



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

**INTERIM DIRECTORS' REPORT
FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2016
OF THE CONSOLIDATED GROUP**

RESULTS

The first half of 2016 presented the following economic parameters:

- The income statement showed profits from continuing operations, in the amount of EUR 15,012 thousand after tax and EUR 23,968 thousand before tax, vis-à-vis EUR 32,667 thousand and EUR 44,340 thousand respectively for the same period of the previous year.
- Depreciation and amortisation charge amounted to EUR 14,094 thousand, which, if added to the profit(loss) for the year from continuing operations before tax, implied a cash-flow totalling EUR 38,062 thousand, lower than that for the same period of the previous year, which was EUR 65,824 thousand.
- EBITDA from continuing operations amounted to EUR 64,708 thousand, lower than that for the same period of the previous year, which was EUR 95,341 thousand.
- Revenue from continuing operations totalled EUR 631,868 thousand, lower than that for the previous year, which was EUR 660,000 thousand.
- Backlog at 30 June 2016 totalled EUR 5,873,732 thousand, higher than that for the previous year, which totalled EUR 4,869,061 thousand, thus allowing for the smooth running of the Group's operations.
- Finally, in compliance with rules and regulations, CAF reported that neither CAF nor its subsidiaries purchased or held shares in the Company during 2016 first semester.



BUSINESS ACTIVITIES

In the United Kingdom, two significant transactions have been agreed. The first one, with the operator Arriva UK and the financial entity Eversholt Rail Group, for the manufacturing of 281 carriages allocated among 43 electrical units and 55 diesel, all of them from the Civity platform, as well as technical support and logistic services. The second one, with the operator First Group and the financial entities Eversholt Rail Group and Beacon Rail, for the supply and maintenance of 66 passenger carriages and 12 electrical units of 5 carriages from the Civity platform. The value of both transactions is higher than EUR 1,100 million.

In Australia, the Consortium Metro Canberra, from which CAF is a member, arranged the supply and maintenance for 20 years of 14 trams of 5 modules, as part of a project that includes the construction of a new light-rail line for the Australian city. Also in Australia, the transport authorities in New South Wales hired 6 trams for a new line in Newcastle. The contract volume exceeds EUR 100 million.

In Maryland state (USA), CAF takes part in the company in charge of operating and maintaining the "Purple Line"; which was awarded with the provision of the service for a 30 years-term, for which 26 trams of 5 modules will be manufactured. The supply exceeds EUR 180 million. The Purple Line provision of regular services is expected to occur in 2022.

INDUSTRIAL ACTIVITIES

In the first half of 2016, several projects have been completed, including the contract entered into with Metro de Bucharest for the extension of 8 trains, terminated through the delivery of the last 4 trains, the last 3 trams for Cincinnati, the last 2 trams of the 20 included in the project for the city of Tallinn, the last 2 trams for Kansas and the 4 trams of 9 modules for Budapest which complete the 12 trams of this kind agreed for this project.

Also in this period, 3 trams of 5 modules were completed for the city of Budapest, as part of the above said contract, as well as 7 passenger cars for the project of the Saudi Arabian operator SAR, 8 trains of the 35 agreed by CPTM for the Brazilian city of Sao Paulo, 11 units of Metro for the city of Santiago de Chile, 10 units of electric traction for Euskotren, 9 trains of the contract of 20 for Helsinki, and the 2 first trams of the projects for the city of Saint Etienne.

As for the remaining projects, it has been initiated the manufacturing of the first structural parts for the projects of 75 passenger cars directed to Caledonian, Scotland, as well as the contract of 24 light-rail vehicles directed to Boston or the contract of the Civity platform trains for Toluca (Mexico).

Regarding the contracts signed with NS (Netherlands), Flytoget (Norway), Medellin (this one being the third extension for the same customer) or the Istanbul Metro, the first units are already in progress, some of which will be delivered during the second semester of 2016.

The most relevant products manufactured during the first half of 2016 are the following:

	No. of Carriages
Composition of Saudi Arabian passenger cars	7
Local trains for Euskotren.....	30
Local trains for CPTM	64
Bucharest Metro	24
Chile Metro	55
Helsinki Metro	36
Tram for Budapest (5 modules)	15
Tram for Budapest (9 modules)	36
Tram for Cincinnati	9
Tram for Tallinn	6
Tram for Kansas	6
Tram for Saint Etienne	10
TOTAL	298

BOGIES

With welded frame	402
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WHEEL-SET UNITS AND COMPONENTS (Miira)

Wheel-set bearings (Engine + Trailer).....	2,152
Loose axle assemblies.....	4,433
One-piece wheels.....	26,157
Elastic tyres	487
Couplings	370
Reduction gears	921
Solid tyres	256



HUMAN RESOURCES

In the first half of 2016, the payroll's evolution of the consolidated Group is as follows:

	PERMANENT	TOTAL	PERIOD AVERAGE
30.06.2015	7,348	7,747	7,963
30.06.2016	7,128	7,451	7,424

In the first half of 2016 the Group's staff has been significantly reduced, mainly due to the adjustments in the international manufacturing plants.

