INTERIM DIRECTORS' REPORT

OF THE CONSOLIDATED GROUP

FOR THE SIX-MONTH PERIOD

ENDED ON 30 JUNE 2013

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

RESULTS

The first half of 2013 presented the following economic parameters:

- The income statement showed profits from continuing operations, in the amount of EUR 49,983 thousand after tax and EUR 60,128 thousand before tax, vis-à-vis EUR 61,899 thousand and EUR 80,963 thousand respectively for the same period of the previous year, which implies a lower result of 19% and 26% respectively. Said lower result before tax is mainly due to the negative effect stemming from an extraordinary allocation for write-offs of fixed assets, mainly intangible, in an amount of approximately EUR 21,441 thousand, and, to a lesser extent, to the effect of a drop in sales.

- Corporate tax rate decreased from 23% to 17% mainly due to the effect this expense had on the revaluation of assets made in accordance with Regional Regulation 1/2013, approved at the Company's Annual General Meeting held last 8 June.

- Depreciation and amortisation charge amounted to EUR 44,805 thousand, which, if added to the profit(loss) for the year from continuing operations before tax, implied a cash-flow totalling EUR 104,933 thousand, which is approximately 3% higher than that for the same period of the previous year, which was EUR 101,927 thousand.

- EBITDA from continuing operations amounted to EUR 120,393 thousand, i.e., about 8% higher than that for the same period of the previous year, which was EUR 111,856 thousand.

- Revenue from continuing operations totalled EUR 780,901 thousand, i.e., 17% lower than that for the previous year, which was EUR 935,661 thousand.

- Backlog at 30 June 2013 totalled EUR 4,933,777 thousand, which is practically the same as that for the previous year, which totalled EUR 4,941,428 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 2013 first semester.

BUSINESS

The business activity for this first half of the year was, once again, export-oriented, the most significant contribution of the domestic market being the award of the contract for the installation of the security and telecommunications systems of a stretch of the Atlantic High-speed Railway Line in favour of the consortium in which CAF is involved.

Analysing the export market by country, the contract for supplying 12 low-floor trams consisting of 7 modules by the company responsible for the Public Transport of Freiburg (Germany) is worth noticing.

In the Republic of Estonia, and specifically the tram operator of the capital city, Tallinn, formalised an order for 16 trams consisting of 3 modules, equipped with the ACR (Rapid Charge Accumulator) system, which results in a significant decrease of power consumption by the tram.

In Italy, we have been awarded two contracts, one for the city of Cagliari, in the island of Sardinia, where 3 tramway cars of 5 modules have been acquired. In this case, the contract includes the option to increase the initial number ordered. The other implies a contract for 2 electric units consisting of 4 carriages each, by the company Ferrotramviaria S.p.A., with registered offices in the city of Bari, to be operated in Ferrovie del Nord Barese.

In addition to these contracts in Europe, the tram operator of the English city of Birmingham has extended the existing tram order up to 20 units.

In Asia, we have been awarded the turnkey provision of trams, signalling, electrification and ticketing system formalised for the light-train system of Kaoshiung, second city of Taiwan, within a consortium with a local construction company. The first phase of this light-train system is almost 9 km long and will be catenary-free due to the ACR system included in Urbos 3 trams.

In America, and particularly for Metro of the city of Valencia (Venezuela), CAF has been awarded the design of 36 units consisting of 2 carriages that will run across line 2, currently under construction, and which will be engineered for automatic driving.

In Brazil, a 5-year contract was formalised with CPTM for the provision of integral maintenance services related to the trains series 7000 and 7500, both constructed by CAF for Compañía Paulista de Trenes Metropolitanos (CPTM). Such company has awarded another contract to CAF for the provision of 35 units consisting of 8 carriages for transport in the Metropolitan Region of Sao Paulo.

