CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND SUBSIDIARIES COMPOSING THE CAF GROUP (CONSOLIDATED)

C.A.F.

2018 FIRST HALF-YEAR REPORT

JULY 2018

INTERIM DIRECTORS' REPORT

OF THE CONSOLIDATED GROUP

FOR THE SIX-MONTH PERIOD

ENDED 30 JUNE 2018

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

CAF GROUP BUSINESS MODEL AND OUTLOOK

CAF is a multinational group with over 100 years' experience offering integrated transport systems at the forefront of technology that provide high value-added sustainable mobility.

A leader in the railway industry, it offers its customers one of the widest and most flexible product ranges in the market, from integrated transport systems to rolling stock, components, infrastructure, signalling and services (maintenance, refurbishing and financial services). Within the rolling stock segment, which represents its core business, CAF offers a wide range of products that includes, among others, high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

With more than 90% of revenue relating to the international market and a significant focus on western Europe, the CAF Group has production plants in Spain, France, the US, Mexico and Brazil, in addition to a new plant currently under construction in the UK that will start up in the second half of 2018. The Group also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

The main objective of the CAF Group's strategy for 2020 is profitable growth for the Group. To accomplish this, the CAF Group's activities in the coming years will focus on furthering the development of prior years' lines of action and setting in motion new areas of action, such as:

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential. The massive backlog, which represents 3.9 x sales in 2017 (without taking into account contracts awarded but not yet formalised, or contracts in which CAF is the nominated supplier), and business alliances will support the Group in its pursuit of this objective. In this regard, worth mentioning are the efforts already underway aimed at equipping the Group with industrial capacity in the UK in various areas of activity (services, engineering and manufacture), to improve its response to requirements in that market.

- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, operation of railway systems, leasing, maintenance and/or refurbishing of trains and locomotives, and various value propositions to customers that might arise from the marketing of digital services (condition based maintenance, fleet management, etc.).

- Significant growth in business related to the design and construction of turnkey transport systems and, when required by customers, the maintenance and operation thereof, by the Group on its own or through alliances, including capital investment depending on the circumstances.

- Continue making investments in technological development, in relation to technologies and high value-added marketable products at component, subsystem or material level, intended to be supplied to customers in all our lines of business (rolling stock, signalling, energy, data management, inspections, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.

- Achieving further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Vectia, etc. This strategy aims to increase and diversify the integrated transport offering beyond the railway, thereby responding to new, sustainable social mobility needs. To do so, the technological commitment has been and is a fundamental part of the Group's ongoing strategy to gain a competitive advantage.

In this context, the preliminary agreement for the CAF Group to acquire the Polish firm Solaris (which is expected to be completed in full in the second half of the year when the necessary formalities are concluded, including the related authorisation of the competition authorities) constitutes a huge step forward in terms of CAF's positioning in the sustainable urban mobility segment, through one of Europe's leaders in the sustainable urban bus industry: hybrid buses, electric buses, trolleybuses, or buses powered by fuel cells. The highly favourable growth prospects in this segment, aided by the growing awareness of public authorities and society as a whole in relation to the need to reduce polluting transport emissions, clearly support this transaction.

Also, at the beginning of July 2018 the CAF Group completed the purchase of an initial ownership interest of 30% in Orbital Sistemas Aerospaciales, S.L. a company located in Noain (Navarre) and a reference supplier in the development of critical systems for aerospace and railway industries; this ownership interest may be increased in accordance with the performance of certain business parameters. As a result of this ownership interest, the CAF Group expects to contribute to strengthening Orbital's current activities and to benefit from a state-of-the-art development base in complex systems with high security standards (hardware, software and integration, and validation services) in order to develop its own solutions in the railway industry.

- Furthering the digitisation of our operating processes (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0). These initiatives span innovative solutions for the services included in the Group's railway solutions, its production processes and IT systems, as a means to guarantee its long-term competitiveness.

- Systematic and recurring execution of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety and management of all the Group's business activities and areas, within a highly competitive environment. This includes:

    - Ongoing enhancement of platforms and construction modules (e.g. Oaris, Civity UK, Urbos AXL, metro, etc.).

    - Gradual expansion of the Industrial Operations Transformation Plan.

    - Optimisation of the life cycle cost (LCC) of the product, an area that will increasingly define our competitiveness.

- Lastly, making progress in fundamental areas of business management such as corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

In short, in an increasingly competitive market, the ongoing pursuit of solutions adapted to our customers' needs that increase their satisfaction is part of the Company's DNA, and forms part of the culture shared by all the individuals forming part of the CAF Group, thereby providing a balanced response to the needs of its stakeholders.

BUSINESS PERFORMANCE AND RESULTS

Main Indicators (*)

Amounts in Millions of Euros	2018 First Six Months	2017 First Six Months	Change (%)
Orders -			
Backlog (**)	5,728	6,265	-9%
Orders in first six months	407	454	-10%
Book-to-bill ratio	0.43	0.60	-28%
Profit and cash flows -			
Revenue	943	755	25%
EBITDA	87	86	1%
Profit for the first six months attributable to the Parent	18	16	13%
Cash flows	39	35	11%
Working capital expenditure (**)	236	247	-4%
Capital and liquidity management - (**)			
Net financial debt	206	219	-6%
Equity attributable to the Parent	726	750	-3%
Liquidity available	662	606	9%

- The backlog figure does not include contracts awarded but not yet formalised, or contracts in which CAF is the nominated supplier (see section on Commercial Activity in this directors' report).
- Profit for the first six months attributable to the Parent increased by 13%.
- In a six-month period of increased activity, net financial debt was reduced by 6%, thereby strengthening the Group's solvency indices.

(*) The indicators' definitions are included in the "Alternative Performance Measures" section.
(**) "Backlog" and "Working Capital Expenditure" amounts and those under "Capital and Liquidity Management" are comparative figures relating to 31/12/17.

COMMERCIAL ACTIVITY

“Together with Solaris, we will create a leader in urban mobility solutions beyond rolling stock, particularly in the e-mobility segment” said our President on establishing the Company's new line of business subsequent to the acquisition of the Polish bus manufacturer Solaris.

Still in relation to the area of urban mobility, we should highlight new rolling-stock orders for existing infrastructure. Thus, Euskotren contracted the manufacture of three new seven-module trams for service in the Vitoria-Gasteiz tramway with an option to increase the supply of trams, and the Swedish city of Lund, through its transport operator Skånetrafiken, contracted seven five-module trams together with the related maintenance over ten years.

As part of its service improvement plan, Metro Barcelona contracted ten new series 5000 and series 6000 trains to run on its Lines 1, 3 and 5. Specifically, two of the series 5000 trains will run on Line 3, while the other four will run on Line 5. The four series 6000 trains will all run on Line 1.

In Italy, the city of Naples metro exercised an expansion option to acquire two new six-car trains, as part of the contract entered into in 2017 for the initial supply of ten units to run on Line 1 of the city’s metro.

Also, the Luxembourg tramway operator exercised a purchase option for twelve trams on top of the initial order for twenty-one entered into in 2015. They are all equipped with Greentech on-board stored-electricity technology.

The German city of Freiburg purchased five seven-module vehicles for its tramway service, with the option to increase to up to twelve vehicles, which will be added to the twelve already supplied and in service in that city.

The city of Amsterdam, through its public transport operator GVB Activa B.V., selected CAF to supply thirty three-car units, with an option to increase to up to sixty units, in order to renew its old trains currently in service. These units will be driverless.

In Norway CAF was selected by Sporveien -urban transport operator- to supply its capital Oslo with 87 new trams, which may be increased by an additional 60 units. As a result, visitors to the Norwegian capital will be able to experience the versatility of CAF's products, ranging from the Oaris high-speed link to the Gardermoen airport operated by Flytoget, to the Urbos, which will enable smooth transit along the city’s streets.

Leaving urban traffic and continental Europe to one side, we should mention that in order to operate the Wales and Borders franchise in the UK in conjunction with the company KeolisAmey, the completion of the contract for the manufacture of 180 cars that will make up 77 diesel units is being negotiated for services in the franchise. The future contract includes the integrated maintenance of the units for at least 15 years; KeolisAmey was awarded the operation of the franchise during this period. These units would be assembled at the new facilities in Newport, which are scheduled to enter into operation in the second half of this year. Mention should be made, as a possible activity for these new facilities, of the high-speed trains for High Speed Two (HS2), the public company promoting the UK's high-speed rail link, which recently invited our company to the tender for the purchase of the trains.

It is expected that the last three contracts (Amsterdam, Oslo and Wales and Borders) will be formalised in the second half of the year, and will increase the Group’s backlog by more than EUR 1,000 million.

INDUSTRIAL ACTIVITY

Industrial activity in the first half of 2018 focused mainly on a total of 22 projects involving almost the entire range of CAF's manufacturing processes.

Each of them are at a different stage of progress, some of which were already completed in this period. This is the case of the French city Saint Etienne's order for trams, the last of which has been delivered, the Sao Paulo metro project upon production of train 26 to complete the order, the last of the trains for the Chile metro, and the last metro unit for the city of Medellín (Colombia) to complete the 22 units in the order.

This period also saw the completion of four five-module trams for the city of Utrecht, ten of the fourteen trams of the project for the city of Canberra, the first unit of the order for six trams for Newcastle and the first in the order for twenty-four LRVs for the US city of Boston.

There were various projects at the manufacturing stage in the metros and commuter trains segment. Some of these have commenced deliveries, such as the order for the metro of Algiers with the delivery of the first train and others are at a more advanced stage such as the Civity units for the Dutch operator Nederlandse Spoorwegen (NS) with the manufacture of ten three-car trains and eight four-car units.

It is also necessary to include in this segment the delivery of ten trains included in the Mexico City-Toluca intercity line order for thirty trains.

As regards medium and long-distance trains, reference should be made to orders for push-pull cars for the operators Amtrak and Caledonian, with the completion in this period of the manufacture of seven dining cars at the former and fifty seven additional cars, of a different type, at the latter.

This range also includes the delivery of the first of various units of the orders underway for the UK, with the manufacture of the first four trains, of the push-pull car type, for the operator Transpennine Express and the first EMU-type train for the same customer. The first train unit of each of the two orders entered into with the customer Arriva Northern, of the diesel multiple unit (DMU) type and electric multiple unit (EMU) type, were also manufactured for this market.

Lastly, and as part of the demanding high-speed range, this period saw the first unit of the project contracted with the Norwegian operator Flytoget leave the factory.

In relation to other orders, the first manufacturing phases commenced with deliveries scheduled for the coming months such as the trains for the Brussels metro, Quito metro or Line 1 of the Mexico City metro.

