# TALGO, S.A.
# AND SUBSIDIARIES

Abbreviated Consolidated Interim Financial Statements for the six months ended 30 June 2015.

**Translation of abbreviated consolidated interim financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails."*

**TALGO, S.A. AND SUBSIDIARIES**

**ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 31 DECEMBER 2014**
(Expressed in thousands of euros)

| | Notes | 30.06.2015 | 31.12.2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 4 | 70 135 | 70 898 |
| Intangible assets | 5 | 63 883 | 66 156 |
| Goodwill | 6 | 112 439 | 112 439 |
| Investment in associates | 8 | 10 | 10 |
| Deferred tax assets | 15 | 7 997 | 13 955 |
| Other financial assets | 8 | 27 019 | 3 664 |
| | | **281 483** | **267 122** |
| **Current assets** | | | |
| Non-current assets held for sale | | 6 114 | 6 114 |
| Stock | 10 | 87 775 | 71 723 |
| Customers and other accounts receivable | 9,17 | 236 694 | 158 470 |
| Other financial assets | 8 | 128 | 167 |
| Asset accruals | | 1 667 | 1 803 |
| Cash and cash equivalents | 11 | 17 223 | 87 910 |
| | | **349 601** | **326 187** |
| **TOTAL ASSETS** | | **631 084** | **593 309** |

Notes 1 to 21 form an integral part of the abbreviated consolidated statement of financial position for the six months ended 30 June 2015.

## TALGO, S.A. AND SUBSIDIARIES

## ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 31 DECEMBER 2014

(Expressed in thousands of euros)

| | Notes | 30.06.2015 | 31.12.2014 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to the owners of the Parent Company** | | | |
| Share capital | 12 | 41 187 | 41 187 |
| Share premium | 12 | 68 451 | 68 451 |
| Other reserves | 12 | 4 425 | 2 608 |
| Retained earnings | 12 | 47 625 | 106 855 |
| Other equity instruments | 12 | 33 724 | 30 512 |
| | | **195 412** | **249 613** |
| **Non-controlling interests** | | | |
| **Total equity** | | **195 412** | **249 613** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 160 525 | 73 809 |
| Deferred tax liabilities | 15 | 3 605 | 3 565 |
| Provisions for other liabilities and charges | 16 | 23 722 | 22 910 |
| Government grants | | 4 490 | 5 101 |
| | | **192 342** | **105 385** |
| **Current liabilities** | | | |
| Suppliers and other payables | 14,17 | 177 240 | 222 245 |
| Current tax liabilities | | - | 125 |
| Borrowings | 13 | 62 694 | 12 379 |
| Provisions for other liabilities and charges | 16 | 3 396 | 3 562 |
| | | **243 330** | **238 311** |
| **Total liabilities** | | **435 672** | **343 696** |
| **TOTAL EQUITY AND LIABILITIES** | | **631 084** | **593 309** |

Notes 1 to 21 form an integral part of the abbreviated consolidated statement of financial position for the six months ended 30 June 2015.

## TALGO, S.A. AND SUBSIDIARIES

## ABBREVIATED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

(Expressed in thousands of euros)

| | | Notes | 30.06.15 | 30.06.14 |
|---|---|---|---|---|
| **Net turnover** | | | **213 996** | **178 630** |
| Other income | | | 975 | 246 |
| Stock variation for work-in-progress and finished goods | | | 3 512 | ( 878) |
| Work performed and capitalized by the Company | | | 2 500 | 3 242 |
| Procurement costs | | | ( 103 671) | ( 82 023) |
| Personnel costs | | 18 | ( 50 836) | ( 47 681) |
| Other operating expenses | | | ( 22 331) | ( 22 381) |
| Amortization and depreciation charge | | 4,5 | ( 9 004) | ( 8 442) |
| Loss on disposal of fixed assets | | | 12 | - |
| Other results | | | ( 4 914) | 104 |
| **Operating profit** | | | **30 239** | **20 817** |
| Financial income | | 19 | 393 | 1 163 |
| Financial expenses | | 19 | ( 2 743) | ( 3 774) |
| **Net financial result** | | | **( 2 350)** | **( 2 611)** |
| **Profit before tax** | | | **27 889** | **18 206** |
| Income tax charge | | 15 | ( 4 350) | ( 3 249) |
| **Profit for the year from continuing operations** | | | **23 539** | **14 957** |
| **Profit for the year** | | | **23 539** | **14 957** |
| Attributable to: | | | | |
| Owners of the parent | | 12 | 23 539 | 14 957 |
| Non-controlling interests | | | - | - |
| **Basic earnings per share attributable to the owners of the Company** | | | | |
| Continuing operations | | 12 | 0.34(*) | 10.93 |
| | **Total** | | **0.34(*)** | **10.93** |
| **Diluted earnings per share attributable to the owners of the Company** | | | | |
| Continuing operations | | 12 | 0.34(*) | 10.93 |
| | **Total** | | **0.34(*)** | **10.93** |

Notes 1 to 21 form an integral part of the abbreviated consolidated interim income statement for the six months ended 30 June 2015.

(*) The number of shares comprising the share capital has been split in the ratio of 1 to 100, Note 12.

**TALGO, S.A. AND SUBSIDIARIES**

**ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014**
(Expressed in thousands of euros)

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| **Profit for the year** | **23 539** | **14 957** |
| **Other comprehensive income:** | | |
| Cash flow hedges: | - | - |
| | | |
| Direct assignment to equity: | | |
| Cash flow hedge | - | - |
| Tax effect of the equity assignment | - | - |
| | | |
| Transfer to results: | | |
| Cash flow hedge | - | - |
| Tax effect of the cash flow hedge | - | - |
| | | |
| Foreign currency translation differences | 1 817 | ( 215) |
| **Total other comprehensive income** | **1 817** | **( 215)** |
| | | |
| **Total comprehensive income for the year** | | |
| Attributable to: | | |
| -Owners of the parent | 25 356 | 14 742 |
| -Non-controlling interests | - | - |
| | | |
| **Total comprehensive income for the year** | **25 356** | **14 742** |

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of comprehensive income for the six months ended 30 June 2015.

## TALGO, S.A. AND SUBSIDIARIES

## ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

(Expressed in thousands of euros)

| | Attributable to the owners of the company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital (Note 12)** | **Retained earnings** | **Share premium** | **Other equity instruments (Note 12)** | **Other reserves (Note 12)** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance at 31 December 2013** | **41 187** | **68 405** | **68 451** | **12 152** | **101** | **190 296** | **-** | **190 296** |
| **Comprehensive income** | | | | | | | | |
| Profit or loss | - | 14 957 | - | - | - | 14 957 | - | 14 957 |
| **Other comprehensive Income** | | | | | | | | |
| Currency exchange differences | - | - | - | - | ( 215) | ( 215) | - | ( 215) |
| **Total comprehensive Income** | **41 187** | **83 362** | **68 451** | **12 152** | **( 114)** | **205 038** | **-** | **205 038** |
| **Transactions with owners** | | | | | | | | |
| Other movements | - | ( 40) | - | 5 012 | - | 4 972 | - | 4 972 |
| **Total transactions with owners** | **-** | **( 40)** | **-** | **5 012** | **-** | **4 972** | **-** | **4 972** |
| **Balance at 30 June 2014** | **41 187** | **83 322** | **68 451** | **17 164** | **( 114)** | **210 010** | **-** | **210 010** |
| **Balance at 31 December 2014** | **41 187** | **106 855** | **68 451** | **30 512** | **2 608** | **249 613** | **-** | **249 613** |
| **Comprehensive income** | | | | | | | | |
| Profit or loss | - | 23 539 | - | - | - | 23 539 | - | 23 539 |
| **Other comprehensive Income** | | | | | | | | |
| Currency exchange differences | - | - | - | - | 1 817 | 1 817 | - | 1 817 |
| **Total comprehensive Income** | **-** | **23 539** | **-** | **-** | **1 817** | **25 356** | **-** | **25 356** |
| **Transactions with owners** | | | | | | | | |
| Other movements | - | (82 769) | - | 3 212 | - | (79 557) | - | (79 557) |
| **Total transactions with owners** | **-** | **(82 769)** | **-** | **3 212** | **-** | **(79 557)** | **-** | **(79 557)** |
| **Balance at 30 June 2015** | **41 187** | **47 625** | **68 451** | **33 724** | **4 425** | **195 412** | **-** | **195 412** |

Notes 1 to 21 form an integral part of the abbreviated consolidated interim statement of changes in equity for the six months ended 30 June 2015.

## TALGO, S.A. AND SUBSIDIARIES

## ABBREVIATED CONSOLIDATED INTERIM STATEMENT OF CASHFLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

(Expressed in thousands of euros)

| | 30.06.15 | 30.06.14 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Cash used in operations** | **( 66 906)** | **(12 290)** |
| Interest paid | ( 2 219) | ( 3 851) |
| Interest received | 114 | 947 |
| Tax paid | ( 2 317) | ( 3 578) |
| **Net cash flow generated from operating activities** | **( 71 328)** | **(18 772)** |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | ( 2 463) | (10 101) |
| Purchases of intangible assets | ( 3 472) | ( 2 767) |
| Other assets | ( 23 000) | - |
| Acquisitions by Group Companies | - | - |
| Loans to third parties | - | - |
| **Net cash used in investing activities** | **( 28 935)** | **(12 868)** |
| **Cash flows from financing activities** | | |
| Payments with equity instruments | (107 436) | - |
| Disbursements for loan repayments | ( 5 315) | ( 1 167) |
| Proceeds from borrowings | 142 327 | 10 000 |
| Dividends and loans to related parties | - | - |
| Grants received | - | 113 |
| **Net cash used / (generated) in financing activities** | | **8 946** |
| **(Net (decrease)/increase in cash, cash equivalents and bank overdrafts** | **( 70 687)** | **(22 694)** |
| Cash, cash equivalents and bank overdrafts at the beginning of year | 87 910 | 95 986 |
| Cash, cash equivalents and bank overdrafts at the end of year | 17 223 | 73 292 |

Notes 1 to 21 form an integral part of the abbreviated consolidated statement of cash flows corresponding to the six months ended 30 June 2015.

