

**ANNUAL REPORT ABOUT THE REMUNERATION OF THE  
DIRECTORS OF THE LISTED PUBLIC COMPANIES**

**THE ISSUER'S IDENTIFICATION DETAILS**

**REFERENCE YEAR END DATE**

31.12.2017

**C.I.F. A84453075**

**Company name:**

Talgo, S.A.

**Registered address:**

Paseo del Tren Talgo N° 2  
28290 Las Rozas, Madrid

## ANNUAL REPORT ABOUT THE REMUNERATION OF THE DIRECTORS OF THE LISTED PUBLIC COMPANIES

### A. COMPANY REMUNERATION POLICY FOR THE YEAR IN PROGRESS

A.1 Explain the Company's remuneration policy. In this section, include information about the following considerations:

- General principles and foundations of the remuneration policy.
- The most significant changes made to the remuneration policy with respect to the policy applied last year, as well as any amendments made during the year to the conditions surrounding the exercise of options already granted.
- Criteria used and composition of the groups of comparable companies whose remuneration policies have been examined to establish the Company's remuneration policy.
- Relative importance of the variable remuneration concepts with respect to the fixed, and criteria used to determine the different components of the remuneration package of the directors (remuneration mix).

Explain the remuneration policy
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In accordance with the provisions of the Corporate Bylaws and the Rules of the Board, the general criteria under which the Directors' remuneration is set are as follows:

The remuneration of Directors, in their capacity as such, may comprise the following remuneration concepts:

- (i) a fixed element.
- (ii) share of profits.

Directors' remuneration must, in all cases, bear a reasonable resemblance to the importance of the Company, its economic circumstances at all times and the market standards for comparable companies. The remuneration system established should be aimed at promoting the long-term profitability and sustainability of the Company and should incorporate the necessary safeguards to avoid excessive risk taking and the reward of unfavourable results.

The remuneration that is applicable, in accordance with the general criteria described, fall in the middle of the range established by other listed companies, if we use turnover and company activity as the criteria for comparison.

The Board of Directors and the Appointments and Remuneration Committee shall adopt the measures within their power to ensure that the External Directors' remuneration is sufficient to compensate the dedication, qualification and responsibility demanded by the role, but not so high as to compromise their independence.

The remuneration policy shall incorporate the necessary technical safeguards to ensure that the remuneration reflects the relationship with the professional performance of its beneficiaries and does not simply result from the general evolution of the markets or the sector in which the Company operates or from any other similar circumstances.

The remuneration payable to the Executive Directors, as executives of the company is designed by the Appointments and Remuneration Committee and includes fixed criteria, as well as other variable components, established in accordance with certain criteria, which are reviewed on an annual basis, in such a way that the remuneration mix (fixed and variable) depends on the performance of these Directors. The concepts that are taken into consideration for the determination of the variable element of remuneration are described in section A4 below.

A.2 Information about the preparatory work and decision making process that has been followed to determine the remuneration policy and role performed, where applicable, by the Remuneration Committee and other supervisory bodies for the configuration of the remuneration policy. This information should include details of the mandate and composition of the Remuneration Committee, where applicable, and the identity of the external advisors whose services have been used to define the remuneration policy. Moreover, provide details about the positions of any Directors who have intervened in the definition of the remuneration policy, where applicable

<b>Explain the process for determining the remuneration policy</b>
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In 2017, the Company's Appointments and Remuneration Committee held several meetings at which it discussed and debated proposals to be submitted to the Board of Directors for approval regarding the remuneration policy applicable to the Company's Directors.

The Appointments and Remuneration Committee comprises three members, two of which are Independent Directors (including the Chairman) and one Proprietary Director.

To determine and define the remuneration policy, the Appointments and Remuneration Committee analysed the remuneration model applied in prior years, paying particular attention to: (i) the level of responsibility assumed and functions performed by each Director; (ii) the objective of creating value for the Company's shareholders and employees; and (iii) the remuneration trends observed in other comparable companies.

For the adoption of its decisions, the Appointments and Remuneration Committee received information and advice from the Company's internal services. Similarly, the Committee contrasted the main data with data relating to comparable markets and companies in accordance with the Company's size, scale, international presence and other characteristics, in order to ensure that the Company's remuneration policy is in line with international market practice.