The most important products manufactured in the first six months of 2018 were as follows:

	N° of Cars
High-speed for Flytoget (Norway)	4
Long-distance Amtrak cars	7
Long-distance Caledonian cars	57
Medium-distance Arriva Northern DMUs (two-car unit)	2
Medium-distance Arriva Northern DMUs (three-car unit)	3
Medium-distance Arriva Northern EMUs (four-car unit)	4
Medium-distance Transpennine Express EMUs	5
Medium-distance Transpennine Express cars	20
Commuter trains for CPTM	72
Commuter trains for NS (four-car units)	30
Commuter trains for NS (three-car units)	32
Commuter trains for Toluca	50
Sao Paulo metro	6
Chile metro	5
Medellín metro	3
Algiers metro	6
Trams for Saint Etienne	5
Trams for Utrecht	20
Trams for Canberra	50
Trams for Newcastle	5
LRV for Boston	3
TOTAL	**389**

BOGIES

With welded chassis	641

WHEEL SETS AND COMPONENTS UNITS (MiiRA)-

Assembled axles (power car + push-pull cars)	2,633
Loose axle bodies	4,154
Monoblock wheels	32,293
Elastic wheels	829
Couplers	316
Gear units	1,144
Bandages	170

HUMAN RESOURCES

The changes in the consolidated Group's workforce in the first six months of 2018 were as follows:

	Total Headcount	Average Headcount
30/06/17	7,767	7,701
30/06/18	8,852	8,717

The consolidated Group's average headcount increased by 13% in year-on-year terms.

ENVIRONMENTAL ACTIVITY

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

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

Also, in February 2018 an audit to transition the environmental management systems certification to ISO 14001:2015 was successfully carried out at the Beasain, Irún and Zaragoza plants.

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

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

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

- Recyclability measurement pursuant to ISO 22628 standard, for enhanced materials selection

- Life Cycle Assessment pursuant to ISO 14040 standard, for environmental assessment of the product at each stage of its lifecycle

As a result, together with the new Environmental Product Declarations (EPDs) published in 2015 for the Helsinki metro and the Urbos trams for the city of Kaohsiung, six of the CAF project EPDs have now been verified and published in the International EPD System (http://www.environdec.com). In the first half of 2018 a preliminary recyclability study was performed on the locomotive project for Régie Autonome des Transports Parisiens (RATP).

INVESTMENTS

CAF's capital expenditure in the first six months of 2018 amounted to EUR 22,958 thousand. The investments were as follows:

Outside Spain, the construction work commenced in mid-2017 on the new manufacturing plant in the UK continued. The plant is located in Newport (Wales) and was designed for the manufacture of all manner of rolling stock. The plant will be used for vehicle assembly and finishing activities, as well as all necessary pre-commissioning tests. The construction work on the plant is scheduled for completion in late 2018.

At the Rolling Stock Business Unit, the plan to improve the industrialisation model is under way, with the aim of equipping the Parent with the capacity and installations required to provide an efficient response to the projects awarded. This plan included most notably the investment in manufacturing areas, such as the new robotised bogie facility, the creation of specific product lines, the adaptation of the new structure manufacturing plant and the renovation and fit-out of the finishing warehouses using the lean methodology.

At the Wheel Sets and Components Business Unit (MiiRA), the necessary adjustments and adaptations are under way to obtain the accreditation of the new automatic axle machining and verification line required by various existing customers.

Investments in the Parent's other areas include most notably the investment made in the Quality department, prompted by the increase in projects and the number of inspectors working at the facilities, which allowed new offices to be fitted out and measurement tools to be acquired for the performance of quality activities. Also, reorganisation and extension work was continued on the existing offices, which commenced in 2017 due to the growth in the workforce, which affects mainly the Purchasing, Safety and Approvals and Human Resources departments.

In the IT area, the backup hardware infrastructure is being updated and extended. In Engineering, the virtual design station solution is also being extended. In relation to security, the access control for the Parent's ITC services is being worked on in order to meet one of the requirements of the security audit performed in 2017.

Also noteworthy were the investments being made at certain subsidiaries as part of their growth plans, such as CAF Power & Automation, which is extending and improving its traction laboratory, and CAF Signalling, which is extending and improving its R&D laboratory. The adaptation of Trenasa's facilities for the bus and coach activities of the subsidiary Vectia, which also manufactures vehicles for transfer to customers, is also noteworthy.

TECHNOLOGICAL DEVELOPMENT

As regards CAF and CAF R&D, in the early months of 2018 the CAF Group's technology plan for 2018-2019 was completed which approved a total of 47 new projects for CAF and its subsidiaries. A total of 116 projects were in progress under the technology plan in 2018.

Similarly, the product plan for 2018-2019 was completed which is focused on the basic development of new types of vehicle to extend CAF's product range and on improving its existing offering.

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

- Provincial Government of Guipúzcoa
- Basque Autonomous Community Government
- Ministry of Economy and Competitiveness
- Ministry of Industry, Energy and Tourism
- European Commission

The 2018-2019 technology plan launched and to be implemented in 2017 fostered projects involving CAF, CAF R&D and various subsidiaries, continuing the close level of collaboration achieved with technology centres and universities.

The projects included in the 2018-2019 technology plan encompassed the following fields:

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

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

The CAF Group participates in strategic projects both individually and jointly at state level and as part of the European Union's Horizon 2020 framework programme. Noteworthy projects include:

- SMART-TRAIN, which is part of CAF's strategic digitisation initiative and is aimed at developing a new generation of more competitive trains and services through the digitally secure capture, storage, processing and advanced analysis of all the train operations data.

- UNIMODEL, a joint two-year project aimed at developing a universal cost model (UCM) methodology to calculate the overall cost of running the vehicle on the tracks, reduce life cycle costs (LCCs) and analyse the impact on costs of introducing innovative technologies to the rolling stock.

- STARS to determine the suitability of global satellite positioning in the rolling stock industry.

- AROSS, focused on developing prediction, monitoring and diagnosis solutions for the key components of rolling stock bogie, suspension and braking systems, which will allow for useful-life optimisation and advanced management of these components.

- SHIFT2RAIL. As a founder member of the Shift^{2}Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is involved in various technology development projects (CONNECTA, PINTA, IMPACT, FINE, X2RAIL, PIVOT, FR8RAIL, etc.) which are scheduled to continue until 2024.

The most significant engineering projects undertaken in the first six months of 2018 were as follows:

- Diesel and electric multiple units for Arriva's Northern (UK)
- Electric multiple units for First TransPennine Express (UK)
- Automated metro for Istanbul (Turkey)
- LRV for Boston and Maryland Metro (US)
- Push-pull cars for Caledonian and First TransPennine Express-(UK)
- Units for Toluca (Mexico)
- Mexico City metro Line 1
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)
- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Automated metro for STIB (Brussels)

The following engineering projects were launched in the first six months of 2018:

- DMUs for West Midlands Trains (UK)
- Naples metro (Italy)
- LRVs for Manila (Philippines)
- Barcelona metro (Spain)
- Amsterdam metro (Netherlands)

Also, in order to support commercial activities, various preliminary draft projects and new technical proposals were developed and further work was carried out on certain of those presented.

MAIN RISKS AND UNCERTAINTIES

The CAF Group is exposed to various risks inherent to the activities it carries on and to the various countries and markets in which it operates, which might prevent the achievement of its objectives.

With the commitment to addressing this matter, the CAF Group's Board of Directors establishes the mechanisms and basic principles to appropriately control and manage risks through the General Risk Management and Control Policy. This policy, which is aligned with the Group's mission, vision and values, expresses its commitment to providing greater certainty and security in:

- Achieving the strategic objectives set by the CAF Group with a controlled volatility;
- Providing the utmost level of guarantees to shareholders;
- Protecting the CAF Group's results and reputation;
- Defending the interests of shareholders, customers and other stakeholder groups with an interest in the progress of the Parent and of the community in general; and
- Ensuring business stability and financial strength in a sustained way over time.

To do so, the General Risk Management and Control Policy is implemented throughout the entire CAF Group by means of an Integrated Risk Management and Control System. This system constitutes a series of rules, processes, procedures, controls and IT systems, whereby all the risks are appropriately managed by means of the following system phases and activities, which include:

1) Establishment of the risk-management context for each activity;
2) Identification of the various risk types (due to their corporate or business-related nature) to which the Group is exposed;
3) Analysis of the risks identified and what they entail for the CAF Group as a whole;
4) Risk assessment based on the defined risk appetite;
5) The measures envisaged to address the identified risks; and
6) Regular monitoring and control of current and potential risks.

The Integrated Risk Management System adopted by the CAF Group detailed above is aligned with international standards as regards the use of an effective methodology for the comprehensive analysis and management of risks and the Three Lines of Defence Model in relation to the allocation of responsibilities in the risk management and control area.

In this regard, the Board of Directors is ultimately responsible for the General Risk Management and Control Policy, and approves the appropriate procedures to identify, measure, manage and control risks. It is also responsible for establishing clear lines of authority and responsibility, and requires the existence of appropriate methodologies to measure the various types of risks and the effective internal controls to manage them. It is the body responsible for establishing and monitoring the Integrated Risk Management and Control System implemented at the Group, and verifies whether the significant risks for the Group are consistent and fall within the defined risk tolerance level.

The Audit Committee is responsible for the independent oversight or assessment of the effectiveness of the Integrated Risk Management and Control System implemented and of the procedures designed to monitor it. To do so it will be supported by the Risk Management Department and additionally by the internal audit function.

The most significant risks facing the Group can be categorised as follows:

• Strategic risks: these are risks arising from the uncertainty that macroeconomic and geopolitical conditions represent, in addition to characteristics inherent to the industry and markets in which the Group operates and the strategic planning and technological decisions adopted.

• Financial risks: these arise from fluctuations in the markets, and include the following risk subcategories:

- Market risk, which includes the following risks:
    - Interest rate risk: risk of fluctuations in interest rates that might give rise to changes in the Group's profit or loss and the value of its assets and liabilities.
    - Foreign currency risk: risk arising from fluctuations in exchange rates that have an effect on future transactions and the valuation of assets and liabilities denominated in foreign currency.
    - Commodity price risk: risk arising from changes in prices and market variables relating to commodities required in the businesses' supply chain.

- Credit risk: this risk relates to doubtful debts, insolvency proceedings or bankruptcy or possible default on payment of quantifiable monetary obligations by counterparties to which the Group has actually granted net credit that is yet to be settled or collected.

- Liquidity and financing risk: in relation to liabilities, it is the risk tied to the impossibility of performing transactions or breach of obligations arising from operating or financing activities due to a lack of funds or access to financial markets, either because of a drop in the company's credit rating or other reasons. In relation to assets, it is the risk of being unable to find at any given time parties to purchase an asset at the arm's length price or to obtain an arm's length price.

