronic solutions, self-configuration, versatile installations for automated on-railway diagnostics, neural networks for the application of intelligence to large volumes of data and parameters, improvements in comfort, noise and vibration, standardisation, additive manufacturing, element joints, new less contaminating fuels for the traction chain such as hydrogen and optimisation of wheel wear.

As mentioned in note 2.4, global expansion of the SARS-CoV-2(COVID-19) is significantly affecting the global economy due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, which has been evidenced by an increase in the volatility of asset prices and exchange rates and a decrease in long-term interest rates.

Due to the measures adopted to prevent the spread of the COVID-19 pandemic in Spain and in other countries around the world where the Group has a presence, the activity has been significantly affected in the first half of 2020. In all the projects underway, our clients have been informed of the possible consequences that these could have in terms of time. In train construction and remodelling projects, the consequences, in principle, have been more limited, given that this type of projects have been able to continue after a two-week stop with the safety measures adopted. The impact suffered in these projects has been caused, fundamentally, by delays in the collection of materials from national and international suppliers who have been affected by the pandemic, as well as lower productivity ratios in the facilities. On the maintenance services side, the sharp drop in activity of our main customers in all the markets in which the Group is present (RENFE, SRO, Amtrak, Deutsche Bahn, Pazzazierski Perevorski, Uzbekistan Temir Yollari, etc) has led to a significant reduction in expected revenues during the first half of the year, and has therefore affected our margins, although the forecast is for a progressive but not complete recovery during the second half of the year. As a result of the interruption of activity, a Temporary Suspension of Employment was approved at various locations where the Group operates, which is expected to be gradually reduced as activity recovers.

Likewise, to prevent the spread of COVID-19, various measures have been adopted to limit the movement of people, strict risk prevention and healthcare protocols have been applied for employees, such as the suspension of staff travels, the temporary closure of various work centres and the reorganization of shifts and workspaces, more flexible workday to promote a work-life balance and teleworking has been strongly promoted, which has led to additional investments in technology. Moreover, investments have been made in protective equipment and materials, diagnostic tests available to the entire workforce, and donations have been made to various entities to contribute to preventing the spread of the virus. Pro bono Talgo trains have been adapted for RENFE with medicalized configurations for the transport of patients.

As mentioned in note 13, to avoid any liquidity risk related to current situation, maturity bank loans have been renegotiated and entered into new lines of credit.

The Group has established specific working committees and procedures to monitor and manage the evolution of its operations at any time, in order to minimize their impact. And along these lines it continues with its policy of cost optimization in all its areas of activity.

Research and development activities

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

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

To achieve this, we work with a Model of Innovation that promotes a continuous improvement approach, encouraging year after year new initiatives at the global level. An example of this would be the constant evolution of the technological intelligence system, which, based on powerful information search, selection and analysis tools, allows to know the appearance, evolution and use by other railway manufacturers of evolutionary and disruptive technologies that are potentially interesting for Talgo, and this is the basis for the annual definition of the innovation project portfolio.

In addition, the tools of lessons learned, open innovation, technology transfer and innovation acceleration used are also noteworthy. These tools are allowing an evolution towards a much deeper knowledge of causes and consequences of each of the critical activities, towards a broader concept of collaborative innovation, and towards a much more agile innovation model.

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

From the outset, Talgo has been and continues to be committed to the design and manufacture of tailor-made products, with the aim of meeting the specific needs of customers, offering customised solutions, which is favoured by the size, structure and values of the Group. This philosophy of work and permanent attention to the customer marks the difference between the Group and its competitors, and is highly valued in commercial competitions.

In short, Talgo continues to look to the future convinced of facing and overcoming new challenges. Only the continuous improvement of a railway system, seen from its most global perspective, will allow all this dream, over 75 years old, to go ahead, which definitively links the Group to an innovative spirit that, in fact, has been its hallmark from the beginning.

Risk policy

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

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

Quality and the environment

Quality, the environment and risk prevention are fundamental elements in the Group's activities and culture. Proof of this is the Environmental Certificate under the UNE in ISO

14001 standard for the Design, Manufacture and Maintenance of railway material.

In carrying out our activities, priority is given to improving the efficiency of our management systems in a sustainable and safe manner and with the quality that allows us to achieve the maximum satisfaction of our customers, employees and suppliers.

To this end, there is a commitment to deliver products and services free of defects and environmental impacts, to comply with existing legislation and regulations, to establish actions to eradicate the root cause and future repetitions of the problems identified and to promote continuous training and professional development of personnel.

This commitment is promoted at all levels of the organization and in all countries where the Group is present.

In addition, the implementation and certification, according to the requirements of the IRIS quality standard, which is specific to the railway sector, is a powerful tool for improving all processes based on a profound reflection that allows the points of improvement in the organization to be clearly identified, thus allowing for greater efficiency and competitiveness that results in the internationalization of the Group.

Likewise, the integration of the Quality and Innovation Management Systems is a transversal tool for all the Group's processes, which allows us to organize the activity and direct it day by day towards continuous improvement and professional and industrial excellence, which is one of our most important commercial strategies.

The principles governing these activities are reflected in our quality, prevention and environmental policies, which are aligned with the ISO 9001, ISO 14001 and IRIS standards.

Information about delaying payments to suppliers

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

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

Own shares

The Parent company holds 4,083,222 own shares as at June 30, 2020 (note 12.e).

Significant events after the statement of financial position date

The subsequent events are detailed in note 21.