

MODEL ANNEX I

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR PUBLICLY LISTED COMPANIES**

THE ISSUER'S IDENTIFICATION DETAILS

REFERENCE YEAR END DATE

31-12-2015

C.I.F. A84453075

Company name:

TALGO, S.A.

Registered address:

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

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR PUBLICLY LISTED COMPANIES**

A OWNERSHIP STRUCTURE

A.1 Complete the following table detailing the Company's share capital:

Last modification date	Share capital (€)	Number of shares	N° of voting rights
28-0-2015	41.186.702,90	136.832.900	136.832.900

Indicate whether there are different classes of shares with different associated rights:

Yes No

Class	N° of shares	Nominal unit	Unitary number of voting rights	Different rights

A.2 List the direct and indirect holders of significant shareholdings in the Company at year end, excluding Directors*:

Name or corporate name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
MCH Inversiones Industriales	6.375.490			4,659%
CAPITAL RESEARCH AND MANAGEMENT COMPANY.	4.363.991			3,189%
MCH IBERIAN CAPITAL FUND III	5.793.590			4,234%
SMALLCAP WORLD FUND, INC.(SCWF)	4.516.654			3,301%
UNIVERSITIES SUPERANNUATION SCHEME	4.170.000			3,048%

* Data obtained from CNMV records. The Company does not have any additional information.

Indicate the most significant movements in the ownership structure during the year:

Name or corporate name of the shareholder	Date of the operation	Description of the operation

A.3 Complete the following tables about the members of the Company's Board who hold voting rights over shares in the Company:

Name or corporate name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
Pegaso Transportation International, S.C.A.	43.916.475			32,095%

José M ^a Oriol Fabra	1.415.942			1,035%
Carlos de Palacio Oriol	1.165.942			0,852%

Total % of voting rights held by the Board of Directors				33,982
--	--	--	--	---------------

Complete the following tables about the members of the Company's Board who hold rights over shares in the Company:

Name or corporate name of the Director	Number of direct rights	Indirect voting rights		Equivalent number of shares	% over total voting rights
		Direct shareholder	Number of voting rights		

A.4 Where applicable, indicate the relationships of a family, commercial, contractual or company nature that exist between the owners of significant shareholdings, to the extent that they are known by the Company, except when they are insignificant or arise as a result of ordinary commercial transfers or traffic:

Related party name or corporate name	Type of relationship	Brief description

A.5 Where applicable, indicate the relationships of a commercial, contractual or company nature that exist between the owners of significant shareholdings, and the Company and/or its group, except when they are insignificant or arise as a result of ordinary commercial transfers or traffic:

Related party name or corporate name	Type of relationship	Brief description

A.6 Indicate any shareholders' agreements that have been reported to the Company, in accordance with the provisions of Articles 530 and 531 of the Capital Companies Act. Where applicable, briefly describe these agreements and list the shareholders involved with them:

Yes No

Participants in shareholders' agreement

Pegaso Transportation Internacional SCA	Jaime del Río y Oriol
MCH Iberia Capital Fund III, FCR	Luisa Fernanda del Río y Oriol
MCH Inversiones Industriales, S.à.r.l.	Blanca del Río y Oriol
Lucas María de Oriol López Montenegro	Carlos del Río y Oriol
Nicolás Domecq Oriol	San Ignacio, S.L.
Alfonso Carlos de Oriol Muñoz	Patrimonial Orlesa, S.A.
Ignacio María de Oriol Muñoz	María Begoña de Oriol e Ybarra
María Magdalena de Oriol Muñoz	Casilda Castillejo Oriol
Santiago María de Oriol Muñoz	Catalina Castillejo Oriol
Juan Pedro de Oriol Muñoz	María Dolores Castillejo Oriol

Inmajor, S.A.	María del Dulce Nombre Castillejo Oriol
María de Patrocinio de Oriol Muñoz	Juan Castillejo Oriol
María de Palacio y Oriol	Miguel de Oriol Ybarra
Luis María de Palacio Guerrero	DR.L I Recasens, S.L.
María Sacramento de Palacio Guerrero	Eduardo Serra Arias
Isabel María de Palacio y Delattre	Casa Cuna, S.L.
Luis Felipe de Palacio y Delattre	E.D.T., S.A.
Leonor María de Palacio y Delattre	Luis Ignacio Recasens Castillejo
José María de Palacio y Oriol	María Gracia Recasens Castillejo
María de las Nieves de Oriol Pastega	Camilo Pedro de Oriol Fabra
Mario de Oriol Pastega	José Luis de Oriol Ybarra
Alejandra Paula de Oriol Pastega	Esperanza Macarena de Oriol Fabra
Proyectos Dunbar, S.L.	María Gracia de Oriol Fabra
María del Dulce Nombre del Río y Oriol	Alfonso de Oriol Fabra
Gonzalo del Río y Oriol	

Percentage of share capital affected: 55%

Brief description of the agreement

The Shareholders' Agreement regulates certain aspects of the Company's governing bodies.

Moreover, the Shareholders' Agreement extends to the transfer of shares in the Company. It stipulates a ban on the sale of shares for a certain period, as well as the right of first refusal for a subsequent period, following the end of the aforementioned ban period, and all transfers are subject to certain percentages that are established in the Agreement itself.

On the other hand, any other share transfers, besides those described above, must follow the procedure established in the Agreement itself, in such a way that only transfers exceeding 3% of the share capital at that date (block trade) may be undertaken. Moreover, an investment bank should be appointed for that purpose, which should undertake the operation in accordance with the rules and within the timeframe stipulated in the Agreement itself.

Notwithstanding the above, transfers made of shares in companies that belong to the same group as the shareholder Company, party to the contract, and those made in the context of a takeover bid shall not be subject to the restriction, except in the case of the drag-along right that exists for PEGASO TRANSPORTATION INTERNATIONAL, S.C.A..

Furthermore, any transfer of shares in the event of the liquidation of the company shall not be subject to restriction either.

Third parties (people or companies) that operate businesses in segments similar to those in which the Company competes and significant shareholders of those competitor companies who acquire shares in the Company, following the procedure established in the Shareholders' Agreement, should sign up to the Agreement, and whereby assume the same rights and obligations as the other shareholders.

Notwithstanding the provisions of the following paragraph, the validity of this Shareholders' Agreement shall terminate on the second anniversary of the date that the Company first listed on the stock exchange, or on the date on which PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. ceases to hold a significant stake in the Company (equivalent to 3%, according to ruling legislation), whichever happens first.

Notwithstanding the above, in the event that the Agreement terminates as a result of the end of the aforementioned period of two years, then the drag-along right granted to PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. by the shareholders signing the Agreement, shall remain valid for as long as that company holds a significant stake in the share capital of the Company.

Indicate whether the Company is aware of the existence of any concerted actions between its shareholders. Where applicable, describe them briefly:

Yes No

Participants in concerted actions	% of share capital affected	Brief description of the agreement

In the event that any modifications have been made to these agreements or concerted actions or they have been terminated during the year, expressly indicate them below:

A.7 Indicate whether any person or legal entity exercises control or may exercise control over the Company under the terms set forth in Article 5 of the Securities Market Law. In this case, identify that person or entity:

Yes No

Name or corporate name

Comments

A.8 Complete the following tables about the Company's treasury stock:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Total:	

Explain any significant variations registered during the year, in accordance with the provisions of Royal Decree 1362/2007:

All of the treasury shares acquired by the Company (own shares) through its exercise of the authorisation granted for that purpose by the General Shareholders' Meeting on 28 March 2015, were delivered immediately to the managers and employees for whom they were intended.

A.9 Describe the terms and conditions of any mandate(s) conferred upon the Board of Directors by the General Shareholders' Meeting to issue, repurchase or transfer treasury stock.

The General Shareholders' Meeting of the Company, at its meeting on 28 March 2015, agreed to expressly authorise the Board of Directors to acquire TALGO, S.A. shares in the secondary market, in accordance with the provisions of the Capital Companies Act, under the following terms:

(A) Authorise the Board of Directors, in accordance with the provisions of Article 146 et seq of the Capital Companies Act, so that it may proceed to acquire the Company's own shares in the secondary market, by any means, either directly or through companies that it controls, subject to the following limits and requirements:

- The shares may be acquired by purchasing them directly or by any other *inter vivo* act in exchange for consideration.
- The maximum number of shares acquired, in addition to those already held by the Company and any of its subsidiaries, shall not exceed ten per cent (10%) of the Company's total share capital.
- The shares acquired shall be free from all charges and encumbrances, fully paid up and not linked to the fulfilment of any obligations.
- The minimum acquisition price of the shares shall not be lower than their nominal value; and the maximum price shall not exceed the share price share fixed for the purposes of the share sale offer prior to the admission of the Company's shares onto the Stock Exchange for trading, if the acquisition is made during the period for placing the shares, or more than one hundred and twenty per cent (120%) of the market value of the shares on the corresponding date, if the acquisition is made subsequently.
- Duration of the authorisation: five (5) years, starting from the date the authorisation was approved.

(B) Authorise the Board of Directors so that it may designate, in whole or in part, the own shares acquired to the execution of remuneration programs, be they already established or established in the future, which are intended to involve or do actually involve the delivery of shares or rights over share options, or are based in any way on the evolution of the market price of the share, in accordance with the provisions of Article 146.1.a) of the Capital Companies Act.

This authorisation for the acquisition of own shares shall be effective from the date that the Company's shares are admitted for trading on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	57,112*

*It includes the equity percentage from the individual minority shareholders signatories of the Shareholders' Agreement referred in paragraph A6 above.

A.10 Indicate whether any restrictions exist over the transfer of shares and/or the transfer of voting rights. In particular, provide information about the existence of any kind of restriction that may hinder the takeover of the Company through the acquisition of its shares in the market.

Yes No

Description of the restrictions

See Paragraph A6 above.

A.11 Indicate whether the General Shareholders' Meeting has agreed to adopt measures to neutralise any takeover bids by virtue of the provisions of Law 6/2007.

Yes No

Where applicable, explain the measures approved and the terms under which the restrictions would be rendered ineffective:

A.12 Indicate whether the Company has issued securities that are not traded on a regulated European market.

Yes No

Where applicable, indicate the different classes of shares together with the rights and obligations conferred for each share class.

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate whether differences exist between the minimum regime set out in the Capital Companies Act (LSC) and the quorum for the constitution of the General Shareholders' Meeting, and where applicable, provide details.