• Operational risks: these are the risks inherent to all the Group's activities, products, systems and processes that give rise to economic losses arising from human/technological errors, inappropriate/defective internal processes, or the participation of external agents. They include risks of a corporate nature and those related to the execution of projects. They include the following: personnel/employment law, human, social and environmental rights, among others, and are further detailed in their related sections.

• Corporate governance risks: arising from potential non-compliance with the Group's corporate governance system, which comprises: (i) the bylaws and other rules governing the corporate governance governing bodies; (ii) the corporate policies and rules approved by the Board of Directors of the Group's Parent; and (iii) the other internal policies, rules and implementing protocols approved by other competent bodies of the Group that govern the design, integration and operation of the governance bodies and their relationship with the Parent's stakeholders and that in turn are based on the commitment to ethical principles, best practices and transparency and are organised around the defence of the company's interests and the creation of sustainable value.

• Compliance and regulatory risks (including tax risks and contractual requirements): these risks arise from the Group's litigation, contractual requirements, the securities market law, the data protection law, environmental legislation, applicable employment law, the Spanish Criminal Code, and local, national and international tax legislation, among others.

Due to its global risk scope, the Integrated Risk Management and Control System is continuously updated to include new risks that might affect the Group as a result of changes in the environment or revised objectives and strategies, as well as updates that arise from lessons learned from monitoring and controlling the system.

EVENTS AFTER THE REPORTING PERIOD

At 30 June 2018, the Group had a firm backlog of EUR 5,728 million.

On 3 July 2018, CAF informed the Spanish National Securities Market Commission that it had reached an agreement to acquire the Polish bus and coach manufacturer Solaris. Solaris was founded in 1996 and is a global supplier of conventional and electric buses and coaches that operates in over 700 cities in 32 countries. Its revenue in 2017 amounted to nearly EUR 450 million. It has two production plants in Poland and a headcount of more than 2,300 employees. The enterprise value of the acquired company is estimated at slightly above EUR 300 million, and the final value will be set on completion of the transaction and after the corresponding adjustments have been made.

The transaction involves the acquisition of all the shares of Solaris and CAF will finance it mostly through added debt. Also, in order to finalise the transaction, CAF must obtain approval from the competent authorities in Poland and Germany, which is expected to be granted in September 2018.

Also, at the beginning of July 2018 the CAF Group completed the purchase of an initial ownership interest of 30% in Orbital Sistemas Aerospaciales, S.L. a company located in Noain (Navarre) and a reference supplier in the development of critical systems for aerospace and railway industries; this ownership interest may be increased in accordance with the performance of certain business parameters.

ALTERNATIVE PERFORMANCE MEASURES

Backlog: this represents the volume of firm orders that will be recognised in the future under “Revenue” in the interim condensed consolidated statement of profit or loss. An order is considered firm only where obligations between the CAF Group and the customer arise. In the case of sales of trains and services, obligations are deemed to arise when the parties sign the agreement.

Contracts in the first six months: this includes firm orders in the first six months and potential modifications to orders from prior periods, and is obtained as follows: (Backlog at end of reporting period - Backlog at beginning of the reporting period + Revenue).

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

Cash flow: the CAF Group's cash flow is calculated by deducting from "Profit for the Year Attributable to the Parent" in the interim condensed consolidated statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

Working capital expenditure: this is obtained by taking into consideration the following items of the interim condensed consolidated balance sheet, the breakdown of which can be obtained from the interim condensed consolidated financial statements:

+ Inventories
+ Trade and other receivables
+ Other current financial assets - Derivatives (see Note 6 to the interim condensed consolidated financial statements)
+ Other current assets

- Short-term provisions
- Current financial liabilities - Derivatives (see Note 9 to the interim condensed consolidated financial statements)
- Trade and other payables
- Other current liabilities

Net financial debt: this is obtained by taking into consideration the items making up the calculation of this indicator, which are disclosed in Note 10 to the interim condensed consolidated financial statements.

Liquidity available: this includes items defined in order to calculate net financial debt (see Note 10 to the interim condensed consolidated financial statements), "Current Financial Assets" and "Cash and Cash Equivalents" as well as credit lines and other undrawn financial balances.

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND SUBSIDIARIES COMPOSING THE CAF GROUP (CONSOLIDATED) CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

JULY 2018

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

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

Condensed Consolidated Balance Sheets as at 30 June 2018 and 31 December 2017 (Notes 1 and 2)

(Thousands of Euros)

Assets	30/06/18	31/12/17 (*)
Non-current assets:		
Intangible assets (Note 5)-	**75,720**	**70,545**
Property, plant and equipment, net (Note 7)	**252,167**	**244,513**
Investments accounted for using the equity method (Note 6.3)	**11,655**	**19,752**
Non-current financial assets (Note 6)	**543,465**	**576,502**
Deferred tax assets (Note 17)	**136,492**	**144,989**
Total non-current assets	**1,019,499**	**1,056,301**
Current assets:		
Inventories (Note 8)	**52,772**	**71,654**
Trade and other receivables-		
Trade receivables for sales and services (Notes 6 & 8)	1,200,937	1,277,243
Other receivables (Notes 6 & 17)	193,479	198,470
Current tax assets	13,487	10,030
	1,407,903	**1,485,743**
Other current financial assets (Note 6)	**95,489**	**126,702**
Other current assets	**4,916**	**3,229**
Cash and cash equivalents	**422,993**	**371,625**
Total current assets	**1,984,073**	**2,058,953**
Total assets	**3,003,572**	**3,115,254**

Equity and Liabilities	30/06/18	31/12/17 (*)
Equity (Note 10):		
Shareholders' equity-		
Registered share capital	10,319	10,319
Share premium	11,863	11,863
Revaluation reserve	39,119	39,119
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	795,573	770,489
Profit for the period attributable to the Parent	18,112	42,406
	874,986	**874,196**
Valuation adjustments-		
Available-for-sale financial assets	-	39
Hedges (Notes 10 & 14)	(4,069)	(6,580)
Translation differences	(145,157)	(117,238)
	(149,226)	**(123,779)**
Equity attributable to the Parent	**725,760**	**750,417**
Non-controlling interests	**8,088**	**9,783**
Total equity	**733,848**	**760,200**
Non-current liabilities:		
Long-term provisions (Note 11)	**7,256**	**7,071**
Non-current financial liabilities (Note 9)-		
Bank borrowings and debt instruments or other marketable securities	581,981	625,645
Other financial liabilities	55,023	70,170
	637,004	**695,815**
Deferred tax liabilities (Note 17)	**149,204**	**153,805**
Other non-current liabilities	**58,792**	**55,821**
Total non-current liabilities	**852,256**	**912,512**
Current liabilities:		
Short-term provisions (Note 11)	**144,128**	**227,939**
Current financial liabilities (Note 9)-		
Bank borrowings and debt instruments or other marketable securities	133,907	46,262
Other financial liabilities (Note 4)	95,366	93,038
	229,273	**139,300**
Trade and other payables-		
Payable to suppliers	488,260	423,385
Other payables (Notes 8, 9 & 17)	552,921	646,593
Current tax liabilities (Note 17)	2,350	5,009
	1,043,531	**1,074,987**
Other current liabilities	**536**	**316**
Total current liabilities	**1,417,468**	**1,442,542**
Total equity and liabilities	**3,003,572**	**3,115,254**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated balance sheet as at 30 June 2018.

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

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

Condensed Consolidated Statements of Profit or Loss for the six-month periods ended 30 June 2018 and 2017 (Notes 1 & 2) (Thousands of Euros)

	(Debit) Credit	
	30/06/18	**30/06/17 (*)**
Continuing operations:		
Revenue (Note 15)	943,229	755,467
+/- Changes in inventories of finished goods and work in progress	(106,344)	(131,965)
In-house work on non-current assets	5,104	4,584
Procurements	(362,969)	(208,702)
Other operating income	3,761	2,271
Staff costs (Notes 9, 11 & 16)	(260,152)	(229,947)
Other operating expenses (Note 11)	(135,448)	(105,455)
Depreciation and amortisation charge (Notes 5 & 7)	(20,421)	(18,573)
Impairment and gains or losses on disposals of non-current assets (Notes 3, 6 & 7)	15	(29)
Profit from operations	**66,775**	**67,651**
Finance income (Note 6)	3,611	3,824
Finance costs (Note 9)	(30,549)	(34,545)
Changes in fair value of financial instruments	(22)	36
Exchange differences	(2,847)	(12,499)
Impairment and gains or losses on disposals of financial instruments (Note 6)	2	(31)
Financial loss	**(29,805)**	**(43,215)**
Result of companies accounted for using the equity method	(705)	330
Profit before tax	**36,265**	**24,766**
Income tax (Note 17)	(18,743)	(9,066)
Profit for the period from continuing operations	**17,522**	**15,700**
Profit/Loss for the period from discontinued operations	-	-
Consolidated profit for the period	**17,522**	**15,700**
Attributable to:		
The Parent	18,112	15,960
Non-controlling interests	(590)	(260)
Earnings per share (in euros)		
Basic	0.53	0.47
Diluted	0.53	0.47

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2018.

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

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

Condensed Consolidated Statements of Comprehensive Income for the six-month periods ended 30 June 2018 and 2017 (Notes 1 & 2)
(Thousands of Euros)

	30/06/18	30/06/17 (*)
A) Consolidated profit for the period:	**17,522**	**15,700**
B) Other comprehensive income - Items not reclassified to profit or loss:	**869**	**384**
Arising from actuarial gains and losses (Note 9)	406	384
Equity instruments through other comprehensive income (Note 6)	463	-
Tax effect	-	-
C) Items that may be reclassified subsequently to profit or loss:	**(25,408)**	**(22,120)**
Cash flow hedges:	**3,222**	**16**
Revaluation gains/losses (Note 10)	3,168	(11)
Amounts transferred to profit or loss	54	27
Translation differences:	**(27,964)**	**(22,805)**
Revaluation gains/losses (Note 10)	(27,964)	(22,805)
Amounts transferred to profit or loss	-	-
Share of other comprehensive income recognised for investments in joint ventures and associates:	**236**	**670**
Revaluation gains/losses-		
Cash flow hedges (Note 10)	31	412
Translation differences (Note 10)	45	(64)
	76	348
Amounts transferred to profit or loss-		
Cash flow hedges	160	322
Translation differences (Note 10)	-	-
	160	322
Tax effect	**(902)**	**(1)**
Total comprehensive income (A+B+C)	**(7,017)**	**(6,036)**
Attributable to:		
The Parent	(6,427)	(5,776)
Non-controlling interests	(590)	(260)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2018.