Through the remuneration policy applicable to Directors and Senior Management, the Company seeks to recognise the quality of their performance and fulfil the objective of the Board of Directors to reward, attract and retain talent and managerial capability.

A.3 Indicate the amount and nature of the fixed remuneration components, with a breakdown, where applicable, of: the remuneration for the performance of senior management roles by the Executive Directors; the additional remuneration for the role of Chairman or for being a member of a Board committee; expense allowances for participating in Board meetings and committees; and other fixed remuneration paid to Directors; as well as an estimation of the fixed annual remuneration received. Identify other benefits that are not settled in cash and the fundamental parameters that need to be fulfilled for them to be awarded

<b>Explain the fixed remuneration components</b>
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The fixed remuneration of the Executive Directors comprises: (i) salaries; (ii) benefits in kind; (iii) pension plans; (iv) life insurance; (v) insurance for sick leave; (vi) health insurance. During 2017, the total amount paid for all of these items amounted to €529 thousand.

The Executive Directors do not receive any addition remuneration for serving as members of

the Board of Directors, nor do they receive out-of-pocket expense allowances or fees or any other fixed remuneration for serving as Directors.

No additional remuneration is paid for the performance of the role of Chairman of the Board of Directors – a role that in the case of the Company is performed by an Executive Director -.

None of the Company's two Executive Directors belong to any advisory committees.

The Company's Board of Directors and Appointments and Remuneration Committee have not modified the Executive Directors' fixed remuneration.

The Independent External Directors receive the following fixed remuneration for serving as members of the Board of Directors and its committees:

	Independent External Director	80,000€
PLUS	Member of an advisory committee	10,000€
PLUS	Chairman of an advisory committee	10,000€
PLUS	Independent Director and Coordinator	20,000€

#### A.4 Explain the amount, nature and main features of the variable components of the remuneration system

In particular:

- Identify each one of the remuneration plans from which the Directors may benefit, together with their scope, approval dates, implementation dates, validity periods, as well as their main features. In the case of share option plans and financial instruments, the general characteristics of the plan should include information about the conditions for exercising those options or financial instruments in the case of each plan.
- Indicate any remuneration that may be received from sharing in profits or bonuses, and the reasons why they were granted.
- Explain the main parameters and basis of any annual bonus plans.
- The categories of Directors (Executive Directors, External Proprietary Directors, External Independent Directors or Other External Directors) who are beneficiaries of remuneration systems or plans that include variable remuneration).
- The basis of those variable remuneration systems or plans, the performance evaluation criteria chosen, as well as the components and evaluation methods to determine whether or not these evaluation criteria have been met and an estimate of the absolute amount of the variable remuneration that would give rise to the current remuneration plan, depending on the degree of fulfilment of the hypotheses or objectives that it takes as reference.
- If applicable, the periods of deferment or deferral of payment established and / or the periods of retention of shares or other financial instruments, if any, will be reported.

#### Explain the variable remuneration components of the remuneration policy

The only Directors who received variable remuneration were the Executive Directors. The Board of Directors has resolved to maintain the maximum limit for the annual variable remuneration of the Chairman and CEO as 100% of their respective gross annual salaries (in other words, €233,332.56 in the case of the Chairman and €220,787.58 in the case of the CEO) in 2018, which is the same level that was applied in 2017.

During 2017, the Chairman of the Company received variable remuneration amounting to €233,332.56 and the CEO received €220,787.58 for the same concept.

The parameters to which the payment of annual variable remuneration will be linked focus on the evolution of the Company over the medium term and essentially rest on four variables: (i) EBITDA, (ii) Net Financial Debt, (iii) Gross Margin and (iv) the volume (amount) of new contracts signed during the year.

A.5 Explain the main features of the long-term savings schemes, including for retirement and any other provision for survival, financed in whole or in part by the Company, whether they are funded internally or externally, with an estimation of their amount or annual equivalent cost, indicating the type of plan, whether it is defined contribution or defined benefit, the conditions for consolidating economic rights in favour of the Directors and their compatibility with any other type of compensation for the early termination or cancellation of the contractual relationship between the Company and the Director.

Indicate also the contributions in pension plans of defined contribution for the Director; or the increase in the consolidated rights of the director, in the case of contributions to defined benefit plans.