Yes No

B.2 Indicate whether differences exist between the regime set out in the Capital Companies Act (LSC) for the adoption of resolutions and, where applicable, provide details:

Yes No

Describe how it differs from the regime set out in the LSC.

B.3 Indicate the rules applicable to the modification of the Company's bylaws.

In particular, provide details of the majorities set out for the modification of the bylaws, as well as, where applicable, the rules set out for the protection of the shareholders' rights in the modification of the bylaws.

In terms of amendments to the Bylaws and the protection of shareholders' rights in the event of such amendments, the Company is governed by the provisions of articles 298 et seq of the Capital Companies Act.

B.4 Indicate the attendance figures for the General Shareholders' Meeting held during the year, as well as those applicable to previous years:

Meeting date	Attendance figures				
	% attending in person	% by proxy	% distance voting		Total
			Vote	Others	
27-06-2014	1,64%	70,69%	-	-	72,33%
28-03-2015	1,98%	98,02%	-	-	100%

B.5 Indicate whether any statutory restrictions exist that establish that a minimum number of shares is required to attend General Shareholders' Meetings:

Yes No

B.6 Paragraph repealed.

B.7 Indicate the address and mode of access to the Company's website, specifically, the link to information about corporative governance and other information about General Shareholders' Meetings that should be made available to shareholders through the Company's website.

www.talgo.com > accionistas e inversores > gobierno corporativo

In same web you have access to the information related to Shareholders' meetings of precedent years:

www.talgo.com > accionistas e inversores > gobierno corporativo > junta general de accionistas

C **STRUCTURE OF THE COMPANY'S BOARD**

C.1 **The Board of Directors**

C.1.1 List the maximum and minimum number of Directors, as stipulated in the Company's bylaws:

Maximum number of Directors	15
Minimum number of Directors	5

C.1.2 Complete the table below with the names of the members of the Board:

Name or corporate name of Director	Representative	Category of Director	Position on the Board	Date of first appointment	Date of last appointment	Election procedure

DON CARLOS DE PALACIO Y ORIOL		EJECUTIVO	PRESIDENTE	29/03/2006	28/03/2015	ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON JOSÉ M ^º ORIOL FABRA		EJECUTIVO	CONSEJERO DELEGADO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON RAMÓN HERMOSILLA GIMENO		OTRO EXTERNO	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON JAVIER BAÑÓN TREVIÑO		EXTERNO DOMINICAL	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON JOSÉ M ^º MUÑOZ DOMÍNGUEZ		EXTERNO DOMINICAL	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON EMILIO NOVELA BERLÍN		EXTERNO INDEPENDIENTE	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON JUAN JOSÉ NÁRDIZ AMURRIO		EXTERNO INDEPENDIENTE	CONSEJERO	29/09/2015		COOPTACIÓN
DON MICHEL MOREAU		EXTERNO INDEPENDIENTE	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON JOHN CHARLES POPE		EXTERNO INDEPENDIENTE	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DON ALBERTUS MEERSTADT		EXTERNO INDEPENDIENTE	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DOÑA BELÉN VILLALONGA MORENÉS		EXTERNO INDEPENDIENTE	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
PEGASO TRANSPORTATION INTERNACIONAL S.C.A	DON JAVIER OLASCOAGA PALACIO	EXTERNO DOMINICAL	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
NUEVA COMPAÑÍA DE INVERSIONES S.A.	DON MIGUEL ABELLÓ GAMAZO	EXTERNO DOMINICAL	CONSEJERO	28/03/2015		ACUERDO JUNTA GENERAL DE ACCIONISTAS
DOÑA M ^º JOSÉ ZUECO PEÑA			SECRETARIA NO CONSEJERA	30/03/2015		ACUERDO DEL CONSEJO DE ADMINISTRACIÓN
DON MARIO ALEJANDRO ÁLVAREZ GARCÍA			VICESECRETARIO NO CONSEJERO	30/03/2015		ACUERDO DEL CONSEJO DE ADMINISTRACIÓN

Total number of Directors	13
----------------------------------	-----------

Indicate the details of any resignations from the Board of Directors during the year:

Name or corporate name of Director	Category of Director when he resigned	Leave date
D. Christian Burkhard	Independiente	26/06/2015

C.1.3 Complete the following tables about the members of the Board of Directors and their different categories:

EXECUTIVE DIRECTORS

Name or corporate name of Director	Role in the Company's organisational chart
DON CARLOS DE PALACIO Y ORIOL	PRESIDENTE
DON JOSÉ MARÍA DE ORIOL FABRA	CONSEJERO DELEGADO

Total number of Executive Directors	2
% of total Board	15,4%

**EXTERNAL PROPRIETARY
DIRECTORS**

Name or corporate name of Director	Name or corporate name of the significant shareholder that he represents or that appointed him
Javier Bañón Treviño	Propuesto por Pegaso Transportation International SCA
Jose María Muñoz Domínguez	Propuesto por MCH Iberian Capial Fund III, FCR y MCH Inversiones Industriales, S.à.r.l.
Nueva Compañía de Inversiones, S.A.	Propuesto por Pegaso Transportation International SCA a solicitud de Torreal S.A. (filial de Nueva Compañía de Inversiones S.A.) propietaria de un 9,6% en Pegaso Transportation International, S.C.A.
Pegaso Transportation International SCA	

Total number of Proprietary Directors	4
% of total Board	30,8%

**EXTERNAL INDEPENDENT
DIRECTORS**

Name or corporate name of Director

Mr. Emilio Novela

Mr. Novela currently represents Banco Santander on the board of the Spanish Private Banking Association and he is also member of the Board of OpenBank.

Nowadays, Mr. Novela holds an important number of directorships including Patentes Talgo, Spanish Enterprise Association (CEIM), BlackRock Global Funds, Royal Urbis and Dixi Media.

Mr. Novela has an extensive experience holding board positions at several other Spanish financial institutions including Vice Chairman of Banco Banif Private Banking (Santander Group), Banco de Jerez, Banco Urquijo, Hispamer, Central Hispano Generali, Banesto, Banco Mercantil, Citi Leasing and Saudesbank. Mr. Novela has also served on the Boards of Cortefiel, Larios (Pernod Ricard), Campsa, Spanair, Union Fenosa, Vallehermoso, Testa, YMCA Spain, US-Spain Foundation, Euro America Foundation, Viajes Internacional Expreso, Gesinar (3i) and Cap Gemini Ernst & Young where he served on the Advisory Board.

Furthermore, was also named the CFO of Repsol, the leading Spanish oil company, and the first Vice-Chairman and CEO of Vallehermoso, a leading Spanish real estate and construction company.

Mr. Michael Moreau

Mr. Moreau began his career at IBM France, where he served for 4 years. In 1974, he joined the Alstom Group at the Compagnie Générale de Productive and 18 years later, he was appointed Deputy Managing Director of the Compagnie Européenne d'Accumulateurs (CEAC), a subsidiary of Alcatel Alstom and a world leader in lead-acid batteries, in charge of the industrial batteries business.

Since Mr. Moreau joined Alstom Transport S.A. in 1992, he has been managing Director of the French Main Lines Group, in charge of the main rolling stock activities: high speed trains, electric and Diesel locomotives, electrical and Diesel multiple units. He was appointed its President until 2003.

In addition, he was elected Chairman of UNIFE (Union de l'Industrie ferroviaire Européenne) in 2002.

Mr. Moreau is a graduate of the l'Ecole Centrale de Paris.

Mr. John C. Pope

Mr. Pope is a Chairman of PFI Group, LLC and of the Board of R.R. Donnelley & Sons, Inc. Prior to that, he was Chairman of the Board of Waste Management, Inc., and of the board of MotivePower Industries, Inc.

Before joining MotivePower Industries, Mr. Pope was president and chief operating officer and a member of the board of directors of United Airlines and UAL Corporation until it was purchased by its employees in July 1994. He formerly served as senior vice president of finance, chief financial officer and treasurer for American Airlines and its parent, AMR Corporation.

Mr. Pope currently is director of the Kraft Heinz Company, R.R. Donnelley & Sons, Co. (RRD), and Waste Management Inc. (WMI).

Mr. Pope holds a Bachelor's Degree in Engineering and Applied Science from Yale University and a Master's Degree from the Harvard Graduate School of Business Administration.

Mr. Albert Meerstadt

Mr. Meerstadt is Vice-chairman of the Supervisory Board of Lucas Bols and Supervisory Board member of ABN AMRON. He was CEO of the Executive Board of the NV Nederlandse Spoorwegen (Netherlands Railways), leading train and stations operating company in The Netherlands. He joined this company in 2001 as Chief Commercial Officer.

Before joining the Netherlands Railways, he has worked for 8 years in the marketing and advertising sector in the companies Young & Rubicam and Marketing and Consult Brand Strategies.

In addition, Mr. Meerstadt has formerly worked in McKinsey & Company.

Mr. Meerstadt has Certification of the International Director's Programme and a Master's Degree in Business Administration from INSEAD European Business School and a MSc Degree in Architectural Engineering from Delft University of Technology.

Ms. Belén Villalonga Morenés

Ms. Villalonga is now an independent director and audit committee chair of Grifols, S.A. a global leader in the hemoderivatives (plasma) industry since 2013 and independent director of Acciona, S.A. Previously Ms. Villalonga held different positions in companies, such as IBM.

Ms. Villalonga has also worked as a professor at different universities, among others New York University and the Harvard Business School.

Ms. Villalonga has a degree in economics and management science from Colegio Universitario de Estudios Financieros (CUNEF). She also has a Master's Degree Economics from the University of California, a Ph.D. in Economics and Management Science from the Universidad Complutense de Madrid and a Ph.D. in Management from the University of California.

Mr. Juan José Nárdiz Amurrio

Mr. Nárdiz is currently the President of Martinrea Honsel, having previously been Vice President of Operations in this company. He has held various positions of Presidency in companies such as European Die Casting Association and Tafime S.A., being in this one an engineer, Sales Manager, Director of Expansion and Business Development and Chairman and Chief Executive Officer.

Mr. Nárdiz is a senior-level executive with 28 years of operational, marketing, business development (strategic planning and M&A), sales and, engineering experiences in the casting and automotive industry. He has provided strategic leadership while consistently delivering sales and profit growth, developing high performing teams, and strengthening customer relationships with a strong experience in developing relationships at top level in North-and South America, Europe, China and India.