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

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

Condensed Consolidated Statements of Changes in Equity
for the six-month periods ended 30 June 2018 and 2017 (Notes 1 & 2)
(Thousands of Euros)

	Equity attributable to the Parent								
	Shareholders' Equity								
	Share Capital	Share Premium	Reserve for Unrealised Fair Value Gains and Losses	Other Reserves	Net Profit for the Period	Valuation Adjustments	Translation Differences	Non-Controlling Interests	Total Equity
Balances at 31 December 2016 (*)	**10,319**	**11,863**	**39,119**	**758,268**	**35,013**	**(5,908)**	**(76,703)**	**11,706**	**783,677**
Total comprehensive income	**-**	**-**	**-**	**384**	**15,960**	**749**	**(22,869)**	**(260)**	**(6,036)**
Transactions with shareholders or owners	**-**	**-**	**-**	**1,619**	**(19,883)**	**-**	**-**	**(3,624)**	**(21,888)**
Dividends payable (Note 4)	-	-	-	-	(19,883)	-	-	(3,005)	(22,888)
Transactions with non-controlling shareholders	-	-	-	1,619	-	-	-	(619)	1,000
Other changes in equity	**-**	**-**	**-**	**15,130**	**(15,130)**	**-**	**-**	**-**	**-**
Transfers between equity items	-	-	-	15,130	(15,130)	-	-	-	-
Balances at 30 June 2017	**10,319**	**11,863**	**39,119**	**775,401**	**15,960**	**(5,159)**	**(99,572)**	**7,822**	**755,753**
Balances at 31 December 2017 (*)	**10,319**	**11,863**	**39,119**	**770,489**	**42,406**	**(6,541)**	**(117,238)**	**9,783**	**760,200**
Adjustments due to changes in accounting policies (Notes 2-b & 5)	**-**	**-**	**-**	**4,377**	**-**	**(39)**	**-**	**-**	**4,338**
Adjusted balances at 1 January 2018	**10,319**	**11,863**	**39,119**	**774,866**	**42,406**	**(6,580)**	**(117,238)**	**9,783**	**764,538**
Total comprehensive income	**-**	**-**	**-**	**869**	**18,112**	**2,511**	**(27,919)**	**(590)**	**(7,017)**
Transactions with shareholders or owners	**-**	**-**	**-**	**-**	**(22,625)**	**-**	**-**	**(1,105)**	**(23,730)**
Dividends payable (Note 4)	-	-	-	-	(22,625)	-	-	(1,555)	(24,180)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	450	450
Other changes in equity	**-**	**-**	**-**	**19,838**	**(19,781)**	**-**	**-**	**-**	**57**
Transfers between equity items	-	-	-	19,781	(19,781)	-	-	-	-
Other variations	-	-	-	57	-	-	-	-	57
Balances at 30 June 2018	**10,319**	**11,863**	**39,119**	**795,573**	**18,112**	**(4,069)**	**(145,157)**	**8,088**	**733,848**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2018.

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

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

Condensed Consolidated Statements of Cash Flows for the six-month periods ended 30 June 2018 and 2017 (Notes 1 & 2) (Thousands of Euros)

	30/06/18	30/06/17 (*)
Cash flows from operating activities:		
Profit before tax from continuing and discontinued operations	36,265	24,766
Adjustments for-		
Depreciation and amortisation charge (Notes 5 & 7)	20,421	18,573
Other adjustments to profit or loss (net)	47,124	37,389
Changes in working capital-	(21,845)	(54,478)
Other cash flows from operating activities-		
Income tax recovered/(paid)	(23,775)	(4,297)
Other amounts received/(paid) relating to operating activities	(1,279)	(111)
Cash flows from operating activities (I)	**56,911**	**21,842**
Cash flows from investing activities:		
Payments due to investment-		
Group companies, associates and business units	(123)	(61)
Property, plant and equipment, intangible assets and investment property (Notes 5 & 7)	(44,507)	(20,177)
Business unit (changes in the scope of consolidation)		
Other financial assets, net (Note 6)	(9,024)	(1,586)
Proceeds from disposal-		
Group companies, associates and business units (Note 6)	7,835	-
Property, plant and equipment, intangible assets and investment property (Notes 5 & 7)	38	91
Other financial assets (Note 6)	11,643	14,181
Other cash flows from investing activities		
Interest received	3,117	2,734
Cash flows from investing activities (II)	**(31,021)**	**(4,818)**
Cash flows from financing activities:		
Proceeds/(payments) relating to equity instruments-		
Proceeds from issue	450	2,000
Purchase	-	-
Proceeds/(payments) relating to financial liability instruments (Note 9)-		
Proceeds from issue	82,575	6,878
Repayment and redemption	(27,459)	(88,441)
Dividends and returns on other equity instruments paid-		
Other cash flows from financing activities (Note 9)-		
Interest paid	(30,056)	(42,937)
Cash flows from financing activities (III)	**25,510**	**(122,500)**
Effect of foreign exchange rate changes on cash and cash equivalents (IV)	**(32)**	**(5,129)**
Net increase in cash and cash equivalents (I+II+III+IV)	**51,368**	**(110,605)**
Cash and cash equivalents at beginning of period	371,625	392,022
Cash and cash equivalents at end of period	**422,993**	**281,417**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2018.

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

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

Notes to the Condensed Consolidated Financial Statements
for the six-month period ended 30 June 2018

1. Description and activity of the Parent

Construcciones y Auxiliar de Ferrocarriles, S.A. (hereinafter "CAF" or "the Parent") was incorporated for an indefinite period of time in San Sebastián (Guipúzcoa) and has its registered office in Beasain (Guipúzcoa).

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

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

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

The CAF Group's consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting of CAF on 2 June 2018.

2. Basis of presentation of the interim condensed consolidated financial statements

a) Basis of presentation

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

The CAF Group's consolidated financial statements for 2017 were prepared by the Parent's directors in accordance with International Financial Reporting Standards as adopted by the European Union, and the bases of consolidation, accounting policies and measurement bases described in Note 3 to those consolidated financial statements were applied in order to present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2017 and its consolidated results, the changes in consolidated equity and its consolidated cash flows for the year then ended.

These interim condensed consolidated financial statements are presented in accordance with IAS 34, Interim Financial Reporting, and were authorised for issue by the Parent's directors on 25 July 2018 pursuant to Article 12 of Royal Decree 1362/2007. This interim condensed consolidated financial information was prepared on the basis of the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and the other companies composing the Group, and includes all the adjustments and reclassifications required to unify the accounting and presentation policies applied by all the Group companies (in all cases, local legislation) with those applied by Construcciones y Auxiliar de Ferrocarriles, S.A. for the purposes of the consolidated financial statements.

As established in IAS 34, the interim financial information is intended only to provide an update on the content of the latest complete annual consolidated financial statements prepared by the Group, focusing on new activities, events and circumstances occurring during the six-month period, and does not duplicate information previously reported in the consolidated financial statements for 2017. Consequently, for a proper comprehension of the information included in these interim condensed consolidated financial statements, they should be read together with the Group's consolidated financial statements for 2017.

The accounting policies and methods used in preparing these interim condensed consolidated financial statements are the same as those used in the consolidated financial statements for 2017, except for the standards and interpretations which came into force in the first half of 2018 and are detailed below.

b) Entry into force of new accounting standards

Accounting standards IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, came into force on 1 January 2018.

In both cases, the transition to these standards was carried out retrospectively as an adjustment to the beginning balance for 2018. Therefore, the comparative information for 2017 was not restated. The cumulative effect of the initial application of the standard is recognised as an initial adjustment to reserves.

The impact, by line item, on the consolidated statement of financial position as at 1 January 2018 was as follows:

	Balance at 01/01/18	Transition to IFRS 9	Transition to IFRS 15	Adjusted Balance at 01/01/18
Non-current assets	**1,056,301**	**10,897**	**590**	**1,067,788**
Intangible assets	70,545	-	-	70,545
Property, plant and equipment	244,513	-	-	244,513
Investments accounted for using the equity method	19,752	-	-	19,752
Non-current financial assets	576,502	8,692	-	585,194
Deferred tax assets	144,989	2,205	590	147,784
Current assets	**2,058,953**	**(4,237)**	**(86,069)**	**1,968,647**
Inventories	71,654	-	20,815	92,469
Trade and other receivables	1,485,743	(3,626)	(106,884)	1,375,233
Other current financial assets	126,702	(27)	-	126,675
Other current assets	3,229	-	-	3,229
Cash and cash equivalents	371,625	(584)	-	371,041
TOTAL ASSETS	**3,115,254**	**6,660**	**(85,479)**	**3,036,435**
Equity	**760,200**	**6,660**	**(1,867)**	**764,993**
Non-current liabilities	**912,512**	**-**	**-**	**912,512**
Long-term provisions	7,071	-	-	7,071
Non-current financial liabilities	695,815	-	-	695,815
Deferred tax liabilities	153,805	-	-	153,805
Other non-current liabilities	55,821	-	-	55,821
Current liabilities	**1,442,542**	**-**	**(83,612)**	**1,358,930**
Short-term provisions	227,939	-	(83,612)	144,327
Current financial liabilities	139,300	-	-	139,300
Trade and other payables	1,074,987	-	-	1,074,987
Other current liabilities	316	-	-	316
TOTAL EQUITY AND LIABILITIES	**3,115,254**	**6,660**	**(85,479)**	**3,036,435**

The summary of the impacts of the transition to IFRS 15 detailed above is as follows:

- In certain of the Group's contracts there are extensions which are optional for the customer and are recognised by the Group once the extension is signed with the customer. In accordance with the new standard, the original contract and the option exercised are recognised separately, not in aggregate as had been the case to date, which affects the timing of recognition of the Group's income and expenses.

- Distinct products and services are being provided under certain of the Group's contracts that, until the transition date, had been accounted for in aggregate. Under the new standard, the distinct products and services must be recognised separately, giving rise to an impact on the timing of recognition of the Group's income and expenses, as the stage of completion of each product and service is estimated separately.

- In addition, most of the Group's contracts include clauses relating to penalties which could change the probable transaction price. Under the new standard, these penalties are reclassified as a reduction of revenue (reducing the balance of "Trade and Other Receivables" in the condensed consolidated balance sheet), rather than recognised as an expense item (under "Short-Term Provisions" in the condensed consolidated balance sheet).

The summary of the impacts of the transition to IFRS 9 detailed above is as follows:

- Impairment losses: a new impairment model based on expected credit losses is established, as opposed to the current incurred loss model. Under the expected credit loss model, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. The Group has established an adaptive measurement model in which each customer's degree of solvency and the guarantees the Group has in place to ensure collection therefrom are used as the main calculation assumptions.

- Investments in the share capital of unlisted companies previously recognised at acquisition cost (see Note 6) are measured at fair value through other comprehensive income.

IFRS 16, Leases

IFRS 16 will supersede the current IAS 17 and will be applicable for reporting periods beginning on or after 1 January 2019. The main change is the introduction of a single lessee accounting model which requires a lessee to recognise all leases (with certain limited exceptions) as if they were financed purchases, i.e. with an impact similar to the current finance leases. However, in the case of lessor accounting, a dual model will continue to be used, similar to that currently established in IAS 17.