<b>Explain the long-term savings plans</b>
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The Company through its subsidiary Patentes Talgo, S.L.U. pays premiums for the insurance policies that it has taken out with certain insurance companies for the coverage of: (i) life insurance; (ii) pension funds and plans; and (iii) sick leave.

The total estimated cost of the aforementioned premiums amounts to €47 thousand (including the premiums for life insurance, sick leave insurance and pension plan insurance).

In addition, the Company pays premiums for civil liability policies for the exercise of the role of Director and as members of the top management, this premiums amounted €26 thousand.

A.6 Indicate any compensation agreed or paid in the event of the termination of the functions of a Director

<b>Explain any severance payments</b>
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The Company has not agreed or paid any severance payments for the termination of the functions of any Directors.

A.7 Indicate the conditions that the contracts governing the relationship with the Executive Directors who exercise senior management functions must reflect. Provide information about: the duration of the contracts, any limits to compensation payments, clauses relating to tenure, notice periods, as well as the payment required to avoid the aforementioned notice period, and any other clauses relating to hiring bonuses, compensation payments or golden handshakes, amongst other aspects, due to the early termination or cancellation of the contractual relationship between the Company and the Executive Director. Include details of any clauses that cover non-competition, exclusivity, tenure or loyalty agreements or any post-contractual non-competition agreements

<b>Explain the terms of the Executive Directors' contracts</b>
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The Executive Directors' contracts have indefinite terms and establish the payment of financial compensation in the event of the termination of the contractual relationship with the Company, provided that such terminations are not the result of a breach of the Directors' obligations. The notice period established in these contracts is six (6) months.

The contracts include a post-contractual non-competition clause for a term of two (2) years starting from the date that the employment relationship is terminated and a penalty clause that applies in the case of any breach.

The two Executive Directors' contracts establish a payment of twelve (12) months salary in both cases, by way of compensation for the termination of the contractual relationship.

A.8 Explain any supplementary remuneration accrued by the Directors as consideration for services rendered other than those inherent to their role.

Explain the supplementary remuneration

NONE

A.9 Indicate all types of remuneration paid in the form of early payments, loans and guarantees, and provide details of the interest rate, the key features and the amounts to be returned, as well as the obligations assumed on their behalf in the case of guarantees

Explain the early payments, loans and guarantees granted

NONE

A.10 Explain the main features of any benefits in kind

Explain the benefits in kind

The benefits in kind paid to all of the members of the Board of Directors relate only to the Executive Directors. The other Directors do not receive any benefits in kind whatsoever. The benefits in kind paid to the Executive Directors amount to €21,100.42.

A.11 Indicate the remuneration accrued by the Director by virtue of payments made by the listed company to a third party entity to which the Director renders services, when the purpose of those payments is to remunerate the services provided to that entity.

Explain the remuneration accrued by the Director by virtue of payments made by the listed company to a third party entity to which the Director renders services

NONE

A.12 Any other remuneration concept other than the abovementioned, regardless of its nature or the entity of the group that satisfies it, especially when it is considered a related transaction or its issue distorts the true image of the total remuneration earned by the director.

Explain the other remuneration concepts

NONE

A.13 Explain the actions adopted by the Company regarding the remuneration system to reduce its exposure to excessive risks and to adapt it to the long-term objectives, values and interests of the Company, which shall include, where applicable, references to: the planned measures to guarantee that the remuneration policy reflects the long-term results of the Company; measures that establish an applicable balance between the fixed and variable remuneration components; measures adopted in relation to those categories of personnel whose professional activities have a material repercussion on the risk profile of the entity; recovery formula or clauses to enable the Company to demand the return of variable remuneration components based on results, when such components have been paid on the

basis of data whose accuracy is later challenged in a clear way; as well as any planned measures to avoid conflicts of interest, where applicable

<b>Explain the actions adopted to reduce risks</b>
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The Company's remuneration policy is designed and supported by studies and analysis conducted by the Board of Directors and the Appointments and Remuneration Committee, taking into consideration the size of the company, the market, prudence and in light of both industrial and financial objectives.

The Appointments and Remuneration Committee receives advice from an independent company to develop these policies.

## **B. PLANNED REMUNERATION POLICY FOR FUTURE YEARS**

Repealed.