Mr. Nárdiz has a Degree in Industrial Engineering from ICAI, a Master's Degree in Business Administration from the Instituto de Empresa Business School, a Material Science in Engineering Postgraduate Degree, from UCLA, United States, and a Degree in Administration of Sales of the École des Études économiques in Montpellier.

Total number of Independent Directors	6
% of total Board	46,15%

Indicate whether any of the Independent Directors receive any quantities or profits for any concept other than Director remuneration from the Company, or from its group, and whether any of them hold or have held during the last year, a business relationship with the Company or with any company in its group, either in his own name or as a significant shareholder, Director or senior manager of an entity that holds or has held such a relationship.

No one

Where applicable, include a reasoned statement from the Board detailing the reasons why it considers that the affected Director can still perform his duties in his capacity as an Independent Director.

Name or corporate name of Director	Description of the relationship	Reasoned statement

OTHER EXTERNAL DIRECTORS

Identify the other External Directors and explain the reasons why they cannot be considered as Proprietary or Independent Directors, as well as their relationships, be they with the Company, its Directors or its shareholders:

Name or corporate name of Director	Reasons	Company, manager or shareholder with whom the relationship is held
Ramón Hermosilla Gimeno	The firm RAMON HERMOSILLA ABOGADOS, where the Director is founded partner, renders legal services to the Group of the Compan	TALGO, S.A. and subsidiaries.

Total number of Other External Directors	1
% of total Board	7,6%

Indicate any variations that have been registered during the year in terms of the categories of each Director, where applicable:

Name or corporate name of Director	Date of change	Previous category	Current category
-	-	-	-

C.1.4 Complete the table below with information relating to the number of female Directors at the end of the last 4 years, as well as the category of each one:

	Number of female Directors				% over total number of Directors in each category			
	Year 2015	Year 2014	Year 2013	Year 2012	Year 2015	Year 2014	Year 2013	Year 2012
Executive								
Proprietary								
Independent	1	-	-	-	7,6%	-	-	-
Other External								
Total:	1	-	-	-	7,6%	-	-	-

C.1.5 Explain the measures that have been adopted, where applicable, that seek to include a number of women on the Board of Directors so as to enable a balanced representation of women and men.

The Company's Appointments and Remuneration Committee has agreed to search for a female candidate and to propose to the Board of Directors that a female be appointed as a Director to cover the next vacant post that arises on that body.

The Committee considers that it would be desirable to increase the number of women sitting on the Board of Directors and it believes that the ideal profile would be a woman with technical training and experience in the business area in which the Company specialises – namely, the manufacture and/or maintenance of trains-.

C.1.6 Explain the measures that the Appointments Committee has agreed, where applicable, to ensure that the Company's selection procedures are

not implicitly biased against the selection of female Directors, and that the Company deliberately seeks out and includes women on the list of potential candidates when they fulfil the professional profile sought:

When, despite the measures that have been adopted, where applicable, the number of female Directors is scarce or non-existent, explain the reasons to justify this:

At its meeting on 28 March 2015, the General Shareholders' Meeting agreed to appoint a female External Independent Director for a period of four (4) years. The Appointments and Remuneration Committee has established a series of guidelines to be followed in future Director selection processes, to ensure compliance with the criteria of gender diversity, as established by the Company in its Rules of the Board.

C.1.6.bis Explain the conclusions drawn by the Appointments Committee regarding the verification of compliance with the selection policy for Directors. And in particular, about whether this policy is promoting the objective that the number of female Directors should represent, at least, 30% of the total number of Board members by 2020.

The functions of the Appointments and Remuneration Committee include, amongst others, setting a goal of representation for the gender that is least represented on the Board of Directors; developing guidance on how to achieve that objective; and reporting to the Board on matters concerning gender diversity.

C.1.7 Explain how the shareholders who hold significant stakes are represented on the Board.

Mr Javier Bañón Treviño was appointed as a Director of PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. on 28 March 2015.

Mr José M^a Muñoz Domínguez was appointed as a Director of MCH IBERIAN CAPITAL FUND III, F.C.R. y MCH INVERSIONES INDUSTRIALES, S.A.R.L. on 28 March 2015.

NUEVA COMPAÑÍA DE INVERSIONES, S.A., which owns 9.6% of the share capital of PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. was appointed as a Director of the latter company on 28 March 2015.

Similarly, PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. was appointed as a Director of the same company on 28 March 2015.

C.1.8 Where applicable, explain the reasons why Proprietary Directors have been appointed at the request of shareholders whose shareholdings represent less than 3% of the total share capital:

Sí

No

Indicate whether formal requests to participate in the Board have been denied for shareholders whose shareholdings are equal to or more than the shareholdings of others who have been appointed as Proprietary Directors, upon request. Where applicable, explain the reasons why the requests have been denied:

Yes

No

Name or corporate name of the shareholder	Explanation

C.1.9 Indicate whether any Director has resigned from office before the end of his term, whether that Director has explained his reasons to the Board and if so, through which channel. And, if he has communicated his reasons in writing, list below the reasons given by him:

Name of the Director

D. Christian Burkhard Schuchmann

Reason for resignation

On 26 June 2015, Mr Schuchmann resigned from his position as an Independent Director as he had reached the age of 73, which is the age limit permitted to form part of the governing body.

C.1.10 Indicate which powers, if any, have been delegated to the Chief Executive Officer(s):

Name or corporate name of the Director

D. Carlos de Palacio Oriol and D. Jose María Oriol Fabra

Brief description

These Directors have been delegated all of the legal and statutorily delegable powers:

- (i) Severally for operations that do not exceed €3 million.
- (ii) Jointly for operations exceeding €3 million and amounting to less than €18 million.

C.1.11 Where applicable, identify those members of the Board, if any, who hold office as directors or executives of other companies that form part of the same group as the listed company:

Name or corporate name of the Director	Company name of the group entity	Role	Does he exercise executive functions?
D. Carlos de Palacio y de Oriol	Patentes Talgo, S.L.U	Presidente	Sí
D. José María Oriol Fabra	Patentes Talgo, S.L.U.,	Consejero Delegado	Sí
D. José María Oriol Fabra	Talgo Deutschland GmbH.	Consejero Delegado	Sí
D. José María Oriol Fabra	Talgo Inc.	Presidente	Sí
D. Ramón Hermosilla Gimeno	Patentes Talgo, S.L.U.	Secretario Consejero	No

C.1.12 Where applicable, list the names of the Directors of the Company who sit on the Board of other non-group companies listed on the official markets, which have been reported to the Company:

Name or corporate name of the Director	Name of the listed company	Role

C.1.13 Indicate and, where applicable explain, whether the Rules of the Board establish regulations about the maximum number of company boards on which its Directors may sit:

Yes No

Explanation of the rules

In accordance with the provisions of Article 31(xii) of the Rules of the Board, Directors may not serve on more than five (5) Boards of Directors, unless expressly authorised to do so by the Board of Directors, at the proposal of the Appointment and Remuneration Committee, excluding: (i) Boards of Directors of companies that form part of the same group as the company; (ii) Boards of Directors of family companies or companies owned by the Directors or their families; and (iii) Boards that they sit on due to their professional relationships.

C.1.14 Paragraph repealed.

C.1.15 Indicate the total remuneration paid to the Board of Directors:

Board remuneration (€ in thousands)	29.888*
Amount of total remuneration for current Directors corresponding to accumulated pension rights (€ in thousands)	0
Amount of total remuneration for former Directors corresponding to accumulated pension rights (€ in thousands)	0

*Such amount includes the retribution received consisting on shares.

C.1.16 Identify the members of senior management who are not Executive Directors and indicate the total amount of remuneration accrued by them during the year:

0

C.1.17 Where applicable, indicate the identity of Board members who also, in turn, sit on the Board of companies owned by significant shareholders and/or of other entities in the group:

Name or corporate name of Director	Company name of significant shareholder	Role

Where applicable, detail the significant relationships held by members of the Board that link them to significant shareholders and/or other entities in the group, other than those referred to in the preceding paragraph:

Name or corporate name of the related Director	Name or corporate name of the related significant shareholder	Description of the relationship

C.1.18 Indicate whether there have been any changes to the Rules of the Board during the year:

Yes No

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing Directors. List the competent bodies, the procedures followed and the criteria used for each procedure.

1.-APPOINTMENT OF DIRECTORS

The General Shareholders' Meeting is responsible for appointing, electing and removing Directors.

Nevertheless, the Board may cover any vacancies that arise, through the co-optation procedure, on a temporary basis, until the next General Shareholders' Meeting is held.

The following persons may not be appointed as Directors, including, where appropriate, individual representatives of legal entity Directors:

- (i) Domestic or foreign companies, whose significant shareholder, directly or indirectly, holds a stake, directly or indirectly, in a company that operates in the railway sector or in other sectors in which the Company competes, as well as any of their administrators or senior management and people who, where applicable, were proposed by them in their capacity as shareholders.
- (ii) Persons who, in the two (2) years preceding their possible appointment, have held senior management roles in government that are incompatible with the performance of their functions as a Director of a listed company, in accordance with regional or state law, or persons who have held roles of responsibility in one of the sectors in which the company undertakes its activity.
- (iii) Persons or legal entities who are subject to any other rules of incompatibility or prohibition, as governed by the general rules, including those who have interests that are in any way opposed to those of the Company or those of any one of the Group's

companies.

- (iv) The Board of Directors – and the Appointments and Remuneration Committee, within the scope of its responsibilities – shall endeavour to ensure that the proposals for candidates that it submits to the General Shareholders' Meeting for appointment or re-election as Directors, and the appointments that it makes directly to cover vacancies in the exercise of its co-optation duties, involve respectable and appropriate people, who have recognised solvency, competence, experience, qualifications, training, availability and commitment for the role. It shall endeavour to ensure, as well, that the candidate selection process results in a well balanced Board of Directors, as diversity enriches decision making and allows multiple points of view to be shared during discussions of matters under its remit.
- (v) In the case of legal entity Directors, the individual person who represents an entity in the exercise of the functions inherent to the role of Director shall be subject to the same requirements indicated in the paragraph above. The incompatibilities and duties established for the Board in the Company Bylaws and in the Rules of the Board shall be equally applicable to the individual person representing the legal entity.

2.- RE-ELECTION OF DIRECTORS

Proposals for the re-election of Directors that the Board of Directors decides to submit to the General Shareholders' Meeting must be subject to a preparation process that the proposal must necessarily form a part of (in the case of Independent Directors) or a report (in the case of other Directors), issued by the Appointments and Remuneration Committee, in which the quality of the work and the dedication to the role of the proposed Directors during their mandate shall be evaluated, as well as, in an explicit way, the reputation, suitability, solvency, competence, availability and commitment to the role.