INDUSTRIAL ACTIVITY

During the first half of 2013, several projects were completed, such as the PPP contract, series 5000, for Compañía Paulista de Trenes Metropolitanos (CPTM) in Sao Paulo (Brazil), the 48 trains of the contract subscribed with the Caracas Metro, the last 8 train units for Line 12 of the Mexico City Metro, the contract for 30 trams for the city of Belgrade with the delivery of the last 3 trains, the 12 trams for the city of Nantes, the 8 Civity train units for Trieste, and the 3 Civity trains for the Republic of Montenegro, as well as the 14 trains for the Chile Metro.

Also during such period, 3 diesel traction trains of 3 carriages were delivered to Sardinia in Italy, a tram for the city of Malaga, 6 trams for the city of Stockholm, and 2 trams for the city of Debrecen. Likewise, the first 3 trams for the city of Cuiaba in Brazil were completed, as well as 5 train units for Euskotren and 10 trains for the city of Recife in Brazil.

Regarding the new projects that are now being started, the following should be highlighted: the advanced state of manufacturing of the first trams for the Besançon project in France, the first trams for the city of Birmingham in England, the first trains of the Auckland project in New Zealand, and the project for the Bucharest Metro, as well as the trams for the city of Houston.

The most important products manufactured during the first half of 2013 include:

	No. of Carriages
Medium-distance Civity unit for Trieste	15
Medium-distance for Montenegro	9
Medium-distance for Sardinia	9
Euskotren Commuter Rail	20
Sao Paulo PPP-5000 Commuter Rail	8
Recife Commuter Rail	40
Mexico City Metro Line 12	14
Caracas Metro	21
Chile Metro	27
Metro Tramway for Malaga	5
Tramway for Belgrade	15
Tramway for Nantes	10
Tramway for Stockholm	18
Tramway for Debrecen	10
Tramway for Cuiaba	21
Tramway for Besançon	3
TOTAL	**245**

BOGIES	
With welded steel frame	598

ROLLING STOCK UNITS

Assembled axles (Engine + Trailer)	3,694
Loose axle bodies	5,683
Wheels	27,201
Couplers	374
Reducers	830
Cushion tyres	520

HUMAN RESOURCES

Evolution of the consolidated Group's payroll over the first half of 2013 was as follows:

	PERMANENT	TOTAL	PERIOD AVERAGE
30.06.2012	6,334	6,966	7,043
30.06.2013	6,684	7,464	7,322

The increase is mainly due to the full integration of the subsidiary Actren into the industrial scope of the Group.

ENVIRONMENTAL ACTIVITY

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

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

Additionally, in February 2013, an audit was successfully performed at the Beasain, Irún and Zaragoza plants to renew the ISO14001:2004 certificate related to the Environmental Management System.

The actions in this field 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, CAF has prepared Environmental Product Declarations pursuant to ISO 14025, verified with the Unife and Environdec PCR 2009:05 sector standards. In particular, in September 2011, the declaration for Zaragoza’s Urbos 3 tram was made public; and in August 2012, the one for Civity train for the autonomous region of Friuli Venezia Giulia. Another EPD of Urbos 4 tram for the city of Stockholm will be published shortly, and a life-cycle assessment (LCA) and relevant EPD of the Metro project for the city of Helsinki is planned to be carried out throughout the 2013-2015 period.

For reference purposes, it is worth noticing that greenhouse gas emissions during the first half of 2013 were below its emission allowances, pursuant to the Kyoto Protocol.

INVESTMENTS

CAF's investments in property, plant and equipment during the first half of 2013 totalled EUR 20,295 thousand. The most significant investments during these first six months of the year include:

In the Rolling Stock Business Unit, in addition to the completion of the improvement works on the furnace started last year with the aim of increasing its capacity, the last phase of the investments for optimising and automating the wheel machining line is being developed, including the installation of a second machining cell as an essential action for this year. Furthermore, the environmental investment consisting in installing a new fume capturing and filtering system in the steelworks facility that started two years ago was completed.

Regarding the Vehicles Unit, noteworthy are the acquisition of a new bogies verification press and the completion of the equipping of the new plant for manufacturing austenitic stainless steel structures. Similarly, the policy is to develop and update the other installations where the production process of the current contracts is being carried out.