**SUMMARY**

**TALGO, S.A. AND SUBSIDIARIES**

**NOTES TO THE ABBREVIATED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2015**
(Expressed in thousands of euros)

## 1. General Information

Talgo, S.A. (formerly known as Pegaso Rail International, S.A. and hereinafter the "Parent Company") was constituted as a limited company in Spain on 30 September 2005. The Company's registered office for corporate and tax purposes is in Las Rozas, Madrid (Spain) and the Company is duly registered in the Commercial Registry of Madrid. On 28 March 2015, the company changed its name from Pegaso Rail International, S.A. to Talgo, S.A., this name change was duly registered in the Commercial Registry of Madrid on 9 April 2015.

On 28 March 2015, the General Shareholder's Meeting of the Parent Company approved the application for the admission to trading of the Company's shares on the Spanish stock exchange, as well as their inclusion in the Spanish Stock Exchange Interconnection System.

On 23 April 2015, the National Securities Market Commission approved the prospectus and registered the supporting documents, annual accounts and prospectus in the official registers, as provided for by Article 92 of Law 24/1988, dated 28 July 1988 governing the Securities Market, in relation to the share Sales Offer aimed at qualifying investors, for the subsequent admission to trading of Talgo, S.A. shares on the Stock Exchanges of Madrid, Barcelona, Valencia and Bilbao.

On 7 May 2015, an Initial Public Offering was made for 45% of the shares in the Company and they were admitted to trading on the aforementioned markets.

The main activity of the Parent Company and its subsidiaries (the Group) is the design, manufacture and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems. According to Article 2[...] of the Company's bylaws, Talgo, S.A. has the following corporate purpose:

a) The manufacture, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of transport material, systems and equipment, especially relating to the railway sector.

b) The manufacture, assembly, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of engines, machinery and parts and components thereof, intended for the electromechanical, iron & steel and transport industries.

c) The research and development of products and technologies relating to the previous two paragraphs, along with the acquisition, operation, assignment and disposal of patents and trademarks relating to the corporate activity.

d) The subscription, acquisition, disposal, possession and administration of stocks, shares, or interests, within the limits set forth by the regulations governing the stock market, collective investment companies and other regulations in force that may apply.

e) The purchase, restoration, redesign, construction, leasing, promotion, operation and sale of all types of real estate.

## 2. Summary of the main accounting policies applied in the preparation of the abbreviated consolidated interim accounts for the six months ended 30 June 2015.

### 2.1 Basis of presentation

These Abbreviated Consolidated Interim Financial Statements are presented in accordance with IAS 34 on Interim Financial Information were drawn up by the Administrators of the Board meeting which was held on 16 July 2015. This consolidated interim financial information has been prepared based on the accountancy records kept by Talgo, S.A. and the other companies forming part of the Group, and includes the adjustments and re-classifications necessary to achieve uniformity between the accountancy and presentation criteria followed by all the companies of the Group in accordance with the International Financial Reporting Standards (henceforth IFRSs).

In accordance with that established by IAS 34, interim financial information is prepared solely in order to update the most recent consolidated annual accounts drawn up by the Group, placing emphasis on new activities, occurrences and circumstances that have taken place during these six months and not duplicating the information previously published in the consolidated annual accounts of the 2014 financial year. Therefore, adequate understanding of the information, these Abbreviated Consolidated Interim Financial Statements must be read jointly with Consolidated Annual Accounts corresponding to the 2014 financial year.

The Accounting Policies adopted in the drafting of the Abbreviated Consolidated Interim Financial Statements are consistent with those established in Consolidated Annual Accounts corresponding to the 2014 financial year, except for the standards and understanding that have come into force during the first half of 2015 and are detailed below.

#### 2.1.1 Changes in accounting criteria

During first half of 2015 financial year no changes were made in the accounting criteria with respect to the criteria applied in 2014.

#### 2.1.2 Entrance into force of new accounting standards

During first half of 2015, the following interpretation of the standards came into effect and have already been adopted by the European Union. Where applicable and appropriate, the Group has applied these rules in its preparation of the Abbreviated Consolidated Interim Financial Statements.

(Expressed in thousands of euros)

2.2.1. Mandatory standards, interpretations and amendments for financial years beginning on or after 1 January 2015:

| **New standards, modifications and interpretations:** | | **Obligatory application for financial years starting on or after:** |
|---|---|---|
| **Approved for use in the European Union** | | |
| IFRIC 21 Levies (published in May 2013) | Interpretation about when to recognize a liability for fees or levies that are conditional on an entity's participation in an activity on a specific date. | 17 June 2014 (1) |
| Annual improvements 2010-2012 (published in Dec 2013) | Minor amendments to a set of standards | 1 January 2015 (2) |

1) The European Union has endorsed IFRIC 21 (EU Bulletin 14 June 2014) and amended the effective date established by the IASB (1 January 2014) to 17 June 2014.
2) The original application date set by the IASB was 1 July 2014.

2.2.2. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2015 (applicable from 2016 onwards):

| **Approved for use in the European Union** | | **Obligatory application for financial years starting on or after:** |
|---|---|---|
| Amendment to IAS 19 – Employee contributions to defined benefit plans (published in November 2013) | The amendment was issued to facilitate the possibility of deducting these contributions from the service cost in the same period they are paid if certain requirements are fulfilled. | 1 February 2015 (1) |
| Annual improvements 2010-2012 (published in December 2013) | Minor amendments to a set of standards | 1 February 2015 (1) |
| **Not approved for use in the European Union** | | **Obligatory application for financial years starting on or after:** |
| **New standards** | | |
| IFRS 15 Revenue from contracts with customers (published in May 2014) | New revenue recognition standard (which replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31) | 1 January 2017 (2) |
| IFRS 9 Financial instruments (final stage published in July 2014) | Replaces the requirements for classification, valuation of financial assets and liabilities, derecognition and hedge accounting established by IAS 39 | 1 January 2018 |
| **Amendment and/or understanding** | | |
| Amendment to IAS 16 and IAS 38 – Acceptable methods of depreciation and amortization (published in May 2014) | Clarifies the acceptable methods for amortizing and depreciating tangible and intangible assets | 1 January 2016 |

(Expressed in thousands of euros)

| | | |
|---|---|---|
| Amendment to IFRS 11 Accounting for the acquisition of participations in joint ventures (published in May 2014) | Specifies how to account for the acquisition of a participation in a joint venture whose activity constitutes a business. | 1 January 2016 |
| Annual improvements 2010-2012 (published in September 2014) | Minor amendments a set of standards | 1 January 2016 |
| Amendment to IAS 10 and IAS 28 On the sale or contribution of assets between an investor and its associate or joint venture. (published in September 2014) | Clarification regarding the results of these operations if they involve businesses or assets | 1 January 2016 |
| Amendments to IAS 27, 'Separate financial statements' on equity method in separate financial statements. (published in Augst 2014) | The equity method will be permitted in investors' individual financial statements | 1 January 2016 |
| Transition rules: Amendment of IFRS 10, 11 and 12 (published in December 2014) | Clarification of the transition rules that apply to these standards. | 1 January 2016 |
| Amendments to IAS 1: Presentation of Financial Statements (published in December 2014) | Various clarifications regarding disclosures (materiality, aggregation, the order of notes, etc.) | 1 January 2016 |
| Amendments to IAS 16 and IAS 41: Property, Plant and Equipment (published in June 2014) | Production plants will be carried at cost, rather than at fair value | 1 January 2016 |

Currently, the Group is evaluating the impact that the future application of these standards will have on the annual accounts when they come into force. The Group's preliminary evaluation concludes that the impact of the application of these standards will not be significant in the drafting of the Consolidated Summary Half-Yearly Financial Statements at 30 June 2015

## 2.3 Variations in the consolidation perimeter

No changes were made to the consolidation perimeter during first half of 2015. The payment made in May 2015 for the purchase of 51 % of the company Tulpar Talgo LLP is subject to third parties approve the final purchase of that company, so that until all approvals are produced by those third parties, the investment may not be registered or their inclusion in the consolidated group (note 8.d)

## 2.4 Significant accounting estimates and judgements

The consolidated results and calculation of consolidated equity are sensitive to the accounting principles and policies, valuation criteria and estimations adopted by the Directors of the Parent Company during the preparation of these abbreviated consolidated interim financial statements. The main principles, accounting policies and valuation criteria are detailed in Note 4 of the consolidated annual accounts for 2014.

Estimates and judgements are assessed on an on-going basis and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable in normal circumstances.

The Group makes estimates and assumptions regarding the future. The resulting accounting estimates, by definition, are seldom equal to the corresponding actual results. Below we explain the most significant estimates and judgements made by the Group's Management.

- Estimated loss due to impairment of goodwill.
- Tax on profits and assets of a tax nature that are recognised in interim periods in accordance with IAS 34, based on the best estimate of the weighted tax rate that the Group expects for the annual period.
- Revenue recognition by percentage completion.
- Useful lives of intangible and tangible fixed assets.
- Calculation of provisions.
- The evolution of costs estimated in the budgets of the projects of completed works.

