INTERIM DIRECTORS' REPORT

FOR THE SIX-MONTH PERIOD

ENDED 30 JUNE 2015

OF THE CONSOLIDATED GROUP

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

RESULTS

The first half of 2015 presented the following economic parameters:

- The income statement showed profits from continuing operations, in the amount of EUR 32,667 thousand after tax and EUR 44,340 thousand before tax, vis-à-vis EUR 44,083 thousand and EUR 55,738 thousand respectively for the same period of the previous year, which implies a lower result of 26% and 20% respectively.

- Depreciation and amortisation charge amounted to EUR 21,484 thousand, which, if added to the profit(loss) for the year from continuing operations before tax, implied a cash-flow totalling EUR 65,824 thousand, which is approximately 16% lower than that for the same period of the previous year, which was EUR 78,175 thousand.

- EBITDA from continuing operations amounted to EUR 95,341 thousand, which is about 4% higher than that for the same period of the previous year, which was EUR 91,419 thousand.

- Revenue from continuing operations totalled EUR 660,000 thousand, which is 10% lower than that for the previous year, which was EUR 737,033 thousand.

- Backlog at 30 June 2015 totalled EUR 5,395,995 thousand, which is 3% higher than that for the previous year, which totalled EUR 5,251,114 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 2015 first semester.

BUSINESS ACTIVITIES

The Norwegian operator Flytoget commissioned 8 Oaris train units to provide the shuttle service connecting the capital with Oslo's airport. The contract amounts to more than EUR 115 million.

In CAF's tramway segment 64 trams were commissioned to run in Utrecht in The Netherlands, Saint-Etienne in France and the capital city, Luxembourg. The total amount of the contracts exceeds EUR 180 million.

In terms of metro units, of note was the commissioning of 20 metro units to operate in Medellin (Colombia) for an amount of approximately EUR 89 million.

In order to provide services for the Caledonian Sleeper's franchise in Scotland, Serco Group Plc. entered into an agreement amounting to EUR 200 million to manufacture and supply a variety of 75 railway cars including first- and second-class cars, a café-restaurant cars as well as sleeping cars.

On the other hand, CAF Signalling has signed in 2015, as the consortium leader, the ERTMS Level 2 Signalling Project for ADIF in the high speed railway line in Monforte del Cid – Murcia, all for an amount of 65 million euros for the Company.

In the same way, Line 3 of Bilbao's metropolitan railway Signalling Project has also been awarded this year, all for an amount of 4 million euros. Also noteworthy, the Company’s participation in the consortium selected to provide ERTMS Level 1 Signalling for the Atlantic axis; a project that amounts to 10,5 million euros for CAF Signalling.

INDUSTRIAL ACTIVITIES

Several of the projects begun in prior years were completed over the first six months of the current year, such as the contract with Auckland (New Zealand) for 57 trains of which they have been delivered the last 13. During this period also they have been delivered the last 2 trains of the order of 18 for the Rome metro, a composition of locomotive and trailer cars that completes the addition of 4 trains for the operator SRO from Saudi Arabia, the last 7 trams of 15 for Granada's contract, as well as the last 2 trams for Birmingham, the last tram in composition of 4 modules for Stockholm, the last 6 of the 12 trams under contract for the city of Sidney and the last 2 trams for the project of Kaoshiung.

In the same way, during this period, delivery continued of other projects such as the 20 baggage carriages for long-distance trains for the US operator Amtrak, also 4 of the 26 trains of the contract entered into with the Sao Paulo metro, 14 trams for Houston, 7 EMUs for Belo Horizonte (Brazil), 5 locomotives and 23 coaches for the SAR operator in Saudi Arabia that will operate long-distance and in several composition formats, and the first of the contract for 35 trains for the CPTM operator in Brasil. Also during these months. they have left the factory of Beasain and Zaragoza 10 trams for Budapest in the 2 configurations of five- and nine-module versions that the contract includes, 2 trains for the Helsinki metro, 5 trams for Freiburg (Germany), 7 trams of the contract for 20 for Tallinn (Estonia) and the first train of the addition of 3 trains for the Medellín (Colombia) metro.

Also during this period, the first phases of the manufacture of the most recent projects have begun, such as the addition of 8 trains for the Bucharest metro, the addition of 3 trains of the Civity Platform that operate in the geographical area of Bari (Italy), the project of 37 trains for the Chile metro, intended to provide service in lines 3 and 6 of this operator, the contract for 5 trams for Cincinnati, and the project of 4 trams for Kansas.

The most relevant products manufactured during the first half of 2015 are the following:

COACHES	Number
Long-distance coaches for Amtrak	20
Locomotive for Saudi Arabia (SRO)	1
Locomotive for Saudi Arabia (SAR)	5
Trailer car arrangement for Saudi Arabia (SRO)	5
Trailers for Arabia Saudita (SAR)	23
Local trains for Auckland	39
Local trains for Belo-Horizonte	28
Local trains for CPTM	8
Sao Paulo Metro	24
Rome Metro	12
Helsinki Metro	8
Medellin Metro	3
Tram for Granada	35
Tram for Birmingham	10
Tram for Stockholm (4 modules)	4
Tram for Sidney	30
Tram for Kaohsiung	10
Tram for Friburgo	35
Tram for Tallinn	21

Tram for Budapest	54
Tram for Houston	42
TOTAL	**417**

BOGIES	Number
With welded frame	502

WHEELS AND COMPONENTS	Number
Wheel-set bearings (Engine + Trailer)	1.988
Loose axle assemblies	4.345
One-piece wheels	30.855
Elastic tyres	469
Couplings	494
Reduction gears	952
Solid tyres	109

HUMAN RESOURCES

In the first half of 2015, the payroll's evolution of the consolidated Group is as follows:

	PERMANENT	TOTAL	PERIOD AVERAGE
30.06.2014	7,199	8,035	7,872
30.06.2015	7,348	7,747	7,963

The Group's payroll decreased significantly during the period.