The Group is analysing the impact of the application of IFRS 16 and assessing the additional disclosures so that the consolidated financial statements may be adapted, if required, after the entry into force thereof.

The right of use and corresponding financial liability at 31 December 2017 are estimated to represent around 1% of the Group's total assets at that date, and no significant impacts on the Group's equity are expected at the date of first application.

c) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates used by the Parent's directors in preparing the interim condensed consolidated financial statements. The main accounting principles and policies and measurement bases used are indicated in Note 3 to the consolidated financial statements for 2017.

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

1. The income tax expense which, in accordance with IAS 34, is recognised in interim periods based on the best estimate of the weighted average tax rate envisaged by the Group for the full financial year;

2. The assessment of possible impairment losses on certain assets;

3. The assumptions used in the actuarial calculation of pension and other obligations to employees;

4. The useful life of the property, plant and equipment and intangible assets;

5. The fair value of certain financial assets and intangible assets (see Note 3);

6. The calculation of provisions and penalties that reduce the selling price;

7. The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised;

8. Changes in estimated costs in the budgets for construction projects performed.

Although the aforementioned estimates were made on the basis of the best information available at the reporting date on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) at the end of 2018 or in coming years. Changes in accounting estimates would be applied, if required, prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the corresponding consolidated statement of profit or loss.

In the six-month period ended 30 June 2018 there were no significant changes in estimates with respect to those made at 2017 year-end.

d) Contingent assets and liabilities

Note 25 to the Group's consolidated financial statements for the year ended 31 December 2017 discloses information on the contingent assets and liabilities at that date, as well as in the notes 8 and 11.c on the attached condensed financial statements as at 30 June 2018.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. The possible administrative penalties arising from these proceedings might include administrative fines, reimbursement of possible additional expenses, potential disqualification for a certain period in filing for new tenders and/or criminal charges. At the date of formal preparation of these interim consolidated financial statements there were no economic claims filed against this subsidiary. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 201 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

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

e) Comparative information

The information relating to 2017 contained in these interim condensed consolidated financial statements is presented solely for comparison purposes with the information relating to the six-month period ended 30 June 2018.

However, for an appropriate comparison, it should be taken into account that the Group availed itself of the option not to restate information in the transition to the new IFRS 9 and IFRS 15. The main items affected are detailed in Note 2-b to the condensed consolidated financial statements.

f) Seasonality of the Group's transactions

In view of the business activities in which the Group companies engage, as well as the stage of completion method of accounting, the Group's transactions are not cyclical or seasonal in nature. Therefore, no specific disclosures in this connection are included in these notes to the condensed consolidated financial statements for the six-month period ended 30 June 2018.

g) Materiality

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

h) Events after the reporting period

At 30 June 2018, the Group had a firm backlog of EUR 5,728 million.

On 3 July 2018, CAF informed the Spanish National Securities Market Commission that it had reached an agreement to acquire the Polish bus and coach manufacturer Solaris. Solaris was founded in 1996 and is a global supplier of conventional and electric buses and coaches that operates in over 700 cities in 32 countries. Its revenue in 2017 amounted to nearly EUR 450 million. It has two production plants in Poland and a headcount of more than 2,300 employees. The enterprise value of the acquired company is estimated at slightly above EUR 300 million, and the final value will be set on completion of the transaction and after the corresponding adjustments have been made.

The transaction involves the acquisition of all the shares of Solaris and CAF will finance it mostly through additional debt. Also, in order to finalise the transaction, CAF must obtain approval from the competent authorities in Poland and Germany, which is expected to be granted in September 2018.

Also, at the beginning of July 2018 the CAF Group completed the purchase of an initial ownership interest of 30% in Orbital Sistemas Aerospaciales, S.L. a company located in Noain (Navarre) and a reference supplier in the development of critical systems for aerospace and railway industries; this ownership interest may be increased in accordance with the performance of certain business parameters.

3. Changes in the composition of the Group

Note 2-f to the consolidated financial statements for the year ended 31 December 2017 provides relevant information on the Group companies that had been consolidated at that date and on those accounted for using the equity method.

CAF Belgium S.P.R.L. and Metro CAF Mauritius, Ltd. were incorporated in the first six months of 2018. Also, the ownership interest in Tumaker, S.L. was reduced from 24.6% to 21.11%, and an outlay of EUR 1,500 thousand was made at Vectia Mobility Research and Development, A.I.E., after which the Group retained its existing 70% ownership interest therein.

In 2017 the Parent acquired majority ownership interests granting it control over Rifer S.R.L. and BWB Holdings Ltd., which were included in the scope of consolidation of the CAF Group as described in Note 2-f to the consolidated financial statements.

In the first six months of 2018, within the periods established by the legislation, the measurement of all the assets acquired and liabilities assumed was reviewed with the assistance of an independent expert (see Note 2-e). In relation to the foregoing, the detail of the assets acquired and liabilities assumed in the aforementioned transactions measured at fair value is as follows:

	Thousands of Euros		
	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Non-current assets			
Intangible assets (Note 5)	4,142	14,298	18,440
Property, plant and equipment	372	661	1,033
Other non-current assets	22	-	22
Current assets			
Inventories	513	1,688	2,201
Trade and other receivables	1,702	18,070	19,772
Other current assets	8	-	8
Cash and cash equivalents	108	1,384	1,492
Non-current liabilities			
Non-current financial liabilities	-	(94)	(94)
Other non-current liabilities	-	(618)	(618)
Deferred tax liabilities	(1,123)	(2,694)	(3,817)
Current liabilities			
Bank borrowings	(129)	-	(129)
Current financial liabilities	-	(4,938)	(4,938)
Trade and other payables	(1,882)	(17,670)	(19,552)
Other current liabilities	(398)	-	(398)
Total net assets	**3,335**	**10,087**	**13,422**
% acquired	100%	100%	
Total net assets acquired	3,335	10,087	13,422

The calculation of the goodwill is broken down as follows:

	Rifer, S.R.L.	BWB Holdings, Ltd.	Total
Consideration	4,713	18,434	23,147
Net assets acquired	3,335	10,087	13,422
Goodwill	1,378	8,347	9,725

4. Dividends payable by the Parent

The dividends payable by the Parent in July 2018 and 2017, respectively, which relate in both cases to approved dividends out of the previous year's profit, are shown below. They all correspond to ordinary shares. The Group recognised these amounts (net of the corresponding withholding tax) with a credit to "Current Financial Liabilities - Other Financial Liabilities" in the condensed consolidated balance sheets as at 30 June 2018 and 2017:

	30/06/18			30/06/17		
	% of Par Value	Euros per Share	Amount (Thousands of Euros)	% of Par Value	Euros per Share	Amount (Thousands of Euros)
Total dividends payable (Note 9)	219%	0.66	22,625	193%	0.58	19,883

5. Intangible assets

The changes in the six-month period ended 30 June 2018 in the intangible asset accounts and in the related accumulated amortisation were as follows:

	Thousands of Euros					
	Development Expenditure	Commercial Relationships and Customer Portfolio	Patents, Licenses and Trademarks	Computer Software and Other	Goodwill	Total
Balance at 31/12/17						
Cost	133,387	-	69	25,029	24,124	182,609
Accumulated amortisation	(77,249)	-	(59)	(18,115)	-	(95,423)
Impairment losses	(16,621)	-	-	(20)	-	(16,641)
Net balance at 31/12/17	**39,517**	**-**	**10**	**6,894**	**24,124**	**70,545**
Business combination (Note 3)	**-**	**17,037**	**1,325**	**-**	**(14,371)**	**3,991**
Cost-						
Translation differences	-	(92)	(9)	(40)	(76)	(217)
Additions	8,883	-	-	1,417	-	10,300
Disposals	-	-	-	-	-	-
Transfers (Note 8)	(366)	-	-	(9)	-	(375)
Cost at 30/06/18	**141,904**	**16,945**	**1,385**	**26,397**	**9,677**	**196,308**
Business combination (Note 3)	-	(700)	-	-	-	(700)
Accumulated amortisation-						
Translation differences	-	7	-	22	-	29
Additions or charge for the year	(5,959)	(839)	(3)	(1,052)	-	(7,853)
Disposals	-	-	-	-	-	-
Transfers (Note 8)	-	-	-	(7)	-	(7)
Accumulated amortisation at 30/06/18	**(83,208)**	**(1,532)**	**(62)**	**(19,152)**	**-**	**(103,954)**
Impairment losses-						
Transfers	**-**	**-**	**-**	**7**	**-**	**7**
Impairment losses at 30/06/18	**(16,621)**	**-**	**-**	**(13)**	**-**	**(16,634)**
Net balance at 30/06/18	**42,075**	**15,413**	**1,323**	**7,232**	**9,677**	**75,720**

The additions in the first half of 2018 recognised as "Development Expenditure" relate to the costs incurred in projects to develop new products and projects, as the Group considered that there were no reasonable doubts regarding the economic and commercial returns thereon.

In the first six months of 2018 and 2017 there was no impairment or substantial changes in the return estimates and assumptions regarding the development projects on which impairment had been recognised in prior years.

Subsequent to the review of the fair value of the assets acquired and liabilities assumed of Rifer, S.R.L. and BWB Holdings, Ltd. (see Note 3), a transfer was performed mainly between the provisional goodwill recognised at 2017 year-end and the "Commercial Relationships and Customer Portfolio" and "Patents, Licenses and Trademarks" items. The net transfer relates to the deferred tax liability arising on allocation of the fair value. Also, an amount of EUR 455 thousand relating to the amortisation charge in 2017 were adjusted against reserves, net of tax.

6. Financial assets and investments accounted for using the equity method

6.1. Breakdown of financial assets

The detail, by nature and category for measurement purposes, of the Group's financial assets at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of Euros				
	30/06/18				
	Fair Value through Profit or Loss (*)	Fair Value through Other Comprehensive Income (**)	At Amortised Cost (***)	Hedging Derivatives	Total
Equity instruments	-	21,719	-	-	21,719
Derivatives	-	-	-	6,980	6,980
Other financial assets	-	-	514,766	-	514,766
Long-term / non-current	**-**	**21,719**	**514,766**	**6,980**	**543,465**
Derivatives	-	-	-	6,136	6,136
Other financial assets	59,692	-	29,661	-	89,353
Short-term / current	**59,692**	**-**	**29,661**	**6,136**	**95,489**
Total	**59,692**	**21,719**	**544,427**	**13,116**	**638,954**

(*) This heading includes mainly the item called "Held-for-Trading Financial Assets" in 2017.

(**) This heading includes mainly the item called "Available-for Sale Financial Assets" in 2017 (see Note 2-b).