## **C. OVERVIEW OF HOW THE REMUNERATION POLICY WAS APPLIED LAST YEAR**

- C.1 Provide an overview of the main features of the structure and remuneration concepts of the remuneration policy applied last year, including details about the individual remuneration accrued by each Director, as reflected in Section D of this report, as well as a summary of the decisions taken by each Director for the application of these concepts

<b>Explain the structure and remuneration concepts of the remuneration policy applied during the year</b>
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The structure and remuneration concepts of the remuneration policy applied during 2017 reflect those described in Section A of this Report.

## D. DETAILS OF THE INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Name	Category	Accrual period during 2017
PEGASO TRANSPORTATION INTERNACIONAL S.C.A	PROPIETARY	From 01/01/2017 until 31/12/2017
MRS BELÉN VILLALONGA MORENÉS	INDEPENDENT	From 01/01/2017 until 31/12/2017
MR JUAN JOSÉ NÁRDIZ AMURRIO	INDEPENDENT	From 01/01/2017 until 31/12/2017
MR CARLOS DE PALACIO Y ORIOL	EXECUTIVE	From 01/01/2017 until 31/12/2017
MR JOSÉ M <sup>a</sup> ORIOL FABRA	EXECUTIVE	From 01/01/2017 until 31/12/2017
MR JAVIER BAÑÓN TREVIÑO	PROPIETARY	From 01/01/2017 until 31/12/2017
MR JOSÉ M <sup>a</sup> MUÑOZ DOMÍNGUEZ	PROPIETARY	From 01/01/2017 until 31/12/2017
MR EMILIO NOVELA BERLÍN	INDEPENDENT	From 01/01/2017 until 31/12/2017
MR JOHN CHARLES POPE	INDEPENDENT	From 01/01/2017 until 31/12/2017
MR RAMÓN HERMOSILLA GIMENO	OTHER EXTERNAL	From 01/01/2017 until 31/12/2017
MR MICHEL MUREAU	INDEPENDENT	From 01/01/2017 until 31/12/2017
NUEVA COMPAÑÍA DE INVERSIONES S.A.	PROPIETARY	From 01/01/2017 until 31/12/2017
MR ALBERTUS MEERSTADT	INDEPENDENT	From 01/01/2017 until 31/12/2017

D.1 Complete the following tables detailing the individual remuneration accrued by each Director (including remuneration accrued for the performance of executive functions) during the year.

### a) Remuneration accrued in the Company covered by this report:

#### i) Remuneration in cash (€ in thousands)

Name	Salary	Fixed remun.	Expenses	Short-term variable remun.	Long-term variable remun.	Remun. for serving on mgmt. committees	Compensation	Other concepts	Total 2017	Total 2016
MR RAMÓN HERMOSILLA GIMENO	0	80	0	0	0	0	0	0	80	80
MR EMILIO NOVELA BERLÍN	0	100	0	0	0	20	0	0	120	120
MR ALBERTUS MEERSTADT	0	80	0	0	0	20	0	0	100	100
MRS BELÉN VILLALONGA MORENÉS	0	80	0	0	0	10	0	0	90	80
MR JUAN JOSÉ NÁRDIZ AMURRIO	0	80	0	0	0	10	0	0	90	80
MR JOHN CHARLES POPE	0	80	0	0	0	10	0	0	90	90
MR MICHEL MOREAU	0	80	0	0	0	10	0	0	90	90



- ii) Share-based remuneration plans
- iii) Long-term savings plans

b) Remuneration accrued by Directors of the Company for serving on the Board of other companies in the group:

i) Remuneration in cash (€ in thousands)

Name	Salary	Fixed remun.	Expenses	Short-term variable remun.	Long-term variable remun.	Remun. for serving on mgmt. committees	Compensation	Other concepts	Total 2017	Total 2016
JOSE MARIA ORIOL FABRA	221	0	0	221	0	0	0	0	442	375
CARLOS DE PALACIO ORIOL	234	0	0	233	0	0	0	0	467	388

- ii) Share-based remuneration plans
- iii) Long-term savings plans

Name	Contribution of the exercise by the company (thousands €)		Amount of the accumulated funds (thousand euros)	
	2017	2016	2017	2016
JOSE MARIA ORIOL FABRA	9	9	185	171
CARLOS DE PALACIO ORIOL	9	9	220	205

iv) Other benefits

CARLOS DE PALACIO ORIOL			
Payment as advances, credits granted			
Interest rate		Main characteristics	Amounts eventually returned
0,00		n.a.	n.a.
Premiums for life insurances		Guarantees constituted by the company for the directors	
2017	2016	2017	2016
14	14	n.a.	n.a.