Specifically, the average headcounts for the six-month periods ended on 30 June 2015 was 7,747 employees and at 31 December 2014 8,206 which represents a decrease of 459 employees, that represents a 5.6% decrease.

ENVIRONMENTAL ACTIVITY

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

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

Additionally, in May 2015, 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 integrates methods and tools into its design processes that enable it to assess and select the best product solutions and configurations using:

- Recyclability analysis in accordance with the ISO 22628 standard to select the best materials.
- Analysis of the life cycle in accordance with the ISO 14040 standard for the environmental evaluation of the product in each stage of its life cycle.

As a result, in the first six months of 2015 CAF renewed, in accordance with the ISO 14025 standard and the UNIFE-Environdec PCR industry standard, the independent verification of the environmental product declaration (EPD) for the Urbos tram in Zaragoza which is posted, together with the declarations performed in prior years for the Civity regional train for the Friuli Venezia Giulia Autonomous Community and the tram in Stockholm, on the website of International EPD System (http://www.environdec.com).

Furthermore, it is worth noticing that greenhouse gas emissions during the first half of 2015 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 2015 totalled EUR 2,758 thousand. The most noteworthy investments included the following:

In the rolling stock business unit, following completion of the investments carried out to optimise and automate the wheel machining line, investments were made in the initial engineering and study phase for the implementation of the axle automated machining and verification line, and will continue beyond 2015 and into coming years.

In the vehicles business unit, investments in 2015 are focused mainly on updating the facilities in general and on the review and improvement of issues relating to safety and occupational risk prevention.

In the other areas, of particular note from an IT perspective, was the development and upgrade of IT software and hardware, with the enhanced capacity in processes, as well the increased storage capacity called for by the organisation in order to respond to growth and the current influx of new projects.

Added to this were the significant investments made in the first six months of 2015 at the subsidiary Vectia Mobility R&D, for product development, as well as those carried out at various maintenance centres owned abroad, required in some cases, at the beginning of new projects and in others due to the increase in 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 2015-2017 period was defined during the first months of the year with the approval of a total of 57 new projects for CAF and its affiliates. The total number of projects within the scope of the ongoing technology plan in 2015 is 106.

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

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

The technology plan developed during 2015 puts an emphasis on the projects in which CAF, CAF I+D and the various subsidiaries are involved, maintaining a close collaboration with the different technological centres and universities.

The projects under the 2015-2017 Technology Plan encompass the following fields:

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

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

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

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

- European Projects:

    - SAFEJOINT for developing metal-metal and metal-composite hybrid structures.
    - REFRESCO for developing solutions of composite housing structures.
    - OSIRIS aimed at reduced energy consumption in urban railway transportation, involving the sector's leading companies.
    - MERLIN for establishing energy management strategies at network global level and for developing tools for optimising consumption and costs related to a railway network.
    - NGTC for interface studies between the ERTMS and satellite positioning module.

- ROLL2RAIL: A 2-year project, preliminary projects to Shift^{2}Rail and with technical leadership by CAF. Involving the main manufacturers of European rail rolling-stock in the investigation of traction-, body- TCMS- and bogie-related issues.

As for the European projects, it should be highlighted that CAF, as one of the eight founding members of the Shift^{2}Rail Joint Undertaking (JU) to promote railway R&D activity as part of the Horizon 2020 programme, is participating in the basic development of the JU, from which will come out R&D projects to develop from 2016.

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

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

The most relevant engineering projects undertaken by the Group during this year were as follows:

- Cagliari tram (Italy)
- LRV for Boston Metro (USA)
- UTO for Santiago de Chile Metro (Chile)
- Euskotren s/950 electric units
- Civity train for NS (Netherlands)
- Kansas tram (USA)
- Budapest tram (Hungary)
- UTO for Istanbul (Turkey)

The following engineering projects entered into service in the first 6 months of 2015:

- Trailer cars for Caledonian (UK)
- Utrech tram (Holland)
- St. Etienne tram (France)
- OARIS trains for Flytoget (Norway)
- Electric Units for Toluca (Mexico)

The CAF Group has also carried out work on the basic development of new types of vehicles to extend its product range.

RISK MANAGEMENT POLICY

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

1.- Financial risks

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

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

a) Market risk

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

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

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

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

b) Credit risk

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

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

c) Liquidity risk

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

CAF Group manages liquidity risk by:

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

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

d) Cash flow and fair value interest rate risk

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

e) Risks arising from variances with respect to project budgets

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

2.- Risks derived from environmental damage

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

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

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

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

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

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

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

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

OUTLOOK

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

- Development of the Group’s potential in railway-related services, such as concessions, and train lease and maintenance.
- Development of the Group’s potential in turnkey systems and railway signalling, offering complete ready-to-operate systems with the use of alliances if necessary.
- Development of new rolling stock systems and vehicles, together with the implementation of advanced comprehensive project management systems.
- Ongoing strengthening of the Group's presence in international railway material markets.
- Ongoing systematic rollout of cost-reduction and quality improvement programmes to all Group business areas.
- Ongoing adaptation of the organisation, processes and systems in a changing scenario based mainly on foreign markets with a variety of cultures and requirements.
- Ongoing implementation of a process based management model.

EVENTS AFTER YEAR-END

No significant events occurred after the end of the period.