INTERIM DIRECTORS' REPORT

FOR THE SIX-MONTH PERIOD

ENDED 30 JUNE 2014

OF THE CONSOLIDATED GROUP

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

RESULTS

The first half of 2014 presented the following economic parameters:

- The income statement showed profits from continuing operations, in the amount of EUR 44,083 thousand after tax and EUR 55,738 thousand before tax, vis-à-vis EUR 49,983 thousand and EUR 60,128 thousand respectively for the same period of the previous year, which implies a lower result of 12% and 7% respectively.

- Depreciation and amortisation charge amounted to EUR 22,437 thousand, which, if added to the profit(loss) for the year from continuing operations before tax, implied a cash-flow totalling EUR 78,175 thousand, which is approximately 26% lower than that for the same period of the previous year, which was EUR 104,933 thousand.

- EBITDA from continuing operations amounted to EUR 91,419 thousand, i.e., about 24% lower than that for the same period of the previous year, which was EUR 120,393 thousand.

- Revenue from continuing operations totalled EUR 737,033 thousand, i.e., 6% lower than that for the previous year, which was EUR 780,901 thousand.

- Backlog at 30 June 2014 totalled EUR 4,860,260 thousand, which is 1% higher than that for the previous year, which totalled EUR 4,802,858 thousand, thus allowing for the smooth running of the Group's operations.

- Finally, in compliance with rules and regulations, CAF reported that neither CAF nor its subsidiaries purchased or held shares in the Company during 2014 first semester.

BUSINESS ACTIVITIES

In the domestic market, the most important contract of this period is the award related to the manufacturing of 28 trains for EuskoTren, in the amount of EUR 150 million, and maintenance thereof for 4 years.

In the first six months of the year, the export market contributed three new contracts and the extension of 4 existing contracts for the provision of rolling stock.

Two of the new contracts are performed in Europe, specifically in Hungary and Turkey. In Budapest, the urban-transport company acquired 37 low-floor trams, the amount of the contract being approximately EUR 90 million, which will be financed with funds of the European Union.

In Istanbul, CAF will provide 21 metro units that will operate with self-drive technology in the metro of the Turkish capital, the amount of the contract totalling approximately EUR 120 million.

In the United States, CAF USA will provide 24 light-rail trains for the city of Boston, totalling approximately EUR 90 million.

The extensions relate to Rome Metro (Italy), which thus increases its last order by 3 units, raising the total number to 71. Medellin Metro (Colombia) increases its fleet with 3 additional units and enters into a contract for additional equipment for its repair shops.

In the tram segment, the extension for the city of Tallinn (Estonia) was signed in 4 trams in addition to the 16 originally under contract; and regarding long-distance, the railways of Saudi Arabia –SAR– have increased their order to include 3 additional locomotives and 17 additional coaches.

INDUSTRIAL ACTIVITIES

During the first half of the current year, several of the projects started in previous reporting periods were completed, such as the contract for 30 trains subscribed with Euskotren, the order for 40 trams for the city of Cuiaba (Brazil), the 2 Civity trains for the region of Bari (Italy), the 8 diesel trains for Sardinia, and the contract for 18 trams for the city of Debrecen.

Also during this period, the first long-distance coach was delivered for the US operator Amtrak, as well as 9 of the 26 trains under the contract subscribed with Sao Paulo Metro, 17 trains for Auckland (New Zealand), 3 trams for the city of Houston, 9 metro units for Bucharest, and 5 of the 18 trains under contract for Rome Metro. Likewise, the manufacturing of the first Civity train for Trieste-Austria was completed, as well as 3 trams for Malaga, 7 trams for the city of Besançon, 6 trains for Ferrocarriles Catalanes (FGC), 8 trams for the city of Birmingham, the first 4-module train for the city of Stockholm, and 4 of the 12 trams under contract for the city of Sidney.

As for the new projects, during these first six months, 4 locomotives and 5 trailer coaches began to be manufactured for the SRO operator in Saudi Arabia; and the contract for 12 locomotives and 62 long-distance coaches for the SAR operator in the same country commenced, as well as the first phases of the manufacturing of the project for 5 trams for Cincinnati and the 20 metro units for the city of Helsinki.

The most relevant products manufactured during the first half of 2014 are the following:

COACHES	Number
Medium-distance Civity Trieste – Austria	5
Medium-distance Civity – Bari	8
Medium-distance for Sardinia	6
Long-distance coaches for Amtrak	1
Local trains for Euskotren	4
Local trains for FGC	24
Local trains for Auckland	51
Sao Paulo Metro	54
Bucharest Metro	54
Rome Metro	30
Tram for Malaga	15
Tram for Houston	9
Tram for Besançon	21
Tram for Stockholm	4
Tram for Debrecen	35
Tram for Birmingham	40
Tram for Cuiaba	42
Tram for Sidney	20
TOTAL	**423**

BOGIES	Number
With welded steel frame	805

WHEELS AND COMPONENTS	Number
Wheel-set bearings (Engine + Trailer)	3.395
Loose axle assemblies	6.225
One-piece wheels	27.237
Elastic tyres	476
Couplings	559
Reduction gears	1335
Solid tyres	429

HUMAN RESOURCES

In the first half of 2014, the payroll's evolution of the consolidated Group is as follows:

	PERMANENT	TOTAL	PERIOD AVERAGE
30.06.2013	6,684	7,464	7,322
30.06.2014	7,199	8,035	7,872

The Group's payroll increased significantly during the period.