In any case, the ratification and re-election of Directors should reflect the provisions of the Law, as well as the Company's Rules for its Corporate Governance System.

3.- EVALUATION OF DIRECTORS

The Company was admitted to trading in the month of May 2015, nevertheless, Article 21.8 of the Rules of the Board establishes an annual action plan, which requires the Board of Director to evaluate its own operation and the quality and efficiency of its work, as well as that of the different Committees and, to propose, on the basis of the results, an action plan to correct any deficiencies detected, recording the results of that evaluation in the minutes of the meeting and incorporating them as an annex. The Board is also required to perform an annual review and evaluation, on the basis of a report from the Appointments and Remuneration Committee, of the work performed by the Chairman of the Board in his capacity as such and, where applicable, the work performed by the Managing Director and CEO of the Company, as well as of the work performed by the different committees. During the discussion between the Board of Directors about the work of the Chairman in his capacity as such and, where applicable, the Managing Director and CEO of the Company, the person being discussed may not be present and so the Vice-President of the Board of Directors and, in his absence, the Director appointed for that purpose by the Board of Directors, should lead the debates, in accordance with the provisions of the Rules of the Board.

4.- REMOVAL OF DIRECTORS

Directors shall leave office when the period for which they were appointed has elapsed or when so decided by the General Shareholders' Meeting in its exercise of the powers assigned to it.

The term of office shall be four (4) years from the date of acceptance.

The Board of Directors shall not propose the removal of any Independent Director before the end of his term in office, unless the Board of Directors identify just cause to do so, following a report from the Appointments and Remuneration Committee.

In any case, the Appointments and Remuneration Committee shall report to the Board of Directors about proposed removals due to any breach of duties inherent to the role of Director or if a Director is involved in any activity that warrants his resignation or the mandatory termination of his appointment.

C.1.20 Explain the extent to which the annual evaluation of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

The Company was admitted to trading in the month of May 2015 and both the Audit Committee, as well as the Appointments and Remuneration Committee, seeks to establish and promote evaluation criteria for different aspects of the Board of Directors.

C.1.20.bis Describe the evaluation process and the areas evaluated by the assistant to the Board of Directors, where applicable, by an external consultant, regarding the diversity of its composition and duties; the operation and composition of its committees; the performance of the Chairman of the Board of Directors and of the CEO of the Company; and the performance and contribution made by each Director.

The Company was admitted to trading in the month of May 2015 and both the Audit Committee, as well as the Appointments and Remuneration Committee, seeks to establish and promote evaluation criteria for different aspects of the Board of Directors.

C.1.20.ter Where applicable, disclose the business relationships that the consultant or any one of the group's companies holds with the Company or with any company in the group.

C.1.21 Indicate the cases in which Directors must resign.

Directors must submit their resignation to the Board of Directors and formally resign in the following cases:

- (i) When, due to supervening circumstances, they are involved in any of the cases of incompatibility or prohibition established in the general provisions of the Company Bylaws or the Rules of the Board.
- (ii) When an act or conduct attributable to the Director has caused serious harm to the corporate assets or reputation of the Company or a risk arises of criminal liability for the Company.
- (iii) When they lose the reputation, capability, solvency, competence, availability or commitment to their duties necessary to be a Director of the Company.
- (iv) When their continuation on the Board of Directors may jeopardise, for any reason, and directly, indirectly or through any persons related to them (according to the definition of that term contained in the Rules of the Board), the loyal and diligent performance of their duties in accordance with the corporate interest.
- (v) When the reasons for which they were appointed cease to exist and, in particular, in the case of Proprietary Directors, when the shareholders who they represent sells some or all of their shareholdings with the consequent loss of the shareholders' significant or sufficient stake to justify the appointment. The number of Proprietary Directors proposed by a shareholder should decrease in proportion to the reduction in the stake in the Company's share capital.
- (vi) When, for any reason, an Independent Director becomes involved in any of the prohibiting circumstances set forth in Article 8.5 of the Rules of the Board.
- (vii) When the Director reaches 73 years of age.

In any of the cases described in the preceding paragraphs, the Board of Directors shall require the Director to resign from office and, where applicable, shall propose his removal at the General Shareholders' Meeting.

By way of exception, the above shall not apply in the event of the resignations set forth in paragraphs (v) and (vi) above, when the Board of Directors considers that reasons exist to justify the continuation of the Director in office, following a report from the Appointments and Remuneration Committee, without prejudice to the effect that the new supervening circumstances may have on the classification of the Director.

In the event that an individual person who represents a legal entity Director finds himself involved in any of the cases described above, he shall be disqualified from exercising such representation.

C.1.22 Paragraph repealed.

C.1.23 Are qualified majorities required for any kind of decision, other than those prescribed by law?:

Yes No

C.1.24 Explain whether any specific requirements exist, other than those relating to Directors, for the appointment of the Chairman of the Board.

Yes No

C.1.25 Indicate whether the Chairman has a casting vote:

Yes No

C.1.26 Indicate whether the bylaws or the Rules of the Board establish any age limit for Directors:

Yes No

Age limit for the Chairman **73**
Age limit for the CEO **73**
Age limit for Directors **73**

C.1.27 Indicate whether the bylaws or the Board regulations establish a limited term of office for the Independent Directors, other than the term established by law:

Yes No

C.1.28 Indicate whether the bylaws or the Rules of the Board establish specific rules for proxy voting by Board members, the way of doing it and, in particular, the maximum number of proxies that a Director may have, as well as whether any limitations have been established in terms of the categories to which it is possible to delegate, beyond the limitations imposed by law. Where applicable, provide a brief description of those rules.

The Rules of the Board establish that the CEO shall be appointed by the Board of Directors and that his appointment shall require the affirmative vote of at least two thirds of the members of the Board of Directors.

Similarly, the Rules of the Board establish that agreements in the core shall be adopted by the absolute majority of the votes present and represented, except when referring to the permanent delegation of powers and the appointment of the Directors who will execute them, including the Chairman, if he is an Executive Director, in which case such agreements shall require the affirmative vote of at least two thirds of the Directors.

C.1.29 Indicate the number of meetings that the Board of Directors has held during the year. Also, where applicable, indicate the number of times that the Board has met without the Chairman in attendance. Attendance

shall also include proxies appointed with specific instructions.

Number of Board meetings	8
Number of Board meetings held without the Chairman's attendance	1

If the Chairman is an Executive Director, indicate the number of meetings held without the presence or representation of any Executive Director and chaired by the coordinating Director.

None

Indicate the number of meetings that the different Board committees have held during the year:

N° of meetings held by Executive Committee	-
N° of meetings held by the Audit Committee	2
N° of meetings held by the Appointments & Remuneration Committee	3
N° of meetings held by the Appointments Committee	-
N° of meetings held by the Remuneration Committee	-
N° of Committee meetings held	-

C.1.30 Indicate the number of meetings that the Board of Directors has held during the year with all members in attendance. Attendance shall also include proxies appointed with specific instructions:

Number of meetings held with all members in attendance	4
% of attendances over total votes cast during the year	94,23%

C.1.31 Indicate whether the individual and consolidated annual accounts submitted to the Board for approval had been certified previously:

Yes

No

Identify, where applicable, the person(s) that certified the Company's individual and consolidated annual accounts prior to their authorisation for issue by the Board:

C.1.32 In the event that they exist, explain the mechanisms established by the Board of Directors to prevent the individual and consolidated accounts that it prepares from being presented to the General Shareholders' Meeting with a qualified audit report.

In accordance with the provisions of the Rules of the Board regarding the powers of the Audit Committee, it is responsible for:

(a) Directing a unit or department in the Company that assumes the role of internal audit and that ensures the proper operation of the IT and internal control systems (that department shall functionally report to the Chairman of the Audit Committee).

(b) Supervising the process for preparing, presenting and ensuring the integrity of the mandatory financial information relating to the Company and, where applicable, to the group, as well as reviewing compliance with the regulatory requirements, the appropriate delimitation of the consolidation perimeter and the correct application of the accounting criteria.

(c) Regularly reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.

(d) Supervising the effectiveness of the Company's internal control system, the internal audit function and the risk management systems, including those relating to tax, as well as discussing any significant weaknesses detected in the internal control system with the auditor of the accounts during its performance of the audit.

(e) Establishing and supervising a mechanism that allows the employees to report, confidentially and, where appropriate, anonymously, any potentially significant irregularities, especially any relating to financial and accounting matters that arise in the core of the company.

(f) Ensuring that the Board of Directors submits the accounts to the General Shareholders' Meeting without limitations or qualifications in the audit report and that, in exceptional cases, when qualifications exist, ensuring that both the Chairman of the Audit Committee and the auditors clearly explain the content and scope of those limitations or qualifications to the shareholders.

C.1.33 Is the Secretary of the Board also a Director?

Yes

No

If the Secretary is not a Director, complete the table below

Name or corporate name of the Secretary	Representative
María José Zueco Peña	

C.1.34 Paragraph repealed.

C.1.35 In the event that they exist, indicate the specific mechanisms established by the Company to preserve the independence of the external auditors, financial analysts, investment banks and ratings agencies.

In accordance with the provisions of the Rules of the Board regarding the powers of the Audit Committee, it is responsible for:

Presenting proposals to the Board of Directors for submission to the General Shareholders' Meeting regarding the selection, appointment, re-election, evaluation and removal of the external auditors, as well as the conditions for their engagement.

(a) Receiving regular information from the external auditor about the audit plan and the results of its implementation, and verifying that senior management take their recommendations into account.

(b) Ensuring the independence of the external auditor and, to that end:

- Ensuring that the remuneration of the external auditor for its work does not compromise its quality or independence.
- Ensuring that the Company notifies the National Securities Market Commission about any change in the auditors as a significant event, and that it accompanies its report with a declaration regarding the potential existence of disagreements with the outgoing auditor and, if they exist, their contents.
- Ensuring that the Company and the external auditor adhere to current legislation regarding the provision of non-audit services, the limits in terms of the concentration of the external auditor's business and, in general, the other rules established to ensure the independence of the auditors.
- In the event that the external auditor resigns, examining the circumstances that have caused it.