(***) This heading includes mainly the items called "Loans and Receivables" and "Held-to-Maturity Investments" in 2017. The amounts are presented net of related impairment losses (see Note 6.2).

	Thousands of Euros						
	31/12/17						
	Held-for-Trading Financial Assets (**)	Other Financial Assets at FV through P/L	Available-for-Sale Financial Assets (*)	Loans and Receivables (*)	Held-to-Maturity Investments	Hedging Derivatives (***)	Total
Equity instruments	-	-	9,506	-	-	-	9,506
Derivatives	-	-	-	-	-	15,842	15,842
Other financial assets	-		-	535,530	15,624	-	551,154
Long-term / non-current	**-**	**-**	**9,506**	**535,530**	**15,624**	**15,842**	**576,502**
Derivatives	-	-	-	-	-	41,864	41,864
Other financial assets	55,120	-	-	115	29,603	-	84,838
Short-term / current	**55,120**	**-**	**-**	**115**	**29,603**	**41,864**	**126,702**
Total	**55,120**	**-**	**9,506**	**535,645**	**45,227**	**57,706**	**703,204**

(*) Net of the related impairment losses (Note 6-2)
(**) At fair value (Level 1)
(***) At fair value (Level 2)

a) "Financial Assets at Fair Value through Profit or Loss" basically includes the investments made by the Group in fixed-income investment funds.

b) The detail of "Financial Assets at Fair Value through Other Comprehensive Income" is as follows:

Name	% of ownership	Beginning Balance at 31/12/17	Adjustments Due to IFRS 9 (Notes 2-b and 2-e)	Adjusted Beginning Balance 01/01/2018	Ending Balance 30/06/18
Alquiler de Trenes, A.I.E.	5%	1,202	1,803	3,005	3,320
Ferromovil 3000, S.L.	10%	3,181	5,934	9,115	9,279
Alquiler de Metros, A.I.E.	5%	105	-	105	105
Plan Azul 07, S.L.	5,2%	1,381	1,649	3,030	3,075
Arrendadora de Equipamientos Ferroviarios, S.A.	15%	1,908	2,104	4,012	4,189
Iniciativa FIK, A.I.E.	14,18%	1,040	-	1,040	838
Albali Señalización, S.A.	3%	398	256	654	620
Other		291	-	291	293
Total		**9,506**	**11,746**	**21,252**	**21,719**

The Group makes use of measurement techniques that are appropriate based on the circumstances and the volume of available data on each ownership interest, and attempts to maximise use of relevant observable data. In order to measure these ownership interests at fair value, the related business models and the various contractual terms and conditions were considered, various scenarios were assessed and discount rates discussed with independent experts were used.

The change in value in the period (EUR 463 thousand) was recognised under "Equity - Other Reserves".

c) The detail of "Non-Current Financial Assets - Financial Assets at Amortised Cost" is as follows:

	Thousands of Euros	
	30/06/18	31/12/17
Loans to associates (Note 12)	26,082	25,172
Loans to third parties	4,453	5,020
Non-current trade receivables – Concession assets	436,760	466,042
Non-current tax receivables	42,303	48,357
Loans to employees	4,584	4,605
Guarantees and other financial assets	15,460	15,624
Write-down of tax receivables and expected credit losses (Notes 2-b and 6.2)	(14,876)	(13,666)
Total	**514,766**	**551,154**

"Loans to Third Parties" includes EUR 4,360 thousand and EUR 1,214 thousand at short term (31 December 2017: EUR 4,932 thousand and EUR 1,245 thousand, respectively) relating to a finance lease of rolling stock, under which the Group will receive constant monthly lease payments over a period of 120 months.

In 2010 the Group entered into concession arrangements in Brazil and Mexico, the conditions of which are described in Note 9-e to the consolidated financial statements for 2017. These concessions are accounted for in accordance with the financial asset model under IFRIC 12, since the related requirements are met and, pursuant to this standard, the various services provided (construction, operation/maintenance and financing) were accounted for separately.

Consequently, at 30 June 2018 the Group recognised EUR 436,760 thousand under "Non-Current Financial Assets - Financial Assets at Amortised Cost - Non-Current Trade Receivables – Concession Assets" (31 December 2017: EUR 466,042 thousand) and EUR 108,352 thousand under "Current Assets - Other Receivables" (31 December 2017: EUR 115,213 thousand) in relation to construction activities and services performed to date, net of billings made. The services started to be provided basically in the first half of 2011 in the case of Line 8 (Brazil) and in the second half of 2012 in the case of Line 12 (Mexico).

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

At 30 June 2018, the Group had recognised EUR 42,303 thousand under "Non-Current Financial Assets - Financial Assets at Amortised Cost - Non-Current Tax Receivables" in connection with VAT refundable by foreign tax authorities (31 December 2017: EUR 48,357 thousand). This amount decreased by EUR 5,511 thousand as a result of translation differences.

At 30 June 2018, the Group had recognised EUR 13,073 thousand under "Guarantees and Other Financial Assets" (31 December 2017: EUR 13,666 thousand) in relation to guarantees connected with the increase in the borrowings of the subsidiary Ctrens - Companhia de Manutençao, S.A. (see Note 9). This guarantee, which bears interest at market rates and relates to six monthly repayments of the loan, will be discharged in the last six loan repayments from November 2025 to April 2026.

6.2 Impairment losses

The changes in the first six months of 2018 and 2017 in the balance of the impairment losses on the Group's assets, including non-current tax receivables and expected credit losses under IFRS 9, which form part of the balance of "Non-Current Financial Assets", were as follows:

Non-Current Financial Assets	Thousands of Euros	
	30/06/18	30/06/17
Balance at 31/12/17	**(13,666)**	**(17,990)**
Initial adjustment due to IFRS 9 (Notes 2-b and 2-e)	(3,054)	-
Adjusted balance at 01/01/18	**(16,720)**	**(17,990)**
Translation differences	1,837	1,388
Impairment losses recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets"	7	50
Impairment losses recognised with a charge to "Impairment and Gains or Losses on Disposals of Financial Instruments"	-	(12)
Balance *at end of period*	**(14,876)**	**(16,564)**

6.3 Investments accounted for using the equity method

The detail of "Investments Accounted for Using the Equity Method" is as follows:

	Thousands of Euros	
	30/06/18	31/12/17
Nuevas Estrategias de Mantenimiento, S.L.	4,265	4,471
Consorcio Traza, S.A.	5,582	13,481
Arabia One for Clean Energy Investments PSC.	1,278	1,172
Oher investments	530	628
TOTAL	**11,655**	**19,752**

In the first half of 2018 a share premium was distributed to the shareholders of Consorcio Traza, S.A., EUR 7,524 thousand of which related to CAF.

7. Property, plant and equipment

a) Changes in the period

The main changes in the first half of 2018 are the followings:

	Thousands of Euros			
	Cost	Accumulated Depreciation	Impairment Losses	Net
Balance at 31/12/17	**645,222**	**(390,193)**	**(10,516)**	**244,513**
Additions or charge for the year	22,958	(12,568)	-	10,390
Transfers	(982)	200	-	(782)
Disposals or reductions	(83)	52	-	(31)
Translation differences	(3,902)	1,953	26	(1,923)
Balance at 30/06/18	**663,213**	**(400,556)**	**(10,490)**	**252,167**

The main additions in the first half of 2018 relate basically to construction of the new vehicle manufacturing plant in the UK and vehicle production-related investments in Beasain.

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 30 June 2018, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,098 thousand (31 December 2017: EUR 1,267 thousand). EUR 98 thousand were allocated to profit or loss in the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: EUR 133 thousand).

b) Impairment losses

The changes in impairment losses in the first six months of 2018 and 2017 were as follows:

	Thousands of Euros	
	30/06/18	30/06/17
Balance at the beginning of period	**(10,516)**	**(10,743)**
Translation differences	26	23
Disposals	-	-
Impairment losses charged to profit or loss for the period	-	-
Balance at the end of period	**(10,490)**	**(10,720)**

c) Property, plant and equipment purchase commitments

At 30 June 2018, the Group had firm capital expenditure commitments amounting to approximately EUR 11,425 thousand (31 December 2017: EUR 23,768 thousand), relating mainly to the new plant in the UK, which is scheduled for start-up in the second half of 2018.

8. Inventories and construction contracts

Inventories

The detail of "Inventories" at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of Euros	
	30/06/18	31/12/17
Raw materials and other supplies, work in progress and finished and semi-finished goods	14,317	33,529
Advances to suppliers	38,455	38,125
Total	**52,772**	**71,654**

Construction contracts

The Group recognises the advances received from its customers in connection with contracts in the backlog with a credit to "Trade and Other Payables - Other Payables". At 30 June 2018, the balance amounted to EUR 422,132 thousand (31 December 2017: EUR 537,584 thousand).

Also, the Group recognises under "Trade and Other Receivables - Trade Receivables for Sales and Services" the amount relating to "Amounts to be Billed for Work Performed", EUR 890.175 thousand at 30 June 2018 (31 December 2017: EUR 739.306 thousand).

"Trade Receivables" includes retentions at 30 June 2018 amounting to EUR 2,980 thousand (31 December 2017: EUR 5,043 thousand).

As a result of the entry into force of IFRS 15 (see Notes 2-b and 2-e) the possible penalties that would change the probable transaction price are recognised as a reduction of revenue rather than as an expense. Therefore, at 30 June 2018 the provisions for third-party liability reducing "Trade Receivables for Sales and Services" amounted to EUR 89,818 thousand. At 31 December 2017, EUR 83,612 thousand were recognised in this connection under "Current Liabilities - Short-Term Provisions" (see Note 11). The changes in "Current Liabilities - Short-Term Provisions" were as follows:

	Thousands of Euros
	Provision for Third-Party Liability
Beginning balance at 31/12/17	**83,612**
Period provisions	6,630
Provisions released	(424)
Ending balance at 30/06/18	**89,818**

At 30 June 2018, the balances billed included EUR 58,601 thousand in relation to the agreement with Metro Caracas, the balance of which is past due and relates to work performed and billed to the customer and the collection of which is considered to be covered by the insurance policy in force. This amount is presented net of liabilities to the customer as a result of the entry into force of IFRS 15 mentioned above. At 31 December 2017, the balances billed included EUR 137,790 thousand, without offsetting against liabilities to the customer, basically related to the provision detailed in Note 12 of the consolidated financial statements for 2017.

The Group derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales and non-recourse factoring of trade receivables. At 30 June 2018, the unmatured receivables settled by the Group through the aforementioned non-recourse factoring transactions amounted to EUR 35,167 thousand (31 December 2017: EUR 63,151 thousand).