ENVIRONMENTAL ACTIVITY

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

The C.A.F. manufacturing plants have an ISO-14001-certified Environmental Management System in place since 2001, which includes the organisational structure, the action planning to protect the environment, the responsibilities, the environmental objectives, and the necessary resources to develop, review and keep up-to-date its environmental policy.

Additionally, in June 2016, an audit of maintenance was successfully performed at the Beasain, Irún, and Zaragoza plants to renew the ISO14001: 2004 certificate related to the Environmental Management System.

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

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

CAF has incorporated methodologies and tools in its design processes which enable to assess and select the best product solutions and features by means of:

- Recyclability assessment in accordance with ISO 22628 standard, with the purpose of selecting the best materials available.
- Life cycle assessment in accordance with ISO 14040 standard, with a view to evaluating products throughout all their life cycle phases from an environmental standpoint

As a result, with the publication at the end of 2015 of the new EPD of Helsinki Metro and Urbos for Kaohsiung, there are already 6 EPD of CAF projects certified and published by the International EPD System (<http://www.environdec.com>). In the first half of 2016, a preliminary research of the project recyclability for NS and its final review of the Design (FDR) has been conducted, but no new EPDs have been published and none of the projects in progress have applied for them.

Furthermore, it is worth noticing that greenhouse gas emissions during 2016 were below its emission allowances, pursuant to the Kyoto Protocol.

INVESTMENTS

CAF Group's investments in property, plant and equipment during the first half of 2016 totalled EUR 4,203 thousand. Among such investments it is important to mention:

Within the Business Unit of wheelsets, MiiRa, the new automatic line of axis machining and verifying is being implemented. This investment is aimed at improving the productivity and cost-cutting through the installation of a line for automating the processes of refining, rectifying and analysis of magnetic particles and ultrasonic, given the significance of such processes, that would be performed as a first step towards a complete automation of the activity in the future.

Likewise, as part of the streamlining plan for the different spaces, the new offices of the Unit MiiRa are in the progress of construction, in order to meet the space-based and organisational needs of the Unit, and to support its strategy and future growth.

As for the Rolling-Stock Unit, a number of actions have been initiated as part of the productivity improvement process undertaken by the company, such as the renovation of machines, the automation of processes or the improvement of production lines, together with the regular investments in the Safety and Occupational Risks Prevention Area.

On the other hand, regarding the Quality Assurance and Approval Area, it is important to mention the start of a new way of tests to allow the performance of the necessary testing for the requirements acceptance of railway vehicles dynamic behaviour.

Finally, as for the investments undertaken by the Group, it is worth to notice those performed in the maintenance units owned by the company abroad, which are more and more needed due to the increase of the activities to be performed in those countries.

TECHNOLOGICAL DEVELOPMENT

With respect to CAF and CAF I+D, the CAF Group's technology plan for the 2016-2018 period was defined during the first months of the year with the approval of a total of 53 new projects for CAF and its subsidiaries. The total number of projects within the scope of the ongoing technology plan in 2016 is 111.

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

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

The technology plan 2016-2018 to be developed in the current year, puts an emphasis on the projects in which CAF, CAF I+D and the various subsidiaries are involved, maintaining the close collaboration from previous years with the different technological centres and universities.

The projects under the 2016-2018 Technology Plan encompass the following fields:

- Specific railway products.
- Digital tram
- Electrónica VEGA
- Control of TCMS train
- Traction including energy accumulation
- Fixed signals and signals on moving locations.
- Specific products and technologies relating to basic railway technologies, materials, rolling stock, reducers, etc.
- Developments on the medium/long term included in the programs Shift2Rail y Roll2Rail

All such projects combine both the execution of projects aimed at implementing new technologies and the development of products based on such technologies and strategic projects.

Within this group of projects it is worth to notice the completion of the test of prototype OARIS for the high speed train and the final tests in several lines of its ERTM-ETCS system.