2.5 Contingent assets and liabilities

In Note 25 of the Group's consolidated annual accounts for the year ended 31 December 2014, information was provided about the contingent assets and liabilities as at that date.

During the first half of 2015, additional liabilities may arise in the event of a tax inspection, as a result of the different possible interpretations of the governing tax legislation, amongst other factors. In any case, the Directors consider that those liabilities, in the event that they were to arise, would not significantly affect the abbreviated consolidated financial statements.

## 3. Segment reporting

Management has determined the operating segments based on the reports reviewed by the Board of Directors, which are used to make strategic decisions, analyze segment performance and allocate resources accordingly.

The Board of Directors monitors the business from a business line perspective, analyzing the performance of the following operating segments: Rolling stock, Auxiliary machines and Others, which are reflected in the reportable segments. The Board of Directors uses Operating Profit to assess the performance of the segments.

The "Rolling stock" segment includes both manufacturing activity and the maintenance of trains manufactured using Talgo technology, since these activities are closely related.

Likewise, the "Auxiliary machines and Others" segment primarily includes the manufacture and maintenance of lathes and other equipment, as well as repairs, modifications and the sale of spare parts.

The "General" segment includes general corporate expenses not directly assignable to other segments.

The segment information supplied to the Board of Directors of Talgo, S.A. for decision making relating to the six month period ended at 30 June 2015 and 30 June 2014, was obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

| | | | | **30.06.15** |
|---|---|---|---|---|
| | | | | **€ in thousands** |
| | **Rolling stock** | **Auxiliary machines and others** | **General** | **Total** |
| Total segment revenues | 201 201 | 12 795 | - | 213 996 |
| Inter-segment revenues | - | - | - | - |
| **Ordinary revenues from external customers** | **201 201** | **12 795** | **-** | **213 996** |
| Amortization and depreciation charge | 8 471 | 12 | 521 | 9 004 |
| **Operating result** | **43 399** | **3 927** | **(17 087)** | **30 239** |
| Financial income | 365 | 28 | - | 393 |
| Financial expenses | ( 2 388) | ( 166) | ( 189) | ( 2 743) |
| **Result before tax** | **41 376** | **3 789** | **(17 276)** | **27 889** |
| **Total Assets** | **551 433** | **31 441** | **48 210** | **631 084** |
| **Total Liabilities** | **271 333** | **13 131** | **151 208** | **435 672** |
| **Fixed asset investments** | **5 254** | **329** | **352** | **5 935** |

| | Rolling stock | Auxiliary machines and others | General | Total |
|---|---|---|---|---|
| | | | | **30.06.14** |
| | | | | **€ in thousands** |
| Total segment revenues | 170 950 | 7 680 | - | 178 630 |
| Inter-segment revenues | - | - | - | - |
| **Ordinary revenues from external customers** | **170 950** | **7 680** | **-** | **178 630** |
| Amortization and depreciation charge | 7 791 | 20 | 632 | 8 443 |
| **Operating result** | **31 780** | **3 700** | **(14 663)** | **20 817** |
| Financial income | 1 122 | 41 | - | 1 163 |
| Financial expenses | (3 594) | ( 180) | - | (3 774) |
| **Result before tax** | **29 308** | **3 561** | **(14 663)** | **18 206** |
| **Total Assets** | **510 395** | **29 091** | **23 594** | **563 080** |
| **Total Liabilities** | **333 644** | **10 564** | **8 863** | **353 071** |
| **Fixed asset investments** | **12 613** | **172** | **83** | **12 868** |

Ordinary revenues from external customers, total assets and total liabilities, as reported to the Board of Directors, are valued in accordance with the principles consistent with those applied in the annual accounts.

Total net Turnover from external customers for the six month period ended at 30 June 2015 and 2014 was distributed geographically as follows:

| | | **€ in thousands** |
|---|---|---|
| | **30.06.15** | **30.06.14** |
| Spain | 54 271 | 51 799 |
| Rest of Europe | 6 337 | 6 408 |
| USA | 5 737 | 3 471 |
| Middle East and North Africa | 90 236 | 27 390 |
| Commonwealth of Independent States | 57 415 | 89 562 |
| | **213 996** | **178 630** |

Total non-current assets, other than financial instruments and deferred tax assets were distributed geographically as follows in for the six months ended 30 June 2015 and 2014:

| | | **€ in thousands** |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Spain | 238 386 | 238 948 |
| Overseas | 8 071 | 10 545 |
| | **246 457** | **249 493** |

**TALGO, S.A. AND SUBSIDIARIES**

**NOTES TO THE ABBREVIATED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2015**
(Expressed in thousands of euros)

## 4. Tangible fixed assets

The movements in the accounts included within tangible fixed assets, fully depreciated and provisions during first half of 2015 and 31 December 2014 were as follows:

| | Balance at 31.12.14 | Exchange differences | Additions | Disposals | Transfers | Balance at 30.06.15 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Land | 9 894 | - | - | - | - | 9 894 |
| Buildings | 47 443 | 73 | 1 | - | 68 | 47 585 |
| Technical installations and machinery | 27 362 | 151 | 127 | - | 215 | 27 855 |
| Other facilities, tools and furniture | 47 975 | 84 | 177 | ( 47) | 2 282 | 50 471 |
| Advances and work in progress | 4 673 | - | 2 143 | - | ( 2 795) | 4 021 |
| Other fixed assets | 7 277 | 5 | 15 | ( 12) | 230 | 7 515 |
| | 144 624 | 313 | 2 463 | ( 59) | - | 147 341 |
| **Depreciation** | | | | | | |
| Land | - | - | - | - | - | - |
| Buildings | (20 029) | ( 61) | ( 851) | - | - | ( 20 941) |
| Technical installations and machinery | (15 849) | ( 129) | ( 974) | - | - | ( 16 952) |
| Other facilities, tools and furniture | (32 310) | ( 79) | ( 1 301) | 44 | - | ( 33 646) |
| Advances and work in progress | ( 5 538) | ( 3) | ( 136) | 10 | - | ( 5 667) |
| | (73 726) | ( 272) | ( 3 262) | 54 | - | ( 77 206) |
| **Net book value** | **70 898** | **41** | **( 799)** | **( 5)** | **-** | **70 135** |

| | Balance at 31.12.13 | Exchange differences | Additions | Disposals | Transfers | Balance at 31.12.14 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Land | 9 894 | - | - | - | - | 9 894 |
| Buildings | 47 714 | 103 | 56 | - | ( 430) | 47 443 |
| Technical installations and machinery | 20 669 | 201 | 738 | ( 242) | 5 996 | 27 362 |
| Other facilities, tools and furniture | 45 051 | 115 | 108 | (3 282) | 5 983 | 47 975 |
| Advances and work in progress | 7 340 | - | 16 707 | - | (19 374) | 4 673 |
| Other fixed assets | 6 985 | 7 | 57 | ( 101) | 329 | 7 277 |
| | 137 653 | 426 | 17 666 | (3 625) | ( 7 496) | 144 624 |
| **Depreciation** | | | | | | |
| Land | - | - | - | - | - | - |
| Buildings | ( 19 979) | ( 110) | (1 582) | - | 1 642 | ( 20 029) |
| Technical installations and machinery | ( 14 531) | ( 193) | (1 360) | 242 | ( 7) | ( 15 849) |
| Other facilities, tools and furniture | ( 32 902) | ( 114) | (2 583) | 3 282 | 7 | ( 32 310) |
| Advances and work in progress | ( 5 498) | ( 6) | ( 134) | 100 | - | ( 5 538) |
| | ( 72 910) | ( 423) | (5 659) | 3 624 | 1 642 | ( 73 726) |
| **Net book value** | **64 743** | **3** | **12 007** | **( 1)** | **( 5 854)** | **70 898** |

As in 2014 and during first half of 2015, main additions to tangible assets corresponds to investment projects at the factories in Rivabellosa and Las Matas II, which are owned by the company Patentes Talgo, S.L.U.

(Expressed in thousands of euros)

The majority of the disposals related to assets that were retired since they were no longer in operational condition.

Land and buildings includes the Group's three properties located in Rivabellosa and Las Rozas (Madrid).

At 30 June 2015, tangible fixed assets with an initial cost of €40,301 thousand had been fully depreciated and were still operational (2014: €38,983 thousand).

During first half of 2015 and 2014, no valuation corrections have been either recognized or reversed due to the impairment of any individual tangible fixed asset.

None of the Group's tangible fixed assets were subject to guarantees. During first half 2015 financial and 2014 year, certain fixed assets that were not directly assigned to operations were classified within 'Non-current assets held for sale'. The net book value of these assets amounted to €6,114 thousand at 30 June 2015 and 31 December 2014.

The Group is looking to complete the sale of the building it owns in Las Rozas within the next twelve months. The Group is currently negotiating with potential buyers. No impairment losses have been recognized with respect to the aforementioned property since the Directors of the Company estimate that its fair value less selling costs will exceed the book value of the asset.

The Group has taken out various insurance policies to cover the risks to which its tangible fixed assets elements are subjected. The coverage of these policies is considered sufficient.