JOSÉ MARÍA ORIOL FABRA			
Payment as advances, credits granted			
Interest rate		Main characteristics	Amounts eventually returned
0,00		n.a.	n.a.
Premiums for life insurances		Guarantees constituted by the company for the directors	
2017	2016	2017	2016
6	6	n.a.	n.a.

### c) Remuneration summary (€ in thousands):

The amounts corresponding to all of the remuneration concepts that have been accrued by the Directors included in this report should be presented in this summary, in thousands of euros.

In the case of the long-term Savings Plan, include the contributions or provisions made to these types of plans:

Name	Remuneration accrued in the Company				Remuneration accrued in group companies						
	Total cash remun.	Amount of shares awarded	Gross profit from options exercised	Company total 2017	Total cash remun.	Amount of shares awarded	Gross profit from options exercised	Group total 2017	Total 2017	Total 2016	Contributions to savings plans during the year
Carlos de Palacio y Oriol	0	0	0	0	467	0	0	467	467	388	9
José M <sup>a</sup> Oriol Fabra	0	0	0	0	442	0	0	442	442	375	9
Albertus Meerstadt	100	0	0	100	0	0	0	0	100	100	0
Belén Villalonga Morenés	90	0	0	90	0	0	0	0	90	80	0
Emilio Novela Berlín	120	0	0	120	0	0	0	0	120	120	0
Ramón Hermosilla Gimeno	80	0	0	80	0	0	0	0	80	80	0
John Charles Pope	90	0	0	90	0	0	0	0	90	90	0
Juan José Nárdiz Amurrio	90	0	0	90	0	0	0	0	90	80	0
Michel Moreau	90	0	0	90	0	0	0	0	90	90	0
<b>Totals</b>	<b>660</b>	<b>0</b>	<b>0</b>	<b>660</b>	<b>909</b>	<b>0</b>	<b>0</b>	<b>909</b>	<b>1,569</b>	<b>1,403</b>	<b>18</b>

**D.2 Report about the remuneration received by Directors and the results or other performance measures for the entity, explaining, where applicable, how variations in the performance of the Company may have resulted in variations in the Directors' remuneration.**

The criteria for determining the annual variable remuneration are only applicable to the Company's Executive Directors.

Those criteria are determined by the Appointments and Remuneration Committee and are linked to the Company's evolution over the medium-term and long-term on the basis of economic-financial parameters, on the one hand, and long-term industrial development on the other hand, taking into consideration operating criteria and the development of specific projects.

To determine the individual objectives of each Executive Director, as well as of the Company's other Senior Management, the Appointments and Remuneration Committee takes into consideration both the progress and overall evolution of the Company, as well as the degree of performance and contribution to the achievement of the overall objectives made by each one of the aforementioned Directors.

**D.3 Provide information about the result of the consultative vote by the General Shareholders' Meeting regarding the annual report about prior year remuneration, indicating the number of negative votes cast, where applicable.**

Votes issued:	90,044,723	100.00%
Positive votes:	89,657,259	99.57%
Negative votes:	129,567	0.14%
Abstention:	257,897	0.29%

**E. OTHER RELEVANT INFORMATION**

If there are any other significant aspects about the Directors' remuneration that have not been disclosed in any of the other sections of this report, but which need to be included to provide a more complete and reasoned set of information about the structure and remuneration practices of the Company regarding its Directors, provide brief details below:

The remuneration of the executive directors corresponds to a subsidiary of the Company, Patentes Talgo S.L.U. and not to the company that is listed by Talgo S.A., since as mentioned in the report they do not receive any compensation for their status as directors, but as executives of a Group company.

This annual remuneration report was approved by the Company's Board of Directors at its meeting on 23/02/2017.

Indicate whether any of the Directors abstained or voted against the approval of this Report.

Yes

No