The CAF Group is part of a consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date CAF's legal advisers consider that the Consortium has solid arguments to justify its defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could claim the potential losses from such members. At 30 June 2018, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to this contract, net of advances received, amounted to EUR 12,567 million, and no amount had been recognised for additional claims on the original contract.

9. Financial liabilities

The detail, by type and category for measurement purposes, of the Group's financial liabilities at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of Euros	
	30/06/18	31/12/17
Bank borrowings and debt instruments or other marketable securities	581,981	625,645
Other financial liabilities	47,864	52,039
Hedging derivatives	7,159	18,131
Non-current payables/Non-current financial liabilities	**637,004**	**695,815**
Bank borrowings and debt instruments or other marketable securities	133,907	46,262
Other financial liabilities	47,597	40,725
Hedging derivatives	47,769	52,313
Current payables/Current financial liabilities	**229,273**	**139,300**
Total	**866,277**	**835,115**

a) Bank borrowings and debt instruments or other marketable securities

The detail of "Bank Borrowings and Debt Instruments or other Marketable Securities" in the accompanying consolidated balance sheet is as follows:

		Thousands of Euros					
		30/06/18			31/12/17		
	Nominal Currency	Non-Current	Current	Total	Non-Current	Current	Total
Loans and credit accounts							
Ctrens - BNDES	BRL	130,053	13,915	143,968	154,411	15,095	169,506
Provetren - Banking syndicate	USD	87,391	18,631	106,022	93,729	18,285	112,014
Parent (CAF, S.A.)	EUR	343,851	69,750	413,601	356,779	9,000	365,779
CAF Investment Projects, S.A.U.	EUR	19,815	-	19,815	19,799	-	19,799
Other Group companies	EUR	871	4,004	4,875	927	740	1,667
		581,981	106,300	688,281	625,645	43,120	668,765
Debt instruments or other marketable securities							
Commercial paper issues	EUR	-	25,000	25,000	-	-	-
Accrued interest payable		-	2,607	2,607	-	3,142	3,142
Total		**581,981**	**133,907**	**715,888**	**625,645**	**46,262**	**671,907**

The change in “Bank Borrowings and Debt Instruments or other Marketable Securities” in the first six months of 2018 was as follows:

Balance at 31 December 2017	**671,907**
Cash flows	
New drawdowns	79,511
Maturity payments	(18,910)
	60,601
Other changes (without cash flows)	
Translation differences	(15,955)
Amortised cost adjustments and other	(665)
	(16,620)
Balance at 30 June 2018	715,888

During the first semester of 2018, the dominant Company has signed a new lending with credit institutions for amount of EUR 50,000 thousand to a fixed market value interest rate with a single maturity at the seventh year period.

On 21 December 2017, the Parent arranged a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million (“the Programme”), which was registered at the Irish Stock Exchange. EUR 25,000 thousand of this total had been issued at 30 June 2018.

Note 16 to the consolidated financial statements for the year ended 31st December 2017 provides main conditions of the rest of the bank borrowings.

As at 30 june 2018, the Group companies have short-term undrawn credit facilities amounting EUR 150,101 thousand.

b) Other financial liabilities

The detail of “Non-Current Financial Liabilities - Other Financial Liabilities” and “Current Financial Liabilities - Other Financial Liabilities” (excluding hedging derivatives) in the condensed consolidated balance sheet as at 30 June 2018 and the consolidated balance sheet as at 31 December 2017 is as follows:

	Thousands of Euros	
Non-Current Financial Liabilities - Other Financial Liabilities	30/06/18	31/12/17
Refundable advances	34,583	34,753
Employee benefit obligations	3,370	5,892
Share purchase liabilities	8,997	10,371
Other	914	1,023
	47,864	**52,039**

Current Financial Liabilities - Other Financial Liabilities	Thousands of Euros	
	30/06/18	31/12/17
Refundable advances	12,942	18,351
Net dividend payable (Note 4) (*)	21,633	-
Payable to non-current asset suppliers	8,440	18,979
Share purchase liabilities	4,371	2,905
Other	211	490
	47,597	**40,725**

(*) Including dividends payable to non-controlling interests amounting to EUR 1,555 thousand.

Refundable advances

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

- Grants to partially meet the expenses and costs of these projects.

- Refundable advances in the form of loans, generally interest-free, which usually have an initial grace period of three years and are repaid in a period of over ten years.

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

Employee benefit obligations

At 30 June 2018, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying condensed consolidated balance sheet included approximately EUR 3,370 thousand and EUR 4,408 thousand, respectively (31 December 2017: EUR 5,892 thousand and EUR 3,113 thousand, respectively), relating to the present value estimated by the directors of the future payments to be made to the Parent's employees who were included in the pre-retirement plan approved in 2013, or with whom hand-over contracts had been entered into. In this connection, the Group recognised an amount of EUR 305 thousand with a charge to "Staff Costs" in the accompanying condensed consolidated statement of profit or loss in the first six months of 2018 (charge of EUR 1,722 thousand in the first six months of 2017).

In relation to the outsourced obligations assumed with certain employees, which are detailed in Note 15 to the consolidated financial statements for 2017, future modifications thereto and the accrual for services rendered are recognised against profit or loss for the related year and, accordingly, in the six-month periods ended 30 June 2018 and 2017 an expense of EUR 1,604 thousand and EUR 965 thousand, respectively, was recognised under "Staff Costs".

Share purchase liabilities

As indicated in Note 2-f to the consolidated financial statements for 2017, "Share Purchase Liabilities" includes the amount payable to acquire the majority ownership interests in BWB Holdings Ltd. and Rifer S.R.L.

10. Equity

a) Issued capital

At 30 June 2018, the Parent's share capital amounted to EUR 10,318,505.75, consisting of 34,280,750 fully subscribed and paid book-entry shares. CAF shares are traded on the Spanish stock market interconnection system at the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. The Parent has maintained the same share capital over the last two years.

On 2 June 2018, the shareholders at the Annual General Meeting resolved, under point seven of the agenda, to authorise the Board of Directors to increase, at one or several times, the share capital through the issuance of new shares against monetary contributions, over a period of five years and up to half of the amount of the share capital at the authorisation date which, where applicable, would be up to a maximum of EUR 5,159,252.87, as well as enabling it to establish the terms and conditions of the capital increase and the characteristics of the shares and to redraft the article of the bylaws on share capital, while freely offering the new shares not subscribed by the deadline/s for subscription with pre-emption rights and establishing that, in the event of incomplete subscription, the capital will only be increased by the amount of the subscriptions made. The aforementioned resolution replaces and renders null and void the powers conferred by the General Meeting of 8 June 2013, under point six of the agenda.

At the date of preparation of these interim condensed consolidated financial statements, the Board of Directors had not resolved to perform transactions of these characteristics.

b) Valuation adjustments

Hedges

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

The changes in "Cash Flow Hedges" in the first six months of 2018 were as follows:

	Thousands of Euros
Balance at 31/12/17	**(6,580)**
Income and expense recognised in equity	3,199
Transfers to profit or loss	214
Tax effect	(902)
Balance at 30/06/18	**(4.069)**

Translation differences

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

The changes in "Translation Differences" in the first six months of 2018 and 2017 were as follows:

	Thousands of Euros	
	30/06/18	30/06/17
Balance at the beginning of the period	**(117,238)**	**(76,703)**
Net change in the period	(27,919)	(22,869)
Balance at the end of the period	**(145,157)**	**(99,572)**

The currency with highest fluctuations in translation differences in the first six months of 2018 was the Brazilian real.

c) Capital management

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

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 30 June 2018 and 31 December 2017, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (see Note 6). Leverage is taken to be the ratio of net financial debt to equity:

	Thousands of Euros	
	30/06/18	31/12/17
Net financial debt:		
Interest-bearing refundable advances (Note 9-b)	14,766	16,667
Bank borrowings and debt instruments or other marketable securities (Note 9-a)	715,888	671,907
Financial assets - Non-current assets (Note 6-1)	(13,045)	(13,666)
Current financial assets – Other current assets (Note 6-1)	(89,100)	(84,723)
Cash and cash equivalents	(422,993)	(371,625)
	205,516	**218,560**
Equity:		
Attributable to the Parent	725,760	750,417
Non-controlling interests	8,088	9,783
	733,848	**760,200**

11. Provisions and contingent liabilities

a) Breakdown

The detail of provisions and contingent liabilities is as follows:

	Thousands of Euros	
	30/06/18	31/12/17
Long-term provisions for contingent liabilities and commitments	7,256	7,071
Short-term provisions (Note 8)	144,128	227,939
Total	**151,384**	**235,010**

b) Long-term provisions for contingent liabilities and commitments

In the first six months of 2018 there were no significant changes with respect to 2017 with EUR 1,495 thousand being charged mainly to "Staff Costs" in the accompanying condensed consolidated statement of profit or loss (first six months of 2017: charge of EUR 853 thousand).

c) Short-term provisions

"Short-Term Provisions" in the accompanying condensed consolidated balance sheet includes the provisions recognised by the Group to cover mainly warranty expenses, contractual support services and other matters arising from its business activities. The consolidated companies charged EUR 901 thousand to "Other Operating Expenses" in the accompanying condensed consolidated statement of profit or loss for the first six months of 2018 (first six months of 2017: EUR 10,712 thousand credited thereto) relating to the difference between the provisions required in this connection at 30 June 2018 and the provisions recognised at 30 June 2017. The expenses incurred in the first six months of 2018 and 2017 in connection with the provision of contractual warranty services (approximately EUR 22,129 thousand and EUR 21,869 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying condensed consolidated statements of profit or loss for the first six months of 2018 and 2017.

The changes in "Short-Term Provisions" and "Long-Term Provisions" in 2018 and 2017 were as follows (in thousands of euros):

	Short-Term Provisions					Long-Term Provisions
	Contractual Liability	Warranty and Support Services	Litigation	Other Provisions	Total Short-Term Provisions	
Balance at 31/12/16	**124,597**	**95,103**	**1,780**	**6,457**	**227,937**	**4,646**
Changes in the scope of consolidation	398	-	-	-	398	618
Net charge for the period	8,016	44,792	646	(1,605)	51,849	2,678
Amounts used charged to profit or loss	(3,930)	(43,831)	(409)	(137)	(48,307)	(945)
Translation differences	(498)	(2,692)	(117)	(495)	(3,802)	(300)
Transfers	(52)	(84)	-	-	(136)	374
Balance at 31/12/17	**128,531**	**93,288**	**1,900**	**4,220**	**227,939**	**7,071**
Adjustments due to IFRS 15 (Notes 2-b, 2-e and 8)	(83,612)	-	-	-	(83,612)	-
Adjusted beginning balance	44,919	93,288	1,900	4,220	144,327	7,071
Net charge for the period	(6,334)	27,236	1,926	687	23,515	1,495
Amounts used charged to profit or loss	-	(22,129)	(393)	(92)	(22,614)	(1,279)
Translation differences	(270)	(496)	(225)	(371)	(1,362)	(29)
Transfers	(14)	-	269	7	262	(2)
Balance at 30/06/18	**38,301**	**97,899**	**3,477**	**4,451**	**144,128**	**7,256**

The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts.