## 5. Intangible assets

The movements in the intangible assets accounts, fully depreciated and provisions during first half of 2015 and 31 December 2014 were as follows:

| | Balance at 31.12.14 | Exchange differences | Additions | Disposals | Transfers | Balance at 30.06.15 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Research and Development | 91 724 | - | - | - | 28 | 91 752 |
| Industrial property | 1 749 | - | - | - | - | 1 749 |
| Software | 10 291 | 88 | 40 | - | 396 | 10 815 |
| Maintenance contracts | 25 069 | - | - | - | - | 25 069 |
| Advances and work in progress | 7 576 | - | 3 432 | - | ( 424) | 10 584 |
| | 136 409 | 88 | 3 472 | - | - | 139 969 |
| **Amortization and impairment losses** | | | | | | |
| Research and Development | ( 57 587) | - | ( 4 390) | - | - | ( 61 977) |
| Industrial property | ( 22) | - | - | - | - | ( 22) |
| Software | ( 8 987) | ( 91) | ( 388) | - | - | ( 9 466) |
| Maintenance contracts | ( 1 928) | - | ( 964) | - | - | ( 2 892) |
| Impairment losses | ( 1 729) | - | - | - | - | ( 1 729) |
| | ( 70 253) | ( 91) | ( 5 742) | - | - | ( 76 086) |
| **Net book value** | **66 156** | **( 3)** | **( 2 270)** | **-** | **-** | **63 883** |

(Expressed in thousands of euros)

| | Balance at 31.12.13 | Exchange differences | Additions | Disposals | Transfers | Balance at 31.12.14 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Research and Development | 51 820 | - | 1 | - | 39 903 | 91 724 |
| Industrial property | 1 749 | - | - | - | - | 1 749 |
| Software | 10 025 | 121 | 31 | ( 38) | 152 | 10 291 |
| Maintenance contracts | 25 069 | - | - | - | - | 25 069 |
| Advances and work in progress | 41 462 | - | 6 189 | - | (40 075) | 7 576 |
| | 130 125 | 121 | 6 221 | ( 38) | ( 20) | 136 409 |
| **Amortization and impairment losses** | | | | | | |
| Research and Development | ( 49 005) | - | ( 8 342) | - | ( 240) | ( 57 587) |
| Industrial property | ( 21) | - | ( 1) | - | - | ( 22) |
| Software | ( 8 056) | ( 88) | ( 881) | 38 | - | ( 8 987) |
| Maintenance contracts | - | - | ( 1 928) | - | - | ( 1 928) |
| Impairment losses | ( 1 729) | - | - | - | - | ( 1 729) |
| | ( 58 811) | ( 88) | (11 152) | 38 | ( 240) | ( 70 253) |
| **Net book value** | **71 314** | **33** | **( 4 931)** | **-** | **( 260)** | **66 156** |

The main additions in first half 2015 are related to R&D projects.

At 30 June 2015, the Group held intangible assets that were fully depreciated and still operational, which had an initial cost of €55,768 thousand (2014: €54,796 thousand).

The Group has taken out various insurance policies to cover the risks to which its intangible assets are subjected. The coverage of these policies is considered sufficient.

During first half 2015 and 2014, no valuation corrections were recognized or reversed due to the impairment of any individual intangible assets. Furthermore, the impairment tests performed on the intangible assets that were not yet operational as at 30 June 2015 and 31 December 2014 did not shown any signs of impairment.

The Group performs a quarterly impairment test of the maintenance contracts associated with the intangible asset created as a result the acquisition of 49% of the company Tarvia Mantenimiento Ferroviario, S.A. The results of this test did not indicate that the “Maintenance Contracts” showed any signs of impairment.

This impairment test was performed by discounting the cash flows of the manufacturing projects, using a discount rate of 9% and a growth rate of 0.5%.

## 6. Goodwill

The movement in goodwill was as follows:

| | € in thousands |
|---|---|
| **Balance at 31.12.13** | **112 439** |
| Additions | **-** |
| Disposals | **-** |
| **Balance at 31.12.14** | **112 439** |
| Additions | - |
| Disposals | - |
| **Balance at 30.06.15** | **112 439** |

## Goodwill impairment tests

Goodwill has been allocated to the Group's cash generating units (CGU's) on the basis of the operating segments.

The table below shows a summary of the allocation of goodwill by segment:

| | 30.06.15 | 31.12.14 |
|---|---|---|
| Rolling stock | 101 886 | 101 886 |
| Auxiliary machines and other | 10 553 | 10 553 |
| **Total Goodwill** | **112 439** | **112 439** |

The amount recoverable from a CGU is determined on the basis of "value in use" calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five year period are extrapolated using estimated growth rates.

Management determined the budgeted gross margin on the basis of past performance and expectations about the future development of the market, keeping them in line with the margins recorded in recent years. The average weighted growth rates are consistent with the forecasts included in reports in this sector. The discount rates used are pre-tax and reflect specific risks associated with each segment.

The key hypotheses used for the value in use calculations in first half 2015 and 2014 are detailed below:

a) Growth rate in perpetuity: The Group has assumed that cash flows grow in perpetuity at an equivalent average rate that does not exceed the average growth rate of the sector in which the Group operates, over the long term.

b) Discount rate: The Group has used the weighted average cost of capital (WACC) in its calculations. It has used the weighted average of its cost of debt and its cost of own funds or capital. In turn, to obtain the Beta used in the capital cost calculation, the Group has used the historical Betas of companies in the sector in which it operates as a best estimate.

c) Cash flow projections over 5 years: The Group's Management prepares and updates its business plan for the projects that correspond to the different segments defined. The main components of this plan are the margin projections, working capital and other structural costs. The business plan and therefore the projections have been prepared on the basis of experience and available best estimates.

d) Investments, Corporation tax and others: The projections include the investments necessary for the maintenance of the current assets, as well as those necessary for the implementation of the business plan. The corporation tax payment has been calculated on the basis of the expected average rate.

Key hypothesis:

The cash flows generated by the projects are regarded as the key hypothesis and represent the main indicator used by the Directors of the Group to monitor the performance of the business.

The key hypotheses used for the value in use calculations in first half 2015 and 2014 were: a discount rate of 9% and a growth rate of 0.5% in 2014 and the first half of 2015.

Sensitivity analysis:

The Group has conducted a sensitivity analysis assuming +/- 30% variations in the net cash flows of the projects.

In addition, the Group has considered sensitivity by varying the growth rate in perpetuity, by +/- 50 basis points, as well as by varying the discount rate by +/-300 basis points. Similarly, the Group has subjected a combination of the aforementioned variables to a further sensitivity analysis. The Group has not identified any sign of impairment in the recoverable value calculated on the basis of the value in use in any of the cases.

These hypotheses have been used to analyze the CGU within the operating segment.

During 2014 and the first half of 2015, none of the CGUs evaluated has shown any signs of impairment.

## 7. Financial instruments by category

The breakdown of financial instruments by category is as follows:

| | Loans and Accounts receivable | Hedge Derivatives | € in thousands Total |
|---|---|---|---|
| **31 December 2014** | | | |
| **Assets on the statement of financial position** | | | |
| Customers and other accounts receivable (note 9)* | 147 874 | - | 147 874 |
| Other financial assets (note 8) | 3 841 | - | 3 841 |
| Cash and cash equivalents (note 11) | 87 910 | - | 87 910 |
| | **239 625** | **-** | **239 625** |
| **30 June 2015** | | | |
| **Assets on the statement of financial position** | | | |
| Customers and other accounts receivable (note 9)* | 198 298 | - | 198 298 |
| Other financial assets (note 8) | 27 157 | - | 27 157 |
| Cash and cash equivalents (note 11) | 17 223 | - | 17 223 |
| | **242 678** | **-** | **242 678** |

*****The balances relating to public entities, with the exception of grants awarded, have been excluded from the Customers and other accounts receivable' balances on the statement of financial position as they are not financial instruments.

| | Hedge Derivatives | Financial liabilities at amortized cost | € in thousands Total |
|---|---|---|---|
| **31 December 2014** | | | |
| **Liabilities on the statement of financial position** | | | |
| Borrowings (note 13) | - | 86 188 | 86 188 |
| Suppliers and other payables (note 14*) | - | 127 557 | 127 557 |
| | **-** | **213 745** | **213 745** |
| **30 June 2015** | | | |
| **Liabilities on the statement of financial position** | | | |
| Borrowings (note 13) | - | 223 219 | 223 219 |
| Suppliers and other payables (note 14*) | - | 156 023 | 156 023 |
| | **-** | **379 242** | **379 242** |

*****The balances relating to advances received and social security and other taxes have been excluded from the Suppliers and other payables’ balance on the statement of financial position since they are not financial instruments.

## 8. Other financial assets and investments in associates

The breakdown of this balance is as follows:

| | € in thousands | |
|---|---|---|
| | 30.06.15 | 31.12.14 |
| **Other non-current financial assets and investments in associates** | | |
| Loans to third parties and other loans (note 8 a) | 1 324 | 1 046 |
| Loans to associates (note 8 c) | 1 719 | 1 719 |
| Deposits and guarantees (note 8 b) | 976 | 899 |
| Investment in associates | 10 | 10 |
| Customers and other long-term receivables (note 8 d) | 23 000 | - |
| | **27 029** | **3 674** |
| **Other current financial assets** | | |
| Loans to third parties | 51 | 51 |
| Deposits and guarantees | 77 | 116 |
| | **128** | **167** |
| **Total other financial assets** | **27 157** | **3 841** |

a) Loans to third parties and other loans

The ‘Loans to third parties’ caption includes balances with related parties amounting to €915 thousand (note 17) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €409 thousand.

b) Deposits and guarantees

The ‘Deposits and guarantees’ caption included in the non-current assets balance at 31 December 2014 and 30 June 2015 mainly comprises a deposit made by the Group’s American subsidiary, Talgo Inc., for the maintenance contract held by this subsidiary, which was due to mature in more than five years at 30 June 2015

c) Credits to associates

This balance contains a credit granted to the company Consorcio de Alta Velocidad Meca Medina, S.A. amounting to €1,719 thousand in 2015 and 2014, which accrues interest at the market rate.

d) Customers and other long-term receivables

The ‘Customers and other long- term receivables’ caption include the advance payment to purchase the 51 % of Tulpar Talgo LLP. The acquisition is subject to approval by Third Parties at 30 June 2015. The total costs of this purchase amounts €33,000 thousand.