(c) Establishing the appropriate relationships with the auditors or audit firms so as to receive information regarding those questions that may pose a risk to their independence, for consideration by the Audit Committee, as well as any other matters relating to the process to audit the accounts, as well as any other communications provided for in the audit legislation and auditing standards. In any case, they must receive a declaration of independence from the auditors on an annual basis regarding the Company and the companies related to it, directly or indirectly, as well as information about the additional services rendered, of any kind, and the corresponding fees received from those companies by the external auditors or by people or entities linked to them, in accordance with the provisions of the legislation governing audits. Ensuring that the external auditor holds at least one meeting per year with the full Board of Directors to inform it about the work performed and about the evolution of the accounting environment and the risks facing the Company.

(d) Issuing an annual report, prior to the issue of the audit report, in which it expresses an opinion about the independence of the auditors or the

audit firms. This report should comment, in all cases, about the provision of additional services to those described in the paragraph above, considered both individually and as a whole, besides the statutory audit and regarding the framework of independence or audit regulations.

(e) Where appropriate, encouraging the auditor of the group to take responsibility for the audits of the companies that comprise it.

C.1.36 Indicate whether the Company has changed its external auditor during the year. If so, identify the outgoing and incoming auditors:

Yes No

C.1.37 Indicate whether the audit firm performs non-audit work for the Company and/or the group and if so, state the amount of the fees paid for such work and the percentage that they represent of the total fees invoiced to the Company and/or the group:

Yes No

	Company	Group	Total
Fees for non-audit work (€ in thousands)	0	404	404
Fee for non-audit work / Total amount invoiced by the audit firm (%)	0	100%	100%

C.1.38 Indicate whether the audit report for the annual accounts last year contained any reservations or qualifications. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No

C.1.39 Indicate the number of consecutive years that the current audit firm has been performing the audit of the annual accounts of the Company and/or the group. Also, indicate the number of years the Company has been audited by the current audit firm as a percentage of the total number of years for which the annual accounts have been audited:

	Company	Group
Number of consecutive years	3	3

	Company	Group
N° of years audited by the current audit firm / N° of years the Company's annual accounts have been audited (%)	33,33%	33,33%

C.1.40 Indicate whether a procedure exists whereby the Directors can receive external advice and provide details, where applicable:

Yes No

Detail of the procedure

In accordance with the provisions of Article 27 of the Rules of the Board, and with the aim of being supported in the performance of their duties,

External Directors may request the engagement of advisors and experts, at the expense of the Company. Their requests should relate to specific problems that carry certain importance or complexity.

The decision to engage those services must be communicated to the Chairman and shall be implemented through the Secretary to the Board of Directors, except in the cases in which the Board considers the advice to be unnecessary or inappropriate.

The Company shall establish an orientation program to provide new Directors with rapid and sufficient knowledge about the Company, as well as about its corporate governance rules. It shall also offer the Directors knowledge refresher programs when the circumstances so warrant it.

Furthermore, Article 25.6(iv)2 of the same Rules establishes that the Audit Committee may engage the services of external advisors, at the expense of the Company, to perform its functions, when it deems appropriate. And in the same vein, Article 26(iv) 2 establishes that the Appointments and Remuneration Committee may also engage the services of external advisors, at the expense of the Company, to perform its functions, when it deems appropriate.

C.1.41 Indicate whether there are procedures in place for the Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies and, where applicable, provide details:

Yes No

Details of the procedure

Directors have access to a specific software application that facilitates the performance of their duties and the exercise of their right to information. The necessary and appropriate information required for the preparation of Board meetings is included in this application, in accordance with the meeting agenda specified in the meeting notices, along with the material and presentations relating to them.

C.1.42 Indicate and where appropriate, provide details as to whether the Company has established rules that oblige the Directors to report and, where applicable, resign in cases that may harm the Company's credibility and reputation:

Yes No

Explain the rules

In accordance with the provisions of Article 14.3 of the Rules of the Board:

Directors must tender their resignation to the Board of Directors and formally resign in the following cases:

When an act or conduct attributable to the Director has caused serious harm to the corporate assets or reputation of the Company or a risk arises of criminal liability for the Company.

When they lose the reputation, capability, solvency, competence, availability or commitment to their duties necessary to be a Director of the Company.

C.1.43 Indicate whether any members of the Board have notified the Company that they have been indicted or tried for any of the crimes stated in Article 213 of the Capital Companies Act:

Yes No

Indicate whether the Board has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not to allow the Director to continue to hold office or, where applicable, state the actions taken or to be taken by the Board up until the date of this report.

Not applicable

C.1.44 List the significant agreements entered into by the Company, which would come into force, be modified or terminate in the event of a change in control of the Company as the result of a takeover bid, and their effects.

Some of the loans and other agreements signed between Talgo, S.A. and/or its subsidiaries and financial institutions may be susceptible to

early repayment or may require additional guarantees in the event of a change of control. Together, they amount to approximately 142 million euro.

C.1.45 Identify in aggregate terms, and describe in detail, any agreements between the Company and its Directors, executives and employees that provide indemnities, or guarantee or protective clauses, in the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operation.

The two executive directors have right to a compensation equal to twelve months of salary in case of improper dismissal.

Indicate whether these contracts should be reported to and/or approved by the governing bodies of the Company or its group:

YES. The appointments need to be notified to the Board of Directors and approve by it, as well as supervised by the Remunerations and Appointment Committee.

C.2 Board Committees

C.2.1 List all of the committees in which the Board of Directors participate, their members and the proportion of Executive, Proprietary, Independent and Other External Directors that comprise each one:

EXECUTIVE COMMITTEE

It does not exist that Committee.

Explain the duties assigned to this committee, describe the procedures and rules for its organisation and operation, and summarise the most important actions that it has carried out during the year.

--

Indicate whether the composition of the Executive Committee reflects the participation of the different Directors on the Board, according to their categories:

AUDIT COMMITTEE

Name	Role	Type
Emilio Novela Berlín	Presidente	Independiente
Michel Moreau	Vocal	Independiente
José M ^a Muñoz Domínguez	Vocal	Dominical
María José Zueco Peña	Secretario	

% of Proprietary Directors	33,33%
% of Independent Directors	66,66%
% of Other External Directors	-

Explain the duties assigned to this committee, describe the procedures and rules for its organisation and operation, and summarise the most important actions that it has carried out during the year.

--

1.- FUNCTIONS:

A) In terms of the information and internal control systems, the Audit Committee shall be responsible for:

(a) Overseeing a unit or department in the Company that assumes the internal audit function and ensures the proper functioning of the information and internal control systems (this department should functionally report to the Chairman of the Audit Committee).

(b) Supervising the preparation, presentation and completeness of the mandatory financial information relating to the Company and, where applicable, to the group, reviewing compliance with regulatory requirements, the appropriate delimitation of the consolidation perimeter and the correct applicable of accounting criteria.

(c) Regularly reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.

(d) Supervising the effectiveness of the Company's internal control system, the internal audit function and the risk management systems, including those relating to tax, as well as discussing any significant weaknesses detected in the internal control system with the auditor of the accounts during its performance of the audit.

(e) Establishing and supervising a mechanism that allows employees to report, confidentially and, where appropriate, anonymously, any potentially significant irregularities, especially any relating to financial and accounting matters that arise in the core of the

company.

(f) Ensuring that the Board of Directors submits the accounts to the General Shareholders' Meeting without limitations or qualifications in the audit report and that, in exceptional cases when qualifications exist, ensuring that both the Chairman of the Audit Committee and the auditors clearly explain the content and scope of those limitations or qualifications to the shareholders

B) In terms of the external auditor:

(a) Presenting proposals to the Board of Directors for submission to the General Shareholders' Meeting regarding the selection, appointment, re-election, evaluation and removal of the external auditors, as well as the conditions for their engagement.

(b) Receiving regular information from the external auditor about the audit plan and the results of its implementation, and verifying that senior management take their recommendations into account.

(c) Ensuring the independence of the external auditor and, to that end:

- Ensuring that the remuneration of the external auditor for its work does not compromise its quality or independence.
- Ensuring that the Company notifies the National Securities Market Commission about any change in the auditors, as a significant event, and that it accompanies its report with a declaration regarding the potential existence of disagreements with the outgoing auditor and, if they exist, their contents.
- Ensuring that the Company and the external auditor adhere to the current legislation regarding the provision of non-audit services, the limits in terms of the concentration of external auditor's business and, in general, the other rules established to ensure the independence of the auditors.
- In the event that the external auditor resigns, examining the circumstances that have caused it.

(d) Establishing the appropriate relationships with the auditors or audit firms so as to receive information regarding those questions that may pose a risk to their independence, for consideration by the Audit Committee, as well as any other related to the process to audit the accounts, as well as any other communications provided for in the audit legislation and auditing standards. In any case, they must receive a declaration of independence from the auditors on an annual basis regarding the Company and the companies related to it, directly or indirectly, as well as information about the additional services rendered, of any kind, and the corresponding fees received from these companies by the external auditors or by the people or entities linked to it, in accordance with the provisions of the legislation governing audits. Ensuring that the external auditor holds at least one meeting per year with the full Board of Directors to inform them about the work performed and about the evolution of the accounting environment and the risks facing the Company.

(e) Issuing an annual report, prior to the issue of the audit report, in which it expresses an opinion about the independence of the auditors or the audit firms. This report should comment, in all cases, about the provision of

additional services to those described in the paragraph above, considered both individually and as a whole, besides the statutory audit and regarding the framework of independence or audit regulations.

(f) Where appropriate, encouraging the auditor of the group to take responsibility for the audits of the companies that comprise it.

C) Reporting to the Board of Directors about the following matters, prior to its adoption of the corresponding decisions reserved for the Board of Directors:

(a) The financial information that, due to its status as a listed entity, the Company must disclose on a regular basis. The Audit Committee should ensure that the interim accounts are prepared using the same accounting criteria as the annual accounts and, to that end, should consider the appropriateness of engaging the external auditor to conduct a limited review.

(b) The issue and admission prospectuses and other documentation relating to the emission and admission of shares.

(c) The creation or acquisition of shares in special purpose entities or those domiciled in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, may impair the transparency of the group.

(d) Related party transactions, except those that, by virtue of the Rules of the Board or subsequent decisions by the Board of Directors, correspond to another committee.

D) In terms of the internal audit function:

(a) The Company shall have an internal audit function that shall operate under the supervision of the Audit Committee, to ensure the proper functioning of the information and internal control systems.