ENVIRONMENTAL ACTIVITY

Being aware of the impact of industrial activity on the environment, CAF, S.A. has included an environmental policy as part of its general corporate policy, setting environmental protection as a corporate objective, as well as ensuring that the railway systems, equipment and stock it manufactures are in line with the highest standards, not only as regards safety and efficiency, but also environmental protection.

The manufacturing plants of CAF, S.A. have an ISO-14001-certified Environmental Management System in place, which includes the necessary organisational structure and action planning to protect the environment, environmental responsibility and objectives, and the necessary resources to develop, review and keep up-to-date its environmental policy.

Additionally, in May 2014, an audit of maintenance was successfully performed at the Beasain, Irún and Zaragoza plants to renew the ISO14001:2004 certificate related to the Environmental Management System.

The actions are designed to encourage adoption of the necessary economically-feasible measures tending to control and, as the case may be, minimise significant environmental issues, such as atmospheric emissions, waste production, and energy consumption. All this is intended to allow for preservation of natural resources, considering the environmental advantages derived from railway manufacturing, which is regarded as favourable due to its little environmental impact.

With a view to offering more efficient, environmentally-friendly and competitive transport within the framework of a market increasingly concerned with environmental protection, CAF is currently deploying a “Product Sustainability Feature” by introducing sustainable design methodologies in engineering processes which allow to optimising and controlling the environmental impact of products from their very beginning and throughout their entire life cycle.

Furthermore, it is worth noticing that greenhouse gas emissions during the first half of 2014 were below its emission allowances, pursuant to the Kyoto Protocol.

INVESTMENTS

CAF Group's investments in property, plant and equipment during the first half of 2014 totalled EUR 2,642 thousand.

TECHNOLOGICAL DEVELOPMENT

With respect to CAF and CAF I+D, the CAF Group's technology plan for the 2014-2016 period was defined during the first months of the year with the approval of a total of 25 new projects for CAF and its affiliates. The total number of projects within the scope of the ongoing technology plan in 2014 is 81.

In order to finance these projects, aid geared to support R&D activity has been obtained from the following bodies:

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

The technology plan developed during 2014 puts an emphasis on the projects in which CAF, CAF I+D and the various affiliates are involved, maintaining a close collaboration with the different technological centres and universities.

The projects under the 2014-2016 Technology Plan encompass the following fields:

- High-speed rail.
- Specific railway products.
- Energy management and eco-design covering projects relating to reduced power consumption by trains and the global system, power capture for catenary-free trams, etc.
- Fixed signals and signals on moving locations.
- Integration covering global transportation system projects.
- Specific products and technologies relating to basic railway technologies, traction, rolling stock, reducers, monitoring and communications, maintenance, etc.

All such projects combine both the execution of projects aimed at implementing new technologies and the development of products based on such technologies. Some of the projects undertaken include:

- Development of various types of railway cars.
- VEGA security electronics development project.
- Rail monitoring electronics project, including security features.
- Specialisation development projects on driving resistance, electromagnetic compatibility, railway dynamics, noise and vibrations, energy management and energy accumulation systems, all of them under the umbrella of local and regional governments.
- OARIS high-speed rail prototype.
- ERTMS-ETCS system for the development of a signalling system on location.

Within this set of projects, it is worth noting the completion of the track trials to test the vehicle-track interaction (dynamics, aerodynamics, pantograph-catenary, etc.) run with the high-speed OARIS train prototype.

The CAF Group has also been involved in collaboration projects with RENFE and ADIF at state level, as well as with various administrations and international companies within the scope of national programmes, as well as the seventh European framework programme. In this connection, the following projects should be highlighted:

- European Projects:
  - SAFEJOINT for developing metal-metal and metal-composite hybrid structures.
  - TREND aimed at EMC validation environments on railway vehicles
  - REFRESCO for developing solutions of composite housing structures.
  - OSIRIS aimed at reduced energy consumption in urban railway transportation, involving the sector's leading companies.
  - MERLIN for establishing energy management strategies at network global level and for developing tools for optimising consumption and costs related to a railway network.

- NGTC for interface studies between the ERTMS and satellite positioning module.
- EURAXLES on reduction of failures caused by fatigue of axles in service.

As for the European projects, it should be highlighted that CAF is one of the 8 Founding Members of the Shift2Rail initiative to promote railway R&D within the Horizon 2020 programme. This JU (Joint Undertaking), with a global budget of EUR 920 million, was approved by the European Council and Parliament in the first months of 2014, and it is scheduled to be created in July 2014. Technology development works for this project will last through 2020.