## 9. Customers and other accounts receivable

The Group's main customers are railway authorities in the countries in which the Group has a presence and other related clients.

The balances included under this caption relate to trade operations and do not accrue any interest.

The carrying values of the 'Customers and other accounts receivable' balances approximate to their fair values.

This caption is broken down as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Customers | 102 227 | 91 750 |
| Construction completed not yet invoiced | 87 286 | 40 634 |
| Customers – group companies and associates (note 17) | 94 | 6 089 |
| Provision for impairment losses | ( 5 005) | ( 4 927) |
| **Customers – Net** | **184 602** | **133 546** |
| Public entities | 49 370 | 22 248 |
| Sundry debtors | 2 261 | 2 329 |
| Personnel | 461 | 347 |
| **Total** | **236 694** | **158 470** |

At 30 June 2015, the Group´s sale commitments amounted to €3,663 Million (30 June 2014: €3,890 Million).

In general, the Group recognizes provisions for all balances over which it has reasonable doubts regarding their recoverability. Overdue balances that have not been provisioned against relate to delays in payments from customers regarding which there is no doubt in terms of their recoverability.

Movements in the provision for impairment of the Group's customer accounts receivable and other receivables balances were as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.2015** | **30.06.2014** |
| **At 1 January** | **4 927** | **11 308** |
| Provision recognition | - | 789 |
| Disposals | ( 86) | ( 105) |
| Translation differences | 164 | 16 |
| **At 30 June** | **5 005** | **12 008** |

The remaining accounts included within the customer accounts receivable and other receivables balances do not contain any assets that have suffered any impairments.

The maximum exposure to credit risk at the consolidated financial statement position date is the carrying amount of each type of receivable account mentioned above.

The breakdown of the caption “Public Entities” is as follows:

| | | € in thousands |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Public administrations tax receivables for VAT | 10 315 | 4 031 |
| Public administrations debtors for grants | 10 974 | 11 652 |
| Public administrations debtors for other taxes | 346 | 1 025 |
| Public administrations tax withholding and prepayments | 27 735 | 5 540 |
| | **49 370** | **22 248** |

## 10. Stock

The composition of this caption is shown below:

| | | € in thousands |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Raw Materials | 61 110 | 47 562 |
| Work in progress | 19 884 | 16 372 |
| Advances | 9 383 | 10 542 |
| Provision for the depreciation of raw materials | (2 602) | (2 753) |
| | **87 775** | **71 723** |

At 30 June 2015, the Group’s commitments for the purchase of raw materials and other services amounted to €112,168 thousand (2014: €270,792 thousand).

The variation in the caption “Provision for the depreciation of raw materials” is as follows:

| | Balance at 31.12.14 | Exchange differences | Provision | Application | Balance at 30.06.15 |
|---|---|---|---|---|---|
| Provision for the depreciation of raw materials | ( 2 753) | -8 | - | 159 | ( 2 602) |
| | **( 2 753)** | **-8** | **-** | **159** | **( 2 602)** |

The Group has taken out several insurance policies in order to cover the risks to which its stock is subjected. The coverage of these policies is considered sufficient.

## 11. Cash and cash equivalents

The breakdown of this caption is as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Cash | 17 223 | 47 927 |
| Cash equivalents | - | 39 983 |
| **Total** | **17 223** | **87 910** |

The balance indicated in this caption on the statement of financial position is fully and freely available.

Cash equivalent assets at 31 December 2014 belong to the subsidiary Patentes Talgo, S.L.U. They include a fixed term deposit amounting to €25,000 thousand and a promissory note amounting to €14,983 thousand, both were cancelled at maturity during the first half of 2015. Both instruments were held with Spanish financial institutions.

## 12. Share capital and share premium

Equity movement can be seen in the statement of changes in equity.

a) Share capital and share premium

The variations in the number of shares and in the Share Capital accounts of the Parent Company during first half 2015 and 31 December 2014 were as follows:

| | | € in thousands |
|---|---|---|
| | **Number of shares** | **Share capital** |
| **At 31 December 2013** | **1 368 329** | **41 187** |
| Capital increases | - | - |
| Capital reductions | - | - |
| **At 31 December 2014** | **1 368 329** | **41 187** |
| Capital increases | - | - |
| Share split | 136 832 900 | 41 187 |
| Capital reductions | - | - |
| **At 30 June 2015** | **136 832 900** | **41 187** |

As at 31 December 2014, the Parent Company's share capital amounted to €41,186,702.90 and comprised 1,368,329 shares with a nominal value of €30,10 each. On

(Expressed in thousands of euros)

28 March 2015, the General Shareholders' Meeting approved the cancelation of various classes of shares and the splitting by 100 of the number and nominal value of the shares, which meant that, from that date onwards, the Parent Company's share capital comprised 136,832,900 shares and had a nominal value of €0.301.

On 28 March 2015, the General Shareholders' Meeting of the Parent Company approved the application for the admission of the company's shares onto the Spanish stock exchange, as well as their inclusion in the Spanish Stock Exchange Interconnection System.

On 23 April 2015, the National Securities Market Commission approved the prospectus and registered the supporting documents, annual accounts and prospectus relating to the share Sales Offer transaction aimed at qualifying investors in the official registers, as provided for in Article 92 of Law 24/1988, dated 28 July 1988 governing the Securities Market, for their subsequent admission for trading of Talgo, S.A. on the Stock Exchanges of Madrid, Barcelona, Valencia and Bilbao.

On 7 May 2015, the Initial Share Offering of 45% of the Parent Company's shares was made and the shares were admitted for trading on the aforementioned markets – 61,574,805 shares were sold at a price of €9.25 per share.

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in the share capital of the Parent Company, both directly and indirectly, which individually exceeded 3% of the Share Capital as at 30 June 2015:

| **Company** | **% of share** |
|---|---|
| Trilantic Capital Investment GP Limited | 32.1% |
| Crestbridge Limited | 4.7% |
| MCH Inversiones Industriales S.A.R.L. | 4.7% |
| MCH Iberian Capital Fund III, FCR | 4.2% |
| MCH Private Equity Investments, SGEIC, S.A. | 4.2% |
| Capital Research and Management Company | 3.2% |
| Universities Syperannuation Scheme | 3.0% |
| | **56.1%** |

b) Reserves

During the month of May 2015, following the Parent Company's IPO, the share compensation plan referred to in note 2.20.c) of the consolidated accounts for 2014 was fulfilled. The Parent Company went to the market to buy the aforementioned equity instruments for €56,322 thousand and the impact recorded in the Parent Company's reserves as a result of this plan amounted to €82,769 thousand; that figure includes the deductions paid to the Treasury and is recorded net of tax.

c) Distribution of profits

On 28 March 2015, the General Shareholders' Meeting unanimously approved the allocation of: €1,313 thousand of the Parent Company's profits in 2014 (which amounted to €2,978 thousand in total) to the legal reserves, which left those reserves fully provisioned with respect to the requirements of the LSC; and €1,665 thousand to offset the negative results from previous years.

d) Dividend per share

No dividends were distributed during 2014 or the first half of 2015.

e) Foreign Currency Translation.

The amount of Foreign Currency Translation recognized within other reserves corresponds entirely to the translation of the functional currency of the financial statements of the Group's subsidiary Talgo Inc.

f) Earnings per Share.

Basic Earnings per Share.

The basic earnings per share are calculated by dividing the profit attributable to the owners of the Parent Company (net result attributable to the Group, after taxes and allocation to minority interests) by the weighted average number of ordinary shares in issue during the financial period.

| | **€ in thousands** | |
|---|---|---|
| | **30.06.15** | **30.06.14** |
| Profits attributable to the Company´s Shareholders | 23 539 | 14 957 |
| Weighted average number of ordinary shares in circulation | 69 100 615 | 1 368 329 |
| Basic Earning per Share | 0,34 | 10,93 |
| | **0,34** | **10,93** |

Diluted earnings per share

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares in issue in order to reflect the potential dilutive effect of the stock options, warrants and debt convertible into shares at the end of each period.

| | € in thousands | |
|---|---|---|
| | 30.06.15 | 30.06.14 |
| Profits attributable to the Company´s Shareholders | 23 539 | 14 957 |
| Profit used to determine diluted earnings per share | 23 539 | 14 957 |
| Weighted average number of ordinary shares in circulation | 69 100 615 | 1 368 329 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 69 100 615 | 1 368 329 |
| Diluted Earnings per Share | 0,34 | 10,93 |
| | **0,34** | **10,93** |

## 13. Borrowings

The breakdown of this caption is as follows:

| | € in thousands | |
|---|---|---|
| | 30.06.15 | 31.12.14 |
| **Non-current** | | |
| Debt with credit institutions | 131 500 | 42 000 |
| Finance lease creditors | - | 600 |
| Other financial liabilities | 29 025 | 31 209 |
| | 160 525 | 73 809 |
| **Current** | | |
| Debt with credit institutions | 60 500 | 10 231 |
| Finance lease creditors | 928 | 685 |
| Other financial liabilities | 1 266 | 1 463 |
| | 62 694 | 12 379 |
| **Total borrowings** | **223 219** | **86 188** |

a) Debt with credit institutions

On 19 December 2012, the subsidiary Patentes Talgo S.L.U. signed a financing contract with the European Investment Bank consisting of a loan for €50,000 thousand, it having been provided the total amount of loan at 31 December 2014 and remained the same amount at 30 June 2015.