(b) The head of the internal audit function shall present his annual work plan to the Audit Committee; he shall report directly about any incidents arising during its implementation; and he shall submit an activity report at the end of each year.

(c) The Audit Committee shall ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the budget for this service; receive regular information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

E) In terms of the control and risk management policy, the Audit Committee should identify:

(a) The different types of risk (operational, technological, financial, legal, reputational, etc.) that the Company faces, including any contingent liabilities and other off balance sheet risks within the financial or economic risks.

(b) Set the level of risk that the Company considers acceptable.

(c) The measures established to mitigate the impact of the risks identified, in the event that they end up materialising.

(d) The information and internal control systems that will be used to control and manage the aforementioned risks, including any contingent liabilities or off balance sheet risks.

2. - PROCEDURES; RULES OF ORGANISATION AND OPERATION

The Board of Directors shall constitute a permanent Audit Committee, comprising between three (3) and five (5) members, who must be External Directors.

The Audit Committee shall comprise at least two (2) Independent Directors, at least one of which should be appointed taking into account his knowledge and experience in terms of accounting, audit or both.

The Chairman of the Audit Committee shall be chosen from the Independent Directors that form it.

The appointment of the members of the Audit Committee, as well as the appointment of its Chairman and Secretary, shall be made by the Board of Directors by absolute majority. Their removal shall take place within the timeframe, form and number decided by the Company's Board of Directors.

The Secretary of the Audit Committee may serve as one of its members, and even as the Secretary or Vice-Secretary of the Board of Directors. In the case of the latter, the Secretary may not serve as a member of the Audit Committee.

The Audit Committee shall meet at least once a quarter and whenever appropriate, when convened by the Chairman, of his own accord or in response to a request from two (2) of its members, from the Chairman of the Board of Directors or of the Executive Committee or, where applicable, from the CEO.

Notwithstanding the above, the Audit Committee shall meet whenever the Board requests that it issue a report or approves proposals in the scope of its competencies and whenever, in the opinion of the Chairman of the committee, it is appropriate for the successful performance of its duties.

The Audit Committee shall be validly constituted when more than half of its members attend a meeting, in person or through representatives.

Agreements shall be adopted by absolute majority of the Directors present (in person or represented) at the meeting, and the Chairman shall have the casting vote in the event of a tie.

The Audit Committee may request the attendance of the Company's auditor and the Head of Internal Audit at its meetings. Similarly, the Audit Committee may request the attendance of any employee or manager of the Company, and even request that they appear without the presence of any other executive.

The Audit Committee shall prepare an annual report about the activities that it has performed.

Identify the Director serving on the Audit Committee that has been appointed on the basis of his knowledge and experience in accounting, auditing or both, and state the number of years that the Chairman of this committee has held office.

Name of the Director with experience	Emilio Novela Berlín
Nº of years the Chairman has held office	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Role	Type
Albertus Meerstadt	Presidente	Independiente
John Charles Pope	Vocal	Independiente
Javier Bañón Treviño	Vocal	Dominical
María José Zueco Peña	Secretario	

% of Proprietary Directors	33,33%
% of Independent Directors	66,66%
% of Other External Directors	-

Explain the duties assigned to this committee, describe the procedures and rules for its organisation and operation, and summarise the most important actions that it has carried out during the year.

--

1.- FUNCTIONS:

Evaluate the duties, knowledge and experience necessary for the Board of Directors and as a result, define the functions and skills required by the candidates who should cover each post on the Board. Also, evaluate the time and dedication required for each member to perform his duties.

(a) Set a goal of representation for the gender that is least represented on the Board of Directors, develop guidance on how to achieve that objective and report to the Board on matters concerning gender diversity

(b) Submit proposals for the appointment of Independent Directors to the Board of Directors for their appointment by co-optation or for approval by the General Shareholders' Meeting, as well as proposals for the re-election or removal of those Directors by the General Shareholders' Meeting.

(c) Report on proposals for the appointment of other Directors for their appointment by co-optation or for approval by the General Shareholders' Meeting, as well as proposals for the re-election or removal of those Directors by the General Shareholders' Meeting.

(d) Report on proposals for the appointment and removal of senior managers, as well as on the basic terms and conditions of their contracts.

(e) Examine and organise the succession of the Chairman of the Board of Directors and the CEO of the Company and, where applicable, make proposals to the Board of Directors so that the succession happens in an orderly and organised fashion.

(f) Propose to the Board of Directors the remuneration policy for the Directors and the general managers or whoever performs the senior management functions under the direct supervision of the Board, the Executive Committee or the CEOs, as well as the individual remuneration and other contractual conditions for the Executive Directors, ensuring their application.

(g) Consult with the Chairman and the CEO of the Company, especially on matters relating to the Executive Directors and senior managers.

(h) Ensure compliance with the remuneration policy established by the Company.

(i) Report on incentive plans.

(j) Perform an annual review of the remuneration policy of the Directors and senior management.

(k) Prepare the annual corporate governance report and annual

report about the Directors' remuneration.

- (l) Propose appropriate amendments to the Rules of the Board.
- (m) Review compliance with the internal regulations and the corporate governance rules and make proposals for their improvement where required.
- (n) In terms of related party transactions or transactions that involve or may involve conflicts of interest, report and make decisions aimed at their approval or denial, and also request reports from independent experts, which, where applicable, may relate to transaction valuations.
- (o) In order to appoint, ratify or re-elect Directors, prepare a report to describe the results of the preliminary analysis of the needs of the Board of Directors, which shall be published when the General Shareholders' Meeting is called for the ratification, appointment or re-election of each Director.
- (p) Ensure that the non-Executive Directors have sufficient time available to properly perform their duties.

2.- PROCEDURES; RULES OF ORGANISATION AND OPERATION

The Board of Directors shall constitute a permanent Appointments and Remuneration Committee, comprising between three (3) and five (5) members, who must be External Directors.

The Appointments and Remuneration Committee shall comprise at least two (2) Independent Directors.

The Chairman of the Appointments and Remuneration Committee shall be chosen from the Independent Directors that form it.

The appointment of the members of the Appointments and Remuneration Committee, as well as the appointment of its Chairman and Secretary, shall be made by the Board of Directors by absolute majority. Their removal shall take place within the timeframe, form and number decided by the Company's Board of Directors.

The Secretary of the Audit Committee may serve as one of its members, and even as the Secretary or Vice-Secretary of the Board of Directors. In the case of the latter, the Secretary may not serve as a member of the Audit Committee.

The Audit Committee shall meet as often as necessary, in the opinion of its Chairman, in order to exercise its duties.

The committee shall also meet when so requested by at least two (2) of its members. The Chairman of the Board of Directors and the CEO may also request informative meetings of the Appointments and Remuneration Committee, on an exceptional basis.

Notwithstanding the above, the Appointments and Remuneration Committee shall meet whenever the Board requests that it issues a report or approves proposals in the scope of its competencies and whenever, in the opinion of the Chairman of the committee, it is appropriate for the successful performance of its duties.

The Appointments and Remuneration Committee shall be validly constituted when the majority of its members attend a meeting, in person or through representatives.

Agreements shall be adopted by absolute majority of the Directors present at the meeting (in person or represented), and the Chairman shall have the casting vote in the event of a tie.

Similarly, any Director of the Company may request that the Appointments and Remuneration Committee take into consideration potential candidates to fill any Director vacancies, if they are suitable in his opinion.

APPOINTMENTS COMMITTEE

Not applicable.

Explain the duties assigned to this committee, describe the procedures and rules for its organisation and operation, and summarise the most important actions that it has carried out during the year.

--

REMUNERATION COMMITTEE

Not applicable.

Explain the duties assigned to this committee, describe the procedures and rules for its organisation and operation, and summarise the most important actions that it has carried out during the year.

--

COMMITTEE

Not applicable.

Explain the duties assigned to this committee, describe the procedures and rules for its organisation and operation, and summarise the most important actions that it has carried out during the year.

--

C.2.2 Complete the following table with information about the number of female Directors who sat on the various Board committees at the end of the last four years:

	Number of female Directors							
	Year 2015		Year 2014		Year 2013		Year 2012	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-		-		-		-	
Audit Committee	-		-		-		-	
Appointments & Remuneration Committee	-		-		-		-	
Appointments Committee	-		-		-		-	
Remuneration Committee	-		-		-		-	
_____ Committee	-		-		-		-	

C.2.3 Paragraph repealed.

C.2.4 Paragraph repealed.

C.2.5 Indicate, if applicable, whether there are any regulations governing the Board committees. If so, indicate where they are made available for consultation and whether any amendments have been made to them during the year. In turn, indicate whether an annual report has been prepared voluntarily about the activities of each committee.

The Audit Committee and the Appointments and Remuneration Committee are governed by specific regulations, which are included within the Rules of the Board and which are made available to interested parties on the Company's website: www.talgo.com

C.2.6 Paragraph repealed.

D RELATED PARTY TRANSACTIONS AND INTRA-GROUP OPERATIONS

D.1 Explain, if applicable, the procedure for approving related party and intra-group transactions. Procedures for communicating the approval of RPTs

Procedures for communicating the approval of RPTs

Article 40 of the Rules of the Board establishes that:

The Board of Directors shall be made aware of the transactions that the Company undertakes, directly or indirectly, with Directors, significant shareholders or representatives of the Board or with persons related to them. The performance of such operations or transactions shall require the authorisation of the Board of Directors, following a favourable report from the Appointments and Remuneration Committee, which must be approved with a favourable vote of, at least, eighty per cent (80%) of the Directors, present or represented, at that meeting.

The Directors affected by the aforementioned operations must not exercise or delegate their right to vote, nor may they be present in the meeting room whilst the Board of Directors discusses and votes in this regard.

Nevertheless, the authorisation established in the previous paragraph shall not be necessary when dealing with operations that simultaneously fulfil the following three conditions:

- (i) When they are undertaken by virtue of contracts whose terms and conditions are fundamentally standardised and reflect those usually applied to clients contracting the type of product or service involved.
- (ii) When they are undertaken at general prices or tariffs established by whoever acts as the supplier of the good or service involved or when the operations relate to goods or services for which no established tariffs exist, under normal market conditions, similar to those applied in commercial relationships with clients that have similar characteristics.
- (iii) The amount does not exceed one per cent (1%) of the Company's annual revenues.

If these conditions are fulfilled, the affected Directors shall not be obliged to report such operations or obtain authorisation in advance from the Board.