As for the subsidiaries, they have continued their normal technology development activities. The following is worth mentioning:

- The success in commercial service of the energy storage and autonomous operation system without assembled catenary in Seville's tram, and its application in the trams of Zaragoza and Granada, and its future application in Kaohsiung (Taiwan) and Cuiaba (Brazil).
- The development of traction equipment covering a range of catenary voltages of up to 25 kV that has been sold for the Indian Railways and Auckland Metro projects. Such development has also allowed to tender for locomotive restoration projects in several countries.
- The development and award of several bids by ADIF related to ERTMS railway products.

RISK MANAGEMENT POLICY

The most important risks the Group may face are grouped according to the following categories:

1.- Financial risks

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

The Group's Financial Department is responsible for identifying, assessing and hedging financial risks by establishing policies to manage overall risk and specific risk areas such as currency risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives, investment of cash surpluses, and project budget variances.

a) Market risk

The various companies comprising CAF Group operate at the international level, thus being exposed to currency risks derived from foreign currency transactions (currently, the US dollar, Brazilian real, pound sterling, Taiwanese dollar, Swedish krona, Australian dollar, Saudi riyal and Mexican peso, among others).

The Group companies use forward insurance contracts to hedge the currency risk derived from future commercial transactions and recognised assets and liabilities. Currency risk arises when future commercial transactions, or recognised assets and liabilities, are denominated in a currency other than the Company's functional currency, which is the Euro.

It is usual practice for CAF to hedge, provided that cost is reasonable, the market risk associated with contracts denominated in currencies other than the Group's functional currency. Such hedging is intended to prevent the impact of currency fluctuations on the different contracts signed, so that the Group's results present fairly its industrial and service activity.

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

b) Credit risk

Most of accounts receivable and work in progress correspond to different clients in different countries. Contracts generally include progress billings.

The Company's standard practice is to hedge against certain risks of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the OECD Consensus rules applicable to instruments of this nature. The decision of whether to hedge is based on type of customer and the country in which it operates.

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to meet all Group's financial obligations broadly and effectively.

CAF Group manages liquidity risk by:

- The search and selection of business opportunities with the highest possible level of self-financing, under current market conditions, for each of the contracts. Regarding the vehicle manufacturing projects, whose medium performance period is approximately three years, the billing milestones and the performance of the works need not be aligned in time, which implies the use of financial resources.

- The implementation and maintenance of an active working capital management through a permanent follow-up on the fulfilment of the billing milestones in each project arranged.
- Maintaining a strong short-term liquidity position.
- Maintaining undrawn credit balances

d) Cash flow and fair value interest rate risk

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

e) Risks arising from variances with respect to project budgets

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

2.- Risks derived from environmental damage

CAF is strongly committed to the protection of the environment. To that end, it has implemented the principles of the European Union's environmental action programme, based on precautionary and preventive actions and correction at source. In this respect, the Company has set in place an action plan on various environmental issues relating to the atmosphere, dumping, waste, use of raw materials, energy, water and noise, obtaining ISO 14001 certificate.

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

The bidding terms and conditions and the railway vehicle manufacturing contracts include several requirements related to technical issues and quality levels (with the introduction of new high technological level products), requirements related to the compliance with the delivery deadlines, need of official approval, manufacturing localisation requirements, and other operational risks, which usually entail certain penalties and termination or suspension provisions. In this regard, discrepancies may arise as to such requirements between the CAF Group and its clients, which may lead to claims for delays or incorrect performance of the works, or the performance of additional works.

In order to address the difficulties related to project management, the CAF Group has a risk management system embedded into the Group's quality system, which starts with the drafting of the bid and allows identifying and managing the various risks faced by the CAF Group in its ordinary course of business.

All CAF's plants use the most advanced technologies available and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 standard.

In addition, CAF implements a demanding insurance arrangement policy, which helps to provide adequate protection for the Company against economic consequences resulting from materialisation of some of these risks.

4.- Labour risks or damages to plant goods or assets

CAF has an Occupational Hazard Prevention System in place which is audited by an external firm. The Prevention System Manual created to that end contains, without limitation, a detail of risk assessment activities, accident investigation, safety inspections, health inspections, and training. There is also an annual Prevention Plan in place for proper preventive action planning. CAF also has a Training Plan in place for employees in this field.

OUTLOOK

The Group's outlook for the next years will focus on the following points:

- Adopting measures aimed at achieving greater efficiency in business management and manufacturing of products, with particular emphasis on the adoption of more standardised solutions, on the improvement of the supply chain costs, on the optimisation of the lifecycle costs of our products, and on the reduction of the costs associated with their industrialisation, while maintaining or improving, if possible, our current quality standards.

- Betting on foreign markets beyond our current strong marketplaces, thus increasing our presence in high-potential countries, including some emerging countries in the Middle East and Asia-Pacific, where a dynamic economic activity is expected. Or also Europe and the USA due to their significant volume and level of demand.

- Developing new products that may enable us to widen the range of solutions that currently make up the CAF's vehicle offer and to access new market segments.

- Carrying out technological developments also in other links of the railway value chain, such as signalling, power electronics, and energy management and storage.

- and finally, gradually building internal capabilities to manage and perform "turnkey projects" in order to make bids and successfully embark on comprehensive railway projects.

EVENTS AFTER YEAR-END

No other significant events occurred after the end of the period.