At year-end 2014 and during the first half 2015 financial year, €42,000 thousand of the aforementioned loan was classified as a long-term liability and €8,000 thousand was classified as a short-term liability.

The aforementioned contract contains a number of associated obligations and covenants known as the Guarantee Ratio, the Commitment Ratio, the Financial Expense Ratio and the Credit Ratio, which the aforementioned subsidiary has complied with since the beginning of the contract.

Patentes Talgo, S.L.U. has also complied with the other commercial obligations and restrictions established in the aforementioned financing agreement.

At 16 April 2015 the Parent Company and the Subsidiary Patentes Talgo S.L.U. have signed a loan agreement, amounting to €99,500 thousand, accrues interest at a market rate. The aforementioned contract contains a number of associated obligations and covenants, which the Group has complied with since the beginning of the contract.

At 30 June 2015, the Group held lines of credit amounting to €130,000 thousand (€20,000 thousand in 2014) through its subsidiary Patentes Talgo S.L.U. At 31 December 2014 and during 2015,the amount drawn down at 30 June 2015 €40,838 thousand, no balances had been drawn down on them at 31 December 2014.

On the 13 December 2011, the subsidiary Talgo Deutschland, GmbH signed a financing contract with HypoVereinsbank amounting to €4,400 thousand, was classified as a short-term liability the total amount of loan at 30 June 2015 €733 thousand (at 31 December 2014. €1,833 thousand). This loan accrues interest at a market rate.

The breakdown of the 'Debt with credit institutions' balances by year of maturity is shown below:

| | **€ in thousands** | | | | | |
|---|---|---|---|---|---|---|
| **30 June 2015** | **2016** | **2017** | **2018** | **2019** | **Subsequent years** | **Totals** |
| Debt with credit institutions | 68 500 | 20 000 | 20 000 | 20 000 | 63 500 | **192 000** |
| **31 December 2014** | **2015** | **2016** | **2017** | **2018** | **Subsequent years** | **Totals** |
| Debt with credit institutions | 10 231 | 8 000 | 10 000 | 10 000 | 14 000 | **52 231** |

b) Other financial liabilities

The Other current and non-current financial liabilities captions are broken down as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| **Non-current** | | |
| Debts due to reimbursable advances | 25 883 | 28 507 |
| Other debts | 3 142 | 2 702 |
| | **29 025** | **31 209** |
| **Current** | | |
| Debts due to reimbursable advances | 1 206 | 1 403 |
| Other debts | 60 | 60 |
| | **1 266** | **1 463** |
| **Total other financial liabilities** | **30 291** | **32 672** |

b.1) Debts due to reimbursable advances

This caption includes zero-rate debts that the Group's subsidiary Patentes Talgo, S.L.U. holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Education and Science. These loans accrue interest at a lower rate than charged in the market, as such the Group recognizes a grant to reflect the difference between the two rates.

b.2) Other Debts

This caption included mainly non-current debt convertible into grants amounting to €3,082 thousand (2014 €2,642 thousand). These related to funds received from the Ministry for Science and Innovation relating to the AVRIL and EMU research and development projects, as well as to project CONDEXTRAIN.

The fair values of other borrowings approximate their carrying amount.

c) Obligations under finance leases

In 2011, the Group signed a finance lease contract with a financial institution; the maturity date of that contract is 1 May 2016. The contract includes a purchase option amounting to €192 thousand.

The leased assets are spare parts valued at €3,427 thousand.

## 14. Suppliers and other payables

The breakdown of this caption is as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Suppliers | 133 714 | 106 477 |
| Associate company suppliers (note 17) | 16 931 | 11 160 |
| Advances on orders | 16 881 | 89 557 |
| Social Security and other taxes | 4 336 | 5 131 |
| Personnel | 5 378 | 9 920 |
| **Total** | **177 240** | **222 245** |

## 15. Income tax

The Parent Company and its subsidiary, Patentes Talgo, S.L.U., have formed the consolidated Tax Group 65/06 since 2006.

In 2010, the subsidiary Talgo Kazakhstan, S.L. was incorporated into the aforementioned tax group.

The tax on the Group's profit before tax differs from the theoretical amount that would be obtained using the weighted average tax rate applicable to the profits of the consolidated companies as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **30.06.14** |
| **Profit before tax** | **27 889** | **18 206** |
| Consolidated tax at 28% on 2015 and 30% on 2014 | 7 809 | 5 462 |
| Tax effects of: | | |
| Differences due to differing tax rates in each country | 1 336 | 814 |
| Permanent differences | ( 2 415) | ( 1 736) |
| Activation of deductions | ( 2 380) | ( 1 291) |
| **Tax expense** | **4 350** | **3 249** |

The permanent differences primarily relate to adjustments for the permanent establishments in Kazakhstan and Uzbekistan, whose profit before tax is included in the Group's profit before tax and whose tax base is subsequently adjusted as a permanent difference.

At the end of the year, the tax Group 65/06 was subject to an inspection by the tax authorities with respect to the consolidated Group's tax returns for the years 2012 onwards.

The analysis of deferred taxes based on the timing of their recovery is as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| **Deferred tax assets:** | | |
| - Deferred tax assets to be recovered in more than 12 months | 7 997 | 13 955 |
| | **7 997** | **13 955** |
| **Deferred tax liabilities:** | | |
| - Deferred tax liabilities to be recovered in more than 12 months | 3 605 | 3 565 |
| | **3 605** | **3 565** |
| **Deferred tax assets (net)** | **4 392** | **10 390** |

The movement in the deferred tax asset balance during the first half 2015 and 31 December 2014 was as follows:

| | € in thousands | | | | |
|---|---|---|---|---|---|
| | **Balance at 31.12.14** | **Additions** | **Disposals** | **Other Movements** | **Balance at 30.06.15** |
| Guarantees | 1 237 | 1 445 | ( 1 237) | - | 1 445 |
| Deductions | - | 2 380 | - | - | 2 380 |
| Other concepts | 12 718 | 1 175 | ( 9 721) | - | 4 172 |
| | **13 955** | **5 000** | **( 10 958)** | **-** | **7 997** |

| | € in thousands | | | | |
|---|---|---|---|---|---|
| | **Balance at 31.12.13** | **Additions** | **Disposals** | **Other Movements** | **Balance at 31.12.14** |
| Guarantees | 1 573 | 1 326 | ( 1 541) | ( 121) | 1 237 |
| Deductions | 3 365 | 2 647 | ( 6 012) | - | - |
| Other concepts | 9 954 | 6 686 | ( 3 455) | ( 467) | 12 718 |
| | **14 892** | **10 659** | **( 11 008)** | **( 588)** | **13 955** |

The aforementioned deferred tax assets were registered on the statement of financial position on the basis that the Directors of the Parent Company consider that, given the most accurate estimate of the Group's future results, these assets will be feasibly recoverable.

| | € in thousands | | | |
|---|---|---|---|---|
| | Tax credits | Deductions | Other Concepts | Total |
| **Balance at 31 December 2013** | **-** | **3 365** | **11 527** | **14 892** |
| Credit/(Charge) to income statement | - | 2 647 | 2 528 | 5 175 |
| Other movements and transfers | - | (6 012) | ( 100) | (6 112) |
| **Balance at 31 December 2014** | **-** | **-** | **13 955** | **13 955** |
| Credit/(Charge) to income statement | - | 2 380 | ( 8 338) | (5 958) |
| Other movements and transfers | - | - | | |
| **Balance at 30 June 2015** | **-** | **2 380** | **5 617** | **7 997** |

b) Other Assets

The ‘Other assets’ caption is generated mainly due to temporary differences arising from the allocations made during the financial year to: provisions for bad debt, penalties and other similar concepts; as well as for the amortization and depreciation of fixed assets; and for commitments held with personnel.

Similarly, the Group has not registered any deferred tax assets on the statement of financial position that are associated with the negative tax bases generated by the subsidiary Talgo Inc. considered, based on their current assessment, that it is likely that positive taxable bases will be generated in the future to allow their recovery. At 30 June 2015, the negative taxable bases pending offset in the USA, relating to the subsidiary Talgo Inc., amounted to €49,247 thousand (€40,259 thousand. At 31 December 2014) and their expiry dates are detailed below:

| | € in thousands | Final year |
|---|---|---|
| 2002 | 9 775 | 2022 |
| 2003 | 5 284 | 2023 |
| 2004 | 13 189 | 2024 |
| 2005 | 8 311 | 2025 |
| 2006 | 7 070 | 2026 |
| 2012 | 5 618 | 2032 |
| | **49 247** | |

Deferred tax liabilities

The movement in the deferred tax liabilities balance during the financial years was as follows:

| | € in thousands | | |
|---|---|---|---|
| | **Cash flow hedge** | **Other concepts** | **Total** |
| **Balance at 31 December 2013** | **-** | **6 108** | **6 108** |
| Credit/(Charge) to income statement | - | ( 2 643) | ( 2 643) |
| Tax (credit) / charge to equity | - | - | - |
| Other movements | - | 100 | 100 |
| **Balance at 31 December 2014** | **-** | **3 565** | **3 565** |
| Credit/(Charge) to income statement | - | 40 | 40 |
| Tax (credit) / charge to equity | - | - | - |
| Other movements | - | - | - |
| **Balance at 30 June 2015** | **-** | **3 605** | **3 605** |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

## 16. Provisions for other liabilities and charges

| | € in thousands | | | | | |
|---|---|---|---|---|---|---|
| | **Non-current** | | | **Current** | | |
| | **Other provisions** | **Guarantee provision** | **Subtotal** | **Other provisions** | **Guarantee provision** | **Subtotal** |
| **Balance at 31/12/2014** | **16 413** | **6 497** | **22 910** | **1 914** | **1 648** | **3 562** |
| Provisions | 925 | - | **925** | 364 | 770 | **1 134** |
| Applications | ( 33) | - | **( 33)** | ( 478) | ( 902) | **(1 380)** |
| Transfers | - | ( 80) | **( 80)** | - | 80 | **80** |
| **Balance at 30/06/2015** | **17 305** | **6 417** | **23 722** | **1 800** | **1 596** | **3 396** |

At the 2014 year-end and the first half 2015 financial year, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years and other obligations included in the contracts signed.