In the Engineering and IT Area, technical resources, tools, new design stations and IT equipment in general are constantly being introduced to meet the new requirements. In addition, a significant investment is being made in new storage equipment, backup and servers, due to the strong growth experienced.

Lastly, the investments in the Elmira plant (USA) in this first half of the year are also worth mentioning. Such investments started last year and are basically for streamlining purposes –particularly in the structure and finishing area–, as well as for the expansion of the test plant, in order to carry out the projects that the company is developing at present in such country.

TECHNOLOGICAL DEVELOPMENT

With respect to CAF and CAF I+D, the CAF Group's technology plan for the 2013-2015 period was defined during the first months of the year with the approval of a total of 24 new projects for CAF and its affiliates. The total number of projects within the scope of the ongoing technology plan in 2013 is 85.

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 2013 puts an emphasis on the projects in which CAF, CAF I+D and the various affiliates are involved, maintaining a close collaboration with the different technological centres and universities.

The projects under the 2011-2013 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, 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 moving location.
- Development of elastic wheels for trams and reducers.

This series of projects entails the set of track tests performed with the OARIS high-speed rail prototype both at 300 km/h and at 350 km/h. In view of the results obtained with this prototype, the rest of the testing programme planned for this year may be undertaken with confidence.

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

- European Projects:

  - TREND aimed at EMC validation environments on railway vehicles.
  - 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.
  - Dynotrain, Aerotrain and Euroaxles aimed at facilitating current certification processes and in which CAF and CAF I+D take part.

Within the framework of European projects, CAF, together with the sector's leading companies, has continued working in the Shift^{2}Rail European initiative to promote railway R&D within the framework of the Horizon 2020 programme.

Regarding the technological plans of the affiliates, the following is worth noticing:

- Commissioning of the energy accumulation system and catenary-free stand-alone operation of the Zaragoza tramway system, and future implementation on the trams of Granada, Kaohsiung (Taiwan) and Cuiaba (Brazil).
- Development of traction equipment covering a catenary voltage range of up to 25 kV, which has made it possible to sell it as part of a project with Indian Railways.
- Commissioning of the CAF trains for Euskotren, which are fitted with video-information and video-surveillance equipment, among others, developed under the Traintic Technology Plan.
- Continued development of ERTMS track and moving products.

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

- Dual voltage Civity train for Trieste (Italy)
- Trailers for Amtrak (USA)
- Sao Paulo Metro – Line 5 (Brazil)
- Roma Metro – Line B (Italy)
- Nantes Tramway (France)
- Tramway for Houston (USA)
- Electric units for Auckland (New Zealand)
- Civity train for Montenegro
- Bucharest Metro (Rumania)
- Helsinki UTO Metro (Finland)
- Calcutta Metro (India)
- Birmingham Tramway (UK)
- Cincinnati Tramway (USA)
- Cuiabá Tramway (Brazil)
- Sydney Tramway (Australia)

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

- Tallinn Tramway (Estonia)
- Kaohsiung Tramway (Taiwan)
- Freiburg Tramway (Germany)
- Light-train for Valencia (Venezuela)

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, Indian rupee, Swedish krona 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:

- Seeking the highest possible level of self-financing with respect to each of the contracts.
- 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 from borrowings. The Group's policy for current transactions is to resort to borrowing funds from third parties through short-term debt tied to floating market indices, usually Euribor, only in specified projects, which helps to substantially reduce the interest rate risk. 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.- Risks arising from harm caused to third parties as a result of deficiencies or delays in the provision of services

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 few years will be focused on the following issues:

- Developing the Group's potential for the business of railway services, such as train lease and maintenance and concessions.
- Developing the Group's potential for turnkey systems and railway signalling areas.
- Developing new rolling stock systems and vehicles, and implementing advanced integral project management systems.
- Expanding the Group's presence in international railway markets.
- Applying systematic and permanent cost reduction programmes in all of the Group's business areas.

EVENTS AFTER THE REPORTING PERIOD

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