At 30 June 2018, the Group was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and the possible impact thereof cannot be determined; however, the Parent's directors consider this situation unlikely to give rise to losses for the Group because there are factors causing the delays that are not attributable, under any circumstance, to the consortium, the damage suffered by the customer is smaller than the amounts claimed and claims have been filed for cost overruns incurred by the consortium which are attributable to the client.

12. Related parties

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

The transactions performed by the Group with its related parties (significant shareholders, Board members and executives of the Parent and other related parties) in the first six months of 2018 and 2017 are disclosed below. The terms and conditions of the transactions with related parties are equivalent to those in transactions performed on an arm's length basis and the corresponding payments in kind were charged.

Expenses and Income	Thousands of Euros 30/06/18 Significant Shareholders	Group Employees, Companies or Entities	Other Related Parties	Total
Expenses:				
Purchases of goods and services	-	-	1,261	1,261
	-	**-**	**1,261**	**1,261**
Income:				
Sales	-	-	24,379	24,379
Finance income	-	-	923	923
	-	**-**	**25,302**	**25,302**

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

Sales to "Other Related Parties" in the first six months of 2018 and 2017 were made mainly to Ferrocarriles Suburbanos, S.A. de C.V., Plan Metro, S.A. and Ferrocarril Interurbano S.A. de C.V., in which the CAF Group holds non-controlling ownership interests along with other shareholders.

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

In the first six months of 2018 and 2017, the Parent recognised approximately EUR 883 thousand and approximately EUR 857 thousand, respectively, in relation to remuneration, attendance fees and life insurance coverage earned by the members of its Board of Directors, whereas the directors of the subsidiaries did not earn any amounts in this connection. At 30 June 2018 and 31 December 2017, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, amounted to EUR 1,165 thousand and EUR 968 thousand, respectively, in the first six months of 2018 and 2017.

In the first six months of 2018 and 2017 there were no other transactions with senior executives.

14. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (as explained in Note 17 to the consolidated financial statements for 2017). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the condensed consolidated balance sheet as at 30 June 2018 and the consolidated balance sheet as at 31 December 2017 is as follows:

Measurement	Thousands of Euros			
	Fair Value		Cash Flows	
	30/06/18	31/12/17	30/06/18	31/12/17
Hedges-				
USD currency forwards	(14,344)	14,419	-	-
GBP currency forwards	(14,386)	(581)	3	(38)
MXP currency forwards	(17,033)	(16,068)	(147)	(1,789)
BRL currency forwards	3,071	(6,409)	-	-
EUR currency forwards	3,669	1,900	-	-
AUD currency forwards	4	24	-	-
SEK currency forwards	(2,332)	(1,066)	-	-
SAR currency forwards	504	(2,733)	-	-
TWD currency forwards	89	666	-	-
JPY currency forwards	(1,875)	(532)	(1,215)	(288)
ZAR currency forwards	(18)	-	-	-
CAD currency forwards	(1)	-	-	-
Currency forwards in other currencies	(131)	(132)	-	-
Forward rate agreements	(48)	(23)	(52)	(88)
Measurement at end of period (*)	**(42,831)**	**(10,535)**	**1,019**	**(2,203)**

(*) Before considering the related tax effect.

At 30 June 2018, the associate SEM Los Tranvías de Zaragoza, S.A. had recognised the effect of certain swaps designated as cash flow interest rate hedges. The negative value thereof attributable to the Group amounted to EUR 4,803 thousand, net of the related tax effect.

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

Expiry (in Currency)	30/06/18		
	2018	2019	2020 and Subsequent Years
Euribor swap (EUR)	-	EUR 6,666,667	-
LIBOR swap (USD)	USD 8,591,427	USD 20,494,634	USD 75,138,990

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

Expiry (in Currency)	30/06/18		
	2018	2019	2020 and Subsequent Years
Sales hedges-			
Fair value hedges			
USD currency forwards (*)	435,696,252	77,350,432	-
GBP currency forwards	179,128,784	112,649,300	95,037,543
EUR currency forwards	6,382,596	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	288,037,761	298,123,121	86,664,170
SAR currency forwards	118,132,687	-	-
AUD currency forwards	44,779,185	13,524,295	517,767
TWD currency forwards	126,259,537	-	-
MXP currency forwards	2,112,090,366	128,847,916	-
CAD currency forwards	105,927	-	-
HUF currency forwards	-	-	-
JPY currency forwards	9,998,385,627	3,694,606,739	4,081,705,774
TRY currency forwards	3,712,084	8,896,516	-
ARS currency forwards	64,840,259	-	-
ZAR currency forwards	5,312,712	-	-
Purchase hedges-			
Fair value hedges			
USD currency forwards	15,388,866	10,092,425	28,373,000
EUR currency forwards	115,257,428	-	-
GBP currency forwards	2,084,454	500,000	-
MXP currency forwards	59,767,000	-	-
BRL currency forwards	7,020,251	-	-
Purchase hedges-			
Cash flow hedges			
GBP currency forwards	-	24,500,000	-
MXP currency forwards	-	-	591,486,246
JPY currency forwards	-	-	4,588,021,500

(*) Including the hedge of a net investment in CAF USA, Inc. and in Provetren, S.A. de C.V. amounting to USD 220,622 thousand.

Expiry (in Currency)	30/06/17 2017	2018	2019 and Subsequent Years
Sales hedges-			
Fair value hedges			
USD currency forwards (*)	542,353,394	82,040,332	55,313,750
GBP currency forwards	35,127,773	141,996,808	94,706,436
EUR currency forwards	11,789,614	-	-
BRL currency forwards	143,348,888	-	-
SEK currency forwards	61,902,978	242,970,271	185,708,935
SAR currency forwards	490,954,194	-	-
AUD currency forwards	14,657,634	56,370,188	13,741,738
TWD currency forwards	463,285,969	-	-
MXP currency forwards	2,233,118,406	35,027,380	-
CAD currency forwards	1,129,291	-	-
HUF currency forwards	1,004,718,416	-	-
TRY currency forwards	2,609,414	1,775,740	-
Purchase hedges-			
Fair value hedges			
USD currency forwards	29,651,389	-	34,109,000
EUR currency forwards	149,659,110	48,652,300	-
GBP currency forwards	4,444,042	-	-
MXP currency forwards	59,767,000	-	-
BRL currency forwards	628,825	-	-

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

In the first half of 2018 the ineffective portion of the hedging transactions charged to profit or loss amounted to EUR 1,485 thousand mainly as a result of changes in the estimated amounts of the hedged items.

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

	30/06/18	31/12/17
Non-current assets	6,980	15,842
Current assets	6,136	41,864
Non-current liabilities	(7,159)	(18,131)
Current liabilities	(47,769)	(52,313)
Balance sheet net total	**(41,812)**	**(12,738)**
Fair value	(42,831)	(10,535)
Cash flow	1,019	(2,203)
Total derivatives	**(41,812)**	**(12,738)**

15. Segment reporting

The criteria applied by the Parent to define its operating segments are disclosed in Note 6 to the consolidated financial statements for the year ended 31 December 2017. There were no changes in the basis of segmentation used.

The detail of revenue, by geographical area, at 30 June 2018 and 2017 is as follows:

Revenue by Geographical Area	Thousands of Euros	
	30/06/18	30/06/17
Spain	93,462	100,275
Exports		
a) European Union	449,603	255,262
b) OECD countries	250,193	240,450
c) Other countries	149,971	159,480
Total	**943,229**	**755,467**

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

	30/06/18	30/06/17
High-speed	22,230	17,840
Regional and commuter	376,211	263,939
Metros	146,950	135,955
Tram and light rail	103,365	66,034
Bogies, refitting and other	24,194	18,165
Trains	**672,950**	**501,933**
Services	**179,282**	**184,646**
Wheel sets and components (MiiRA)	**45,199**	**38,215**
Other	**45,798**	**30,673**
Total	**943,229**	**755,467**

The reconciliation of revenue by segment to consolidated revenue at 30 June 2018 and 2017 is as follows:

Revenue	Thousands of Euros					
	30/06/18			30/06/17		
	External Revenue	Inter-Segment Revenue	Total Revenue	External Revenue	Inter-Segment Revenue	Total Revenue
Rolling stock	898,030	-	898,030	717,252	-	717,252
Wheel sets and components (MiiRA)	45,199	16,666	61,895	38,215	17,584	55,799
(-) Adjustments and eliminations to inter-segment revenue	-	(16,666)	(16,666)	-	(17,584)	(17,584)
Total	**943,229**	**-**	**943,229**	**755,467**	**-**	**755,467**

The reconciliation of profit (loss) by segment to consolidated profit at 30 June 2018 and 2017 is as follows:

	Thousands of Euros	
	30/06/18	30/06/17
Rolling stock	57,760	53,330
Wheel sets and components (MiiRA)	(747)	(298)
General (*)	(39,291)	(37,332)
Profit after tax	**17,522**	**15,700**

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

16. Average headcount

The average headcount at 30 June 2018 and 2017 was as follows:

	Number of Employees	
	30/06/18	30/06/17
Men	7,443	6,612
Women	1,274	1,089
Total	**8,717**	**7,701**

17. Tax matters

The Group calculated the provision for income tax at 30 June 2018 in accordance with the applicable tax legislation. On 10 May 2018 Gipuzkoa Income Tax Regulation 1/2018 was passed, which substantially changed the tax regime applicable to the tax group headed by the Parent. Therefore, as a result of the reduction in the tax rate from 28% to 26% in 2018 and to 24% in 2019, and of changes in the limit on the use of tax credits and the offset of prior years' tax losses, the amount of the deferred tax assets and liabilities was adjusted, which gave rise to an income tax expense of EUR 13,753 thousand. However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof.

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

At 30 June 2018, the Group recognised EUR 72,696 thousand under "Trade and Other Receivables - Other Receivables" in the condensed consolidated balance sheet in relation to balances receivable from public authorities for tax settlements, mainly for VAT. Also, the Group recognised EUR 28,329 thousand under "Trade and Other Payables - Other Payables" in the accompanying condensed consolidated balance sheet, mainly in relation to employee personal income tax withholdings, employer social security costs and VAT.

On 20 June 2017, the Parent was notified by the provincial tax authorities of Guipúzcoa of the commencement of partial tax audits in relation to the income tax of the Parent and of Tax Group no. 03/07/G for 2012 to 2015. The Group's directors do not expect any liabilities to arise as a result of the aforementioned tax audits.

18. Explanation added for translation to English

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