The ‘Other provisions’ caption primarily includes the reasonable estimates made by the Group regarding the contractual obligations associated with the maintenance contracts signed, which mainly relates to the costs of large maintenance works signed with customers.

At 30 June 2015, the Group had a volume of bank guarantees and surety bonds amounting to €461 million (2014: €422 million), of which, €423 million (2014: €386 million) correspond to manufacturing projects, either as performance bonds or advances received.

The remaining sum comprises bank guarantees provided to public entities for the awarding of grants, for bidding in tender competitions and for other items.

At 30 June 2015, the amount available from the bank guarantee lines amounted to €394 million (€358 million in 2014).

By virtue of the agreement signed between the Consorcio Español de Alta Velocidad Meca-Medina and the end customer, all of the members of the Consortium shall be jointly and severally liable to the end customer, and each member of the consortium may, in any case, make a claim against the other parties, according to the distribution of the execution of the contract.

The Group's Management is not aware of any contingent liabilities that it may have in the normal course of its business, other than those provided for at the end of the first half of 2015.

a) Commitments to purchase fixed assets

At 30 June 2015, the Group had commitments to purchase fixed assets amounting to €4,952 thousand (2014: €5,845 thousand).

b) Operating lease commitments

The directors of the consolidated Group do not expect any material changes in the future operating lease expense with respect to the expenditure incurred during 2014.

## 17. Related party and foreign currency transactions

The Group conducts all of its transactions with related parties at market prices. In addition, the transfer prices are adequately supported and so the Directors of the Parent Company consider that there is no significant risk that any significant liabilities may arise in the future for this concept.

All the accounts and transactions between the consolidated companies were eliminated during the consolidation process and so are not disclosed in this note.

The details of the transactions conducted between the Group and other related parties are detailed below:

a) Transactions with the Parent Company's significant shareholders

The loans granted to the shareholders are detailed in note 8.a.

b) Transactions with the Parent Company's Board members

During the first half 2015, the remunerations accrued to the members of the Board of Directors for the performance of this role amounting to €198 thousand, in the absence of any remuneration of this concept in 2014.

c) Commercial transactions with related parties

| | € in thousands | |
|---|---|---|
| | **30.06.2015** | **30.06.2014** |
| **External services:** | | |
| Consorcio Español de Alta Velocidad Meca-Medina, S.A. | 13 762 | 3 537 |
| **Expenses** | **13 762** | **3  537** |

d) Share compensation plan

The Group operates a share compensation plan for employees of the subsidiary Patentes Talgo, S.L.U., which contains shares in the Parent Company (note 2.20.c of the annual accounts for 2014), which amounted to €3,212 thousand as at 30 June 2015 (€18,360 thousand in 2014). This plan was liquidated prior to the Parent Company's admission to the stock exchange.

e) Breakdown of supplier / customer balances with group companies and associates

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Customers – group companies and associates (note 9) | 94 | 6 089 |
| **Customers – group companies and associates** | **94** | **6 089** |

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **31.12.14** |
| Suppliers – group companies and associates (note 14) | 16 931 | 11 160 |
| **Suppliers – group companies and associates** | **16 931** | **11 160** |

At 30 June 2015 the "Customers – group companies and associates" caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A.

At 31 December 2014, the “Suppliers - group companies and associates” caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A. amounting to €5.489 thousand, as well as a balance held with the company Pegaso Transportation, S.C.A. amounting to €600 thousand. This company is included within the consolidation perimeter under the equity method.

At 30 June and 31 December 2014 the total amount of “Suppliers - group companies and associates” corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A.

f) Foreign currency transactions

The amounts involved in the transactions that were carried out in foreign currencies are as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.2015** | **30.06.2014** |
| Purchases | 13 964 | 7 876 |
| Sales | 4 909 | 3 484 |

## 18. Employee benefit expenses

a) The breakdown of this caption is as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **30.06.14** |
| Wages, salaries and similar | 38 964 | 36 283 |
| Contributions and provisions for defined pension contributions and other obligations | 835 | 824 |
| Other welfare charges | 11 037 | 10 574 |
| | **50 836** | **47 681** |

The ‘Wages, salaries and similar’ caption includes compensation costs, which amounted to €168 thousand as at 30 June 2105 (30 June 2014: €166 thousand) and the cost relating to the remuneration paid to Senior Management explained in note 18 b.

b) Compensation for the Senior Management and Directors of the Group:

The role of the Director of the Parent Company is remunerated from 2015 not being provided in 2014.

During the first half of 2015, the remuneration paid to the senior management team, which is understood to comprise the members that form the Management Committee, amounted to €1,064 thousand in terms of fixed and short-term variable remuneration and €37,041 thousand for the share compensation plan referred to in note 2.20 of the consolidated annual accounts for 2014 (€921 thousand and €2,606 thousand, respectively, in the first half of 2014). The remuneration paid to the Group's Directors in terms of fixed and short-term variable remuneration amounted to €683 thousand and for the share compensation plan amounted to €28,493 thousand as at 30 June 2015 (€603 thousand and €2,005 thousand, respectively as at 30 June 2014).

(Expressed in thousands of euros)

The Group has taken out life insurance for all of its employees, including management personnel. The cost of this insurance for management personnel amounted to €20 thousand at 30 June 2015 (€21 thousand at 31 December 2014).

The amount corresponding to the pension plan of this same collective amounted to €35 thousand at 30 June 2015 and €34 thousand at 30 June 2014. In addition, the Group has taken out civil liability insurance policies for some members of its Senior Management member, whose coverage is considered sufficient

During 2012, the subsidiary Patentes Talgo, S.L.U. granted loans to members of the management team for the purchase of shares in the ultimate Parent Company amounting to €637 thousand, this loan was repaid in full during the first half of 2015, and new loans were signed with that group amounting to €915 thousand to finance the purchase of the shares in the Parent Company. The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread (note 8).

c) Transactions with board members of the Parent Company and key executives of the Group

The remuneration paid to the board members of the Parent Company and key executives of the Group amounted to €198 thousand at 30 June 2015

The distribution of the average headcount by job category and gender at 30 June 2015 and 2014 is as follows:

| | **30.06.2015** | | **30.06.2014** | |
|---|---|---|---|---|
| | **Men** | **Women** | **Men** | **Women** |
| Board members and Senior Management | 11 | 2 | 11 | 2 |
| Management | 31 | 3 | 27 | 2 |
| Middle management | 203 | 25 | 184 | 22 |
| Technicians | 1 316 | 211 | 1 171 | 200 |
| | **1 561** | **241** | **1 393** | **226** |

## 19. Financial income and expenses

The breakdown of this caption is as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.15** | **30.06.14** |
| Interest expenses: | | |
| - Bank borrowings and other charges | ( 2 743) | (3 774) |
| **Financial expenses** | **(2 743)** | **(3 774)** |
| - Interest income on short term deposits with credit institutions | 94 | 1 050 |
| - Interest income on short term deposits with related party | 23 | - |
| - Exchange differences | 276 | 113 |
| **Financial income** | **393** | **1 163** |
| **Net financial result** | **( 2 350)** | **( 2 611)** |

## 20. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

| | € in thousands | |
|---|---|---|
| | **30.06.2015** | **30.06.2014** |
| **Profit for the year before tax** | **27 889** | **18 205** |
| Adjustments for: | | |
| - Depreciation of tangible fixed assets (note 4) | 3 262 | 2 876 |
| - Amortization of intangible assets (note 5) | 5 742 | 5 566 |
| - Net change in provisions (note 16) | 492 | 1 797 |
| - (Gain)/loss in the fair value of derivative financial instruments | - | - |
| - Financial expenses (note 19) | 2 743 | 3 774 |
| - Financial income (note 19) | ( 117) | ( 1 050) |
| - Result from the loss of the joint control | - | - |
| - Allocation of grants | ( 572) | ( 204) |
| - Other income and expenses | 7 340 | 5 012 |
| **Changes in working capital (excluding the effects of the acquisition and exchange differences on consolidation):** | **( 113 685)** | **( 48 266)** |
| Stocks (note 10) | ( 14 780) | ( 8 515) |
| Other financial assets (note 8) | 1 504 | 2 467 |
| Customers and other account receivables (note 9) | ( 55 730) | ( 38 695) |
| Suppliers and other payables (note 14) | ( 44 679) | ( 3 523) |
| ***Cash flows from operating activities:*** | **( 66 906)** | **( 12 290)** |

## 21. Events after the consolidated statement of financial position date

On 15 July 2015, the award of a contract for six passenger trains amounting to $201 million, which had been announced on 12 February 2015, was cancelled, on the grounds of public interest.After this, the Group´s sale commitments amounted to €3,487 Million.