The aforementioned operations shall be valued from the point of view of equal treatment and market conditions, and shall be reflected in the Annual Corporate Governance Report, and in the information that is regularly disclosed under the

terms established in the applicable legislation.

On an exceptional basis, when reasons of urgency so require it, related party transactions may be authorised, where applicable, by the Executive Committee, and then subsequently ratified by the Board of Directors.

D.2 List any significant transactions, by virtue of their amount or importance, between the Company or its group of companies, and the Company's significant shareholders:

None.

D.3 List any significant transactions, by virtue of their amount or importance, between the Company or its group of companies, and the Company's Directors or executives:

None.

D.4 List any significant transactions undertaken by the Company with other companies in its group that are not eliminated in the process to prepare the consolidated financial statements and whose subject matter and terms set them apart from the Company's ordinary trading activity.

None.

In all cases, list any intra-group transactions carried out with entities established in countries or territories that are considered to be tax havens:

Not applicable.

D.5 Indicate the amounts of any transactions carried out with other related parties.

Zero.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the Company and/or its group and its Directors, executives or significant shareholders.

Article 31 of the Rules of the Board establishes that Directors shall hold office with the loyalty of a faithful representative, acting in good faith and in the best corporate interest of the Company. To this end, Directors must comply with the obligations imposed by the law and, in particular, shall be subject to the following obligations and prohibitions, amongst others:

- (i) Directors may not undertake, for their own benefit or for the benefit of persons related to them, investments or operations linked to the assets of the Company about which they have become aware as a result of the performance of their role, when those operations have been offered to the Company, nor may they make use of company assets, including confidential information about the Company, for private purposes, or take advantage of the Company's own business opportunities.
- (ii) No Director, or any person related to him, may undertake activities for his own benefit or for the benefit of others that involve effective competition, be it actual or potential, with the Company or that, in any other way, places him in a position of permanent conflict with the interests of the Company.

Similarly, Directors may not hold office or render any services to any companies that compete with the Company or any of its subsidiaries, or any that have the same, similar or complementary activity to the Company's own corporate purpose, unless expressly authorised to do so by the Company, by resolution at the General Shareholders' Meeting.

- (iii) Directors should refrain from participating in discussions and votes about agreements and decisions in which they or any of their related parties have a conflict of interest, be it direct or indirect, except those agreements or decisions that affect him in his capacity as an administrator, such as his appointment or removal for positions on the Board of Directors or others of similar significance.
- (iv) Directors should report to the Board of Directors any situations involving conflicts of interest, be they direct or indirect, with the interests of the Company. In the case of conflict, the affected Director should refrain from participating in the operation to which the conflict relates.

The Company's Board of Directors approved the Code of Conduct for the Securities Market in which a compliance unit was created and rules were established for, amongst other things, the detection and treatment of conflicts of interest.

D.7 Is more than one Group company listed in Spain?

Yes

No

Identify the listed subsidiary companies in Spain:

None.

Indicate whether the respective areas of activity and the potential business relationships between them have been disclosed accurately, as well as those between the listed subsidiary company and the other companies in the group:

Yes

No

Identify the mechanisms established to resolve potential conflicts of interest between the listed subsidiary and the other companies in the group:

Not applicable.

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Explain the scope of the Company's Risk Management System, including details of a fiscal nature.

In accordance with the provisions of Article 5.4 of the Rules of the Board and without prejudice to the legal powers attributed to this body, as established in a specific way in section (xiii), the Board of Directors of Talgo, S.A. is responsible for “determining the policy for controlling and managing risks, including those of a fiscal nature, as well as for the overseeing the internal information and control systems”.

The Talgo Group has been undertaking actions aimed at improving the control and risk management environment, and implementing systems and methodologies that allow the identification, evaluation, management, control and mitigation of the risks that it faces (operational, technological, financial, legal, tax, reputational).

Risk management is a continuous process that takes place at all levels of the organisation and in all of the Group's companies through different procedures, the main one being the structure of supervisory levels configured in the policies approved by the Board of Directors. Therefore, given that the Board of Directors has been assigned responsibility for maintaining the Talgo Group's internal control system, this manifests itself in the monitoring and control of the significant risks facing the Talgo Group and in the approval of actions aimed at improving the existing policies and procedures.

Meanwhile, the Audit Committee conducts a regular review of the internal control and risk management systems, to ensure that they are operating properly.

Internal control forms part of the Talgo Group's Corporate Risk Management System, and the basic components of that system are as follows:

a) Control environment

The Talgo Group gives priority to maintaining a control environment in its organisation, which forms the basis of all of the other elements of internal control, providing discipline and structure.

Management's philosophy and style constantly strengthens the culture of internal control within the organisation.

Senior Management is responsible for designing and reviewing the organisational structure, for defining reporting lines and authorising the appropriate distribution and segregation of tasks and functions, as well as for ensuring that sufficient procedures exist for its proper dissemination and understanding.

b) Regular evaluation of the main risks

During 2015, the risks assessed to have adequate coverage have been described in section E3.:

c) Control activities

The Talgo Group (by means of the governing bodies responsible for its internal control system) designs and implements control activities to reduce the risks detected. Those activities are communicated in such a way that they are understood by the employees and performed in an appropriate way.

All of the controls are designed with the aim of preventing, detecting, mitigating, offsetting and correcting the potential impact of risks in good time, and to this end preventative and detective controls are employed, as well as manual and automatic controls.

The control and risk management function is structured around two basic lines of defence, which have different roles and responsibilities. These lines are as follows:

- The organisational units, which assume risks during the ordinary performance of their activities. They are the owners of the risks and are responsible for the identification, detection and mitigation of risk.
- The Audit Committee and the Internal Audit Function, which are responsible, primarily, for ensuring the proper functioning of the control and risk management system, for defining the regulatory and methodological framework and for conducting the regular monitoring and overall control of the Group's risks. They are also responsible for supervising the effectiveness of the risk controls established.

d) Information and communication

The information systems are designed to facilitate the data required internally and externally, which may have an impact on the organisation. These systems collect, process and distribute the necessary information to users to enable the proper performance of their functions.

e) Supervision, organisation and responsibilities in their management.

The Talgo Group considers that an oversight system is essential in order to understand the operating level of the internal control system and to maintain an updated risk map.

E.2 Identify the bodies responsible for the preparation and implementation of the Risk Management System, including tax matters.

As described in the section above, the Board of Directors is responsible for “determining the policy for controlling and managing risks, including those of a fiscal nature, as well as for supervising the internal information and control systems”, as established in the Rules of the Board of Directors of Talgo, S.A..

Meanwhile, the Audit Committee, through the functions that correspond to it in terms of the information and internal control systems, is responsible for supervising the preparation and control of the financial information in general, and of all of the procedures implemented for that purpose in particular, as well as for supervising the internal audit function and the relationship with the external auditor, with the purpose of ensuring its independence and obtaining a clean audit opinion, amongst other functions. Similarly, that committee is specifically responsible for regularly reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.

Similarly, its main activities include ensuring the independence and effectiveness of the internal control systems (proposing the selection, appointment, re-election and removal of the head of the internal audit service); receiving regular information about its activities and verifying that senior management takes into account the conclusions and recommendation of its reports.

Similarly, the Internal Auditor of the Talgo Group is responsible for ensuring the control of the risks facing the Group, amongst other functions, and to that end, he shall participate in the review and evaluation of the systems and procedures for controlling and mitigating risks. The Talgo Group performs internal audit work using its own staff, as well as external advisors, when necessary, which, under the supervision of the Audit Committee, ensure the proper functioning of the information and internal control systems.

Finally, it is worth noting the direct and continuous involvement of the Company’s different departments, as well as of its Directors, and ultimately, the Steering Committee, in the operation of the procedures and tools for analysing and managing the specific risks associated with the Talgo Group’s activities, for both the execution of each project, as well as during the phases prior to that.

E.3 Indicate the main risks, including any tax risks, which may affect the achievement of the business objectives.

The risks facing the Talgo Group in the performance of its activity may be classified as follows:

Strategic and business risks

These risks are inherent to the sector in which the Talgo Group operates and are linked to losses in value resulting from external factors, economic cycles, changes in patterns of demand and market structures.

The activities that the Talgo Group undertakes are mainly affected by the following risks:

- Legal risk
- Country risk
- Delays in the development of infrastructure projects
- Variations in the regulatory framework
- The evolution of demand

Financial and tax risks

The Talgo Group is subject to risks arising due to volatility in interest rates, exchange rates, prices and credit, as well as movements in other financial variables that may negatively affect the Group's liquidity.

Prudent liquidity risk management involves maintaining sufficient cash, the availability of financing through a sufficient amount of committed credit facilities and having the capacity to liquidate market positions. The Group's Management performs regular monitoring of the Group's liquidity forecasts on the basis of its expected cash flows both over the short-term and long-term. The Group maintains sufficient cash to meet its liquidity requirements.

The Group operates with a portfolio of clients that mostly belong to the public railway sector, which means that the incidence of credit risk resulting from a lack of solvency or delay in payments by its clients is very low. Nevertheless, the Management team of the Talgo Group considers that this risk represents a key aspect in the daily management of the business, and so it focuses its efforts on the proper supervision and control of the evolution of its receivables accounts and the delinquency thereof. Credit risk represents the possible losses resulting from a failure to pay the monetary or quantifiable obligations by a counterparty to which the Talgo Group has granted net credit and that is pending settlement or collection. Counterparty risk comprises the possible failure to fulfil the requirements acquired by a counterparty by virtue of commercial contracts, generally established over the long-term.

The variable rate debt issued exposes the Talgo Group to cash flow interest rate risk, and for this, the Group's Management puts in place policies for the management of interest rate risk.

Similarly, the Group is exposed to possible changes in tax regulatory frameworks, as well as to uncertainties arising from different potential interpretations of the tax legislation in force.

Risk of cyber attack and fraud

The Talgo Group is exposed to the occurrence of criminal and fraudulent acts of a cyber nature, regardless of whether or not they are directed against the Company, in that they may affect its assets.

Compliance risk

The Talgo Group is exposed to compliance risk, which include the cost associated with possible sanctions for the infringement of laws and regulations, or those sanctions resulting from the materialisation of operational events (environmental damage, damage to third parties, leaking of confidential information, health, hygiene and safety in the workplace, etc.) or from the violation of the Company's internal policies and procedures.

Criminal liability risks

The reforms to Article 31 bis of the Penal Code, which took place in 2010 and 2015,

establish the criminal liability of legal entities. In this context, the Talgo Group may be responsible for certain crimes in Spain, if its administrators, executives or employees commit such crimes during the performance of their functions and in the interests of the Company.