CAF Group has also taken part in projects for cooperating in several domestic programs and also within the Seventh European Framework Program and H2020. In this connection, the following projects should be highlighted:

- European Projects:
 - REFRESCO for developing solutions of composite housing structures.
 - MERLIN for establishing energy management strategies at network global level and for developing tools for optimising consumption and costs related to a railway network.
 - NGTC for interface studies between the ERTMS and satellite positioning module.
 - STARS for determining the readiness of the global satellite positioning within the railway area.
 - ROLL2RAIL, it is a 2 years project, technically managed by CAF and before Shift2Rail, aimed at developing some key technologies that will drive significant innovations in the field of railway vehicles.



As for the European projects, it should be highlighted that CAF is one of the 8 Founding Members of the JU (Joint Undertaking) Shift2Rail initiative to promote railway R&D within the Horizon 2020 programme. Technology development works for this project will last through 2024, beginning in September of 2016.

Regarding the subsidiaries, they are performing their normal activities in the field of technological development and applications for the aforementioned traction and tram control lines, fixed and on location signalling and collection/accumulation systems and self-operation of vehicles.

The most important engineering projects carried out during this first half of the year are as follows:

- High speed trains Oaris for Flytoget (Norway)
- Trains for Toluca (México)
- Automatic Metro for Istanbul (Turkey)
- LRV for Boston Metro (USA)
- Civity train for NS (The Netherlands)
- Passenger cars for Caledonian (UK)
- Units for Toluca (México)
- Trams for St Etienne (France), Utrecht (The Netherlands) and Luxemburg.

The following projects have been commissioned during the first half of this reporting period:

- Diesel and electrical trains within the family Civity UK for the Northern Rail franchise and Arriva operator
- Diesel and electrical trains within the family Civity UK for the TransPennine Express franchise and First Group operator
- Passenger cars for the TransPennine Express franchise and First Group operator
- Trams for Canberra (Australia)



RISK MANAGEMENT POLICY

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

1. Financial risks

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

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

a) Market risk

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

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

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

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

b) Credit risk

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

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

c) Liquidity risk

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

- The search and selection of business opportunities with the highest possible level of self-financing, under current market conditions, for each of the contracts. Regarding the vehicle manufacturing

projects, whose medium performance period is approximately three years, the billing milestones and the performance of the works need not be aligned in time, which implies the use of financial resources.

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

d) Cash flow and fair value interest rate risk

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

e) Risks arising from variances with respect to project budgets

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

2.- Risks derived from environmental damage

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

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

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

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

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

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

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

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

OUTLOOK

The Group's activities for the next years will focus on the following aspects:

- Enhancing our positioning in the core business of design and manufacturing trains and components.
- Developing the Group's potential for the business of railway services, such as train lease, maintenance and renovation, the railway system operation and the concessions.
- Ongoing growth in activities of design and construction of turnkey railways systems for operating and, when required by the customers, the maintenance or the operation, on an individual basis or by ways of consortium, as the case may be.
- The further technological development of the Group through a significant investment effort in research and development of new systems and subsystems and extension of our product portfolio (railway material, signalling, energy, etc). Among others, those included in the European technological railway platform Shift2Rail.
- Enhancing our internationalisation initiative, specially in regions with higher potential growth and high volume, such as the European regional rolling stock segment.
- Developing the value proposition through the corresponding strategic plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering.
- Exploring the chances opened by digitalisation in all our operating processes and for the development of innovative proposition in rolling stock and in the service offer provided to our customers (management of workshops and fleets, manufacturing 4.0, etc).
- Consistent and recurring implementation of cost-cutting and working capital initiatives and search for the quality excellence in all Group's activities and business areas in a highly competitive environment. This includes:
 - Ongoing improvement of platforms and construction modules (for example Oaris, Civity, Urbos and the new arrivals).
 - The Industrial Operation Transformation Plan.
 - The management of product life cycle, a key element in competitiveness.
 - Cost containment in all our activities.
- Impetus to the service business by searching growth alternatives beyond the maintenance of the more than 6,000 carriages currently performed.
- Enhancing the quality and customer focus through streamlined management systems related to the quality, safety and approval of our products.
- Lastly, continuing to strongly progress in core business management activities, such as, care to shareholders and investors, corporate risk management and good governance practices in general.



EVENTS AFTER YEAR-END

On 15 July 2016 the contract awarded to CAF by Municipio del Distrito Metropolitano from Quito entered into force, for an amount close to USD 183 million, including the supply of 18 trains of 6 carriages each. Such units will operate in the first line of Quito Metro, which will cross the city between Quitumbe in the South and El Labrador in the North.