The aforementioned cancelation does not represent a material change to the Talgo Group's economic projections for 2015 and 2016.

**TALGO, S.A. AND SUBSIDIARIES**

**CONSOLIDATED DIRECTORS' REPORT AS AT 30 JUNE 2015**
(Expressed in thousands of euros)

## Organizational structure

The main responsibilities of the Group's Board of Directors include: strategy management, allocation of resources, management of risks and operational control, as well as ownership of the accounts and financial reports prepared by the Group.

The Group's Steering Committee comprises both members of the Board of Directors, as well as the heads of each one of the business lines (segments) and other key management personnel. During these meetings, the Committee analyses the performance of the business along with other aspects relating to the Group's strategy.

## Strategy

In recent years, the Group's strategy has allowed it to: generate stable margins in the key Rolling Stock business line; research and develop new markets; and gradually increase the volume of business it undertakes internationally, with the overseas business gaining weight over the domestic business in recent years, indicating a clear trend for the future.

The key to the success of the Group's strategy has been the development of the business towards products and services that add greater value and are adapted to the needs demanded in the market.

## Business model

The Group's business model is sufficiently flexible to be adapted to the conditions of the market in the global economic context.

It offers value to the Group's stakeholders over the long term, supported by the Group's financial model, which has allowed it to gradually increase revenues whilst maintaining stable margins and generating profitability for the interested parties.

Over the last three years, the Group has strengthened its strategic position, through significant investments in the development of new products, to meet the demands of the market, i.e. the need for more efficient, higher capacity trains, such as the case of AVRIL. It has also increased production capacity at its manufacturing plans in Spain (which it owns) in order to handle the growth in its order portfolio, which is mainly being driven by the international market.

## Business performance

The Group's main financial figures are presented after adjustments to eliminate the impact of non-recurring events, with the aim of presenting the company's comparative results with previous periods.

The Group's adjusted EBITDA at the end of the first half of 2015 amounted to €53,9 million, compared to €35,1 million in the previous period. That improvement reflects the increase in productivity and the growth that the Group has experienced in 2015 with respect to the previous year.

The Group's adjusted EBIT at the end of the first half of 2015 amounted to €48,7 million, compared to €31 million in the previous period.

The profit after tax at the end of the first half of 2015 amounted to €23,5 million, compared to €15 million in the previous period, an improvement of 57.4%

The difference between statutory and adjusted EBITDA relates to the adjustments made for the following items beyond the normal course of business:

- Expenses relating to the IPO: €5.2 million in the first half of 2015. No such costs were incurred during the first half of 2014.

- Expenses accrued in relation to the share compensation plan: €3.2 million in the first half of 2015 (€5 million during the first half of 2014). This amount also included the cost of the free allocation of shares to employees of Patentes Talgo S.L.U., which amounted to €5.2 million in the first half of 2015. No such costs were incurred during the first half of 2014.

- Other minor adjustments amounting to €1.1 million relating to other compensation payments and costs (€0.8 million during the first half of 2014).

The aforementioned adjustments are the same as those recorded between EBIT and adjusted EBIT except for AVRIL amortization and depreciations of accounts receivables and stocks.

At the end of the first half of 2015, the Group's order backlog amounted to €3,663 million; that figure was in line with the end of the first half of the previous year, when the backlog amounted to €3,890million. This portfolio continues to ensure the normal performance of the Group's activity.

**Business performance**

During 2015, the Group has continued to deliver the construction contracts that it held in its portfolio, including the 436 and 603 coaches for the Kazakhstan Railways, the 7 trains for the Russian Railways and the 36 high-speed trains for the Meca-Medina route for the Saudi Arabian SRO state railway company.

In 2015, the Group has continued to perform maintenance activities for RENFE Operadora for its stock of hauled, Intercity and high-speed trains. Similarly, it has continued to provide train maintenance services through its permanent establishments in Kazakhstan and Uzbekistan for the national railway companies Temir Zholy and Temir Yollari, respectively and through its subsidiaries in Germany and the USA for Deutsche Bahn and Amtrak, respectively.

On 1 June 2015, 4 of the 7 trains commissioned by the Russian Railways for the Moscow-Nizhni Novgorod line were put into commercial service. This represented a significant milestone for Talgo as those were the first Talgo trains to operate commercially in Russia. The maintenance of those trains will be carried out through the permanent establishment at the maintenance centre in Moscow.

It should also be noted that on 12 February 2015, the Saudi Arabian SRO railways awarded Talgo the manufacture and maintenance of 6 diesel electric push-pull trains for the Damman-Riyad line for a period of 5 years.

Similarly, and as a result of the establishment of new train maintenance centres in counties such as Kazakhstan, Russia and, in the near future, Saudi Arabia, new one-off investments are currently being made in those countries.

As disclosed in note 5 Intangible Assets, the Group has been undertaking an additional investment effort, for the launch of new product R&D. As such, the following investments were made during the first half of 2015:

| | **Thousands of euros** |
|---|---|
| Recurrent investments | 1 228 |
| Investments in new products | 2 886 |
| Investments to increase production capacity | 1 841 |
| Total acquisition cost | 5 935 |

## Significant events after the statement of financial position date

The subsequent events are detailed in note 21.

## Research and development activities

The Group remains committed to technological innovation as a basic tool for generating competitive advantages, anticipating market trends and differentiating its products. Through the introduction of new technology and the development of new products and business processes, the Group seeks to become a more effective, efficient customer-oriented organization.

The Group has developed an open innovation model for the management of technological innovation, which prioritizes applied research and development, or R&D, that is aligned with its strategy. This model promotes initiatives such as participation in collaborative forums, strategic collaboration with entities and experts with recognized technical prestige, and technological vigilance that is open to any type of technological solution, both inside and outside the railway sector, amongst other activities.

Similarly, the Group makes use of knowledge developed in technological centres, universities and start-ups, amongst other sources, and encourages innovation in collaboration with other agents, which become "technological partners", including clients, universities, public administrations, suppliers, content providers and other companies. The group believes that it cannot differentiate its products from its competitors and improve its position in the market purely on the basis of technology that it acquires.

Thus, the Group's R&D policy is aimed at:

- Developing new products and services to ensure sustainable growth and to gain market share;

- Increasing the reliability of our products;
- Improving the management of innovation;
- Promoting a culture of innovation within the organization;
- Supporting open innovation.

In recent years, the Group has carried out R&D projects spread across Talgo's five axes of innovation: full product, transversal solutions, sustainability, energy efficiency and management of innovation and knowledge. In this way, the technological innovation activities form an integral part of the group's activities within the business lines of rolling stock, maintenance services and auxiliary machines.

The Group's R&D team carries out most of its R&D activities in Spain, working in accordance with the guidelines defined by the company's overall strategy and translated into specific R&D projects through the Product Development Plan, which is prepared each year by Management. For this, the R&D management team receives help from other companies and universities; its fundamental mission is to improve competitivity through technological innovation and to develop new strategic products to increase the portfolio range, reduce operating costs and improve energy efficiency.

To this end, the Group has continued with its policy of investing in research and development activities that seek to ensure the continued improvement of its products and maintenance services. The most noteworthy of these include the research and development work relating to the new generation of High Speed trains (AVRIL) and the launch of the development of a Regional Talgo train, which is requiring an additional effort by the Group, as indicated above for the increase in capacity and the opening of new maintenance centres, besides the recurrent annual investment for the maintenance of existing infrastructure and equipment.

Likewise, the Group has been developing other research and development activities, the most important of which include improvements in the security, efficiency and accessibility of its trains, as well as the introduction of lighter materials, the application of new technologies, energy savings and sustainability.

## Risk policy

The Directors consider that the Group's main risks are typical for the businesses in which it operates and are inherent to the industry and the current macroeconomic environment. The Group actively manages its main risks and considers that the controls that it has designed and implemented in this sense are effective for the mitigation of their impact in the event that they materialize.

The main objective of the Group's financial risk management policy is to ensure the availability of funds to fulfil its commitments to third parties. That management is based on the identification of risks, and the analysis of the tolerance and coverage of the instruments to mitigate those risks.

## Quality and the environment

Quality, the environment and the prevention of risks are fundamental elements in the Group's business and culture.

During the performance of its activities, the Group places a strong emphasis on improving its management systems in a sustainable and safe way in order to obtain the maximum satisfaction of its clients, employees and suppliers.

This commitment is promoted and encouraged at all levels of the organisation and across all of the countries in which the Group has a presence.

The breakdown of the expenses incurred by the Group to protect and improve the environment is disclosed in note 32. The costs relating to the prevention of risks form part of the costs of the projects.

The principles that govern these activities are captured in the Group's policy for quality, prevention and the environment, which complies with the guidelines set out by the following regulations: ISO 9001, ISO 14001 and IRIS.

## Information about delaying payments to suppliers

The Group's Spanish companies are making a concerted effort to gradually adjust their payment periods to reflect the provisions of Law 15/2010.

The maximum legal payment period applicable to Spanish companies is 60 days.

## Own shares

The Group does not hold any own shares as at 30 June 2015. During the first half of 2015 and to comply with the obligations acquired under the share compensation plan (referred to in note 2.20 of the annual accounts for 2014), own shares were acquired during the IPO conducted by the Parent Company in the month of May 2015, which amounted to €60,529 million , at a price of €9.25 per share.

These were acquired to fulfil the aforementioned plan, as well as to make good on the commitment acquired with the employees of Patentes Talgo S.L.U. to deliver shares equivalent to 10% of one year's fixed salary for free. All of the own shares have been delivered to their beneficiaries.