To prevent the materialisation of this risk, the Talgo Group is implementing a Crime Prevention Model, which introduces the necessary measures to prevent crimes from being committed in the business environment and to exempt the Company from liability in the case that such crimes are committed.

E.4 Identify whether the entity has a risk tolerance level, including for tax matters.

As a general premise, the Talgo Group has a low risk tolerance level and a prudent profile when it comes to taking decisions that may involve risk exposure; it always seeks to ensure sustainable growth over time. To this end, it has established a series of fundamental basic premises that characterise the target behaviour of the Talgo Group and which cut across the whole organisation. These premises relate to the solvency, liquidity and robustness of the results.

The Group operates a risk management system to address the difficulties associated with the management of the different projects that it undertakes. This begins with the selection of projects and the subsequent preparation of the offer, and it enables the identification and management of the different risks facing the Company during the normal course of its business. The results of this risk assessment are presented to the Executive Committee so that it can take decisions regarding the presentation of offers and the completion of the process. The project team, coordinated by the project manager, shall be responsible for defining actions to mitigate the risks and for controlling them until the completion of the project.

E.5 Indicate any risks, including tax risks, that have arisen during the year.

During 2015, the subsidiary Patentes Talgo was the target of a cyber fraud attack, which was thwarted without causing any damage whatsoever, thanks to the internal control mechanisms in place.

No additional material or extraordinary risks arose during 2015, including tax risks, besides those details in the Annual Financial Statements, and in any event, without comprising the results, strategic objectives or equity. These materialised risks are risks inherent to all companies in the sector and no significant incidents were generated during the last year, given that the main risks that may affect the achievement of the business risks are managed in an active way by the organisation and the mitigation and control systems in place in the different areas have worked.

E.6 Explain the plans for addressing and supervising the main risks facing the entity, including those relating to tax risks.

Internally, an on-going evaluation is performed of the risks that affect the Talgo Group at all times, with the participation of the heads of the different areas involved. Specific proposals arise from that analysis for the mitigation of the risks, and even the veto of certain types of operations.

The Group has response plans that are aimed at reducing the impact and the likelihood of materialisation of the critical risks detailed in point E.3. or to improve the level of preparation to handle the risk.

Below we describe the main response plans for the most important categories of risk facing the Company:

1. Risks of a financial nature

The management activities that are performed in the core of the Talgo Group, in this regard, focus on managing the uncertainty in the financial markets and trying to minimise its potential adverse affects on the financial profitability of the Group.

The Group's Financial and Risk Control Department identifies, evaluates and covers the financial risks, establishing policies for the management of global risks, as well as for specific areas, such as exchange rate risk, interest rate risk, liquidity risk, the employment of derivatives and non-derivatives, investment of surplus liquidity and deviations from project budgets.

a) Market risk

The various companies of the Talgo Group operate in the international environment and, therefore, are exposed to exchange rate risks due to foreign currency transactions. In order to control the exchange rate risk that arises on future commercial transactions, and recognised assets and liabilities, the Group's companies enter into currency hedging contracts, however the majority of the Group's operations are undertaken in the functional currency, euro.

The aim of these hedges is to try to avoid the impact of changes in foreign currencies in the different contracts signed, in such a way that the Group's results are a faithful reflection of its industrial activity and services.

For the most significant raw materials, Talgo places its order and closes the prices when it launches a new project. In this way, it covers the risk that an upward movement in the prices of the raw materials may have a negative repercussion on the Group's contractual margins. In order to mitigate sales price risks, it maintains a very competitive cost structure, through the clauses established and closed in the different contracts that it formalises with its clients and suppliers.

b) Credit risk

The majority of the receivables and work in progress balance that the Group holds correspond to several clients located in different countries. In most cases, the contracts include on-going payments that are made as the project progresses.

It is common practice for the Company to insure certain risks of resolution or non-payment of export contracts, by taking out export insurance policies and letters of credit, in accordance with the standards for the OECD Consensus for this type of instrument. The decision as to whether or not to perform the hedge is taken on the basis of the type of client and the country in which it operates.

c) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash, the availability of financing through a sufficient amount of committed credit

facilities and having the capacity to liquidate market positions. The Group's Management performs regular monitoring of the Group's liquidity forecasts on the basis of its expected cash flows both over the short-term and long-term. The Group maintains sufficient cash to meet its liquidity requirements

The search for and selection of business opportunities with the highest possible level of self-financing, within the existing market conditions, for each one of the contracts. In the case of manufacturing projects, which have an average execution period of approximately three years, the billing and execution milestones may not be aligned in terms of time, which may require the consumption of financial resources.

d) Cash flow interest rate and fair value risk

The Group's interest rate risk arises from its long-term borrowings. The variable rate debt issued exposes the Group to cash flow interest rate risk, and for this, the Group's Management puts in place policies for the management of interest rate risk, such as interest rate hedges and swaps.

e) Risk resulting from deviations in project budgets

Deviations from project budgets that serve as the basis for the preparation of the respective bids, are analysed and controlled using a detailed IT system for each cost item, which compares the budgeted cost of these items with the reality of the cost situation for each project on an on-going basis. In this way, over the life of the projects, continuous monitoring is performed of this data through a complex internal process created for that purpose, in which each department involved in each project participates.

2. Quality management system and environment

When carrying out our activities, priority is given to improving the effectiveness of our management systems in a sustainable, safe and quality way that achieves maximum satisfaction for our clients, employees and suppliers.

To this end, the Group is committed to delivering its products and services free from defects and environmental impacts, to comply with existing legislation and regulations, to establish actions to eradicate the root cause and future repetitions of problems identified and to promote the on-going vocational education and training of staff.

This commitment is promoted at every level of the organisation and in every country in which the Group has a presence. In addition, the implementation and certification of Patentes Talgo, according to the requirements of the IRIS quality standard, applicable to the railway sector, represents a powerful tool for improving all of the processes based on a deep reflection to clearly identify the areas for improvement in the organisation, enabling greater efficiency and competitiveness, which results in the internationalisation of the company.

Likewise, the integration of the Quality Management and Innovation Systems constitutes a global tool for all of the Company's processes, which allows us to organise activity and channel it towards continuous improvement and professional and industrial excellence every day, which constitutes one of our most important commercial strategies.

The guidelines that govern these activities are contained in our quality, prevention and environmental policies, which reflect the following standards: ISO 9001, ISO 14001 and IRIS.

3. Reliability of financial information

In Section F, details are provided of the Internal Control System for Financial Reporting (SCIIF).

4. Other preventative procedures

Employment risk prevention system

Employment risk prevention systems have been implemented for all of the activities, in accordance with the requirements of Law 31/1995 and its draft legislation.

Model for the Prevention and Detection of Crimes

The Talgo Group is currently consolidating its Model for the Prevention of Crimes, in accordance with the provisions of Article 31 bis of the Penal Code, reformed following the approval of Organic Law 5/2010, dated 22 June 2010, by virtue of which Spanish criminal legislation was adapted to reflect the legislation adopted in neighbouring countries and to a reality that is more consistent with our times, whereby introducing criminal responsibility for legal entities in Spain for crimes that employees and managers may commit in the core of their organisation.

In this regard, the Talgo Group has a duty to adopt and execute organisation and management procedures, with the maximum efficiency possible, which should include surveillance and control measures to prevent any criminal activity in the organisation and which, at all times, ensure the legality of the actions that employees and managers of the Talgo Group carry out, during the performance of their professional activities.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE FINANCIAL REPORTING PROCESS (SCIIF)

Describe the mechanisms that comprise the internal control and risk management systems relating to the process for financial reporting (SCIIF) by the entity.

F.1 The entity's control environment

Specify at least the following components, indicating the main features in each case:

F.1.1. The bodies and/or functions responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; and (iii) its supervision.

In accordance with the provisions of the Company Bylaws and the Rules that develop them, the governing bodies are: (i) the Board of Directors; (ii) the Audit Committee; and (iii) the Internal Audit Department, which provides support to the Audit Committee.

Talgo's Board of Directors is the governing body responsible for the existence and maintenance of an appropriate and effective SCIIF. The Audit Committee, which assumes the powers delegated to it by the Board of Directors, is the body responsible for supervising the process for the preparation and presentation of the regulated financial information and the effectiveness of the Company's internal control systems, the internal audit services and the risk management systems, as well as for discussing any significant weaknesses detected in the internal control system with the auditor of the accounts or the audit firms during the performance of the audit.

The Audit Committee entrusts the supervision of the effectiveness of the Internal Control System for Financial Reporting (SCIIF) to the Internal Audit team,

through its exercise of a unique and independent governance function, in line with the rules and standards of professional quality that contribute to good corporate governance and to ensuring that the financial information has been prepared reliably.

The Economic-Financial Department is the area responsible for the design, implementation and maintenance over time of an appropriate and effective system of internal controls over financial information.

F.1.2 The existence or otherwise of the following elements, especially in connection with the financial reporting process:

- The departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying sufficient procedures for its proper dissemination throughout the entity.

According to the provisions of the Rules of the Board, the Appointments and Remuneration Committee is responsible for analysing the process that enables the orderly succession of the Chairman and CEO, who the Board is responsible for appointing, and for reporting on the appointment and removal of the Directors that report directly into the CEO, amongst other functions.

Meanwhile, the CEO, with the assistance of the Director of Human Resources, in her capacity as an advisor to the CEO, is responsible for determining the organisational structure for the first line of reporting in the organisation (i.e. the managers that report directly into him).

In turn, these managers are responsible for deciding any changes in the organisational structure under their immediate control, following authorisation from the CEO and advice from the Director of Human Resources.

The Compensation Department, which sits within the Human Resources Department, evaluates the classification and description of all of the jobs in the Group on a regular basis, with the aim of maintaining an appropriate segregation of duties, avoiding duplication of roles and improving coordination between the different departments, which results in the improved efficiency of the Group's operations. All employees can access the updated organisational chart through the Group's IT systems.

In terms of the scope of SCIIF, in the processes determined as critical for the preparation of financial information, the main tasks and controls to be performed are defined, along with the names of the people responsible for their execution and supervision, in such a way that the lines of responsibility and authority are clearly defined.

In addition, for these processes, details are documented of the segregation of duties for tasks that are considered to be incompatible.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values covered (indicating whether there is any specific mention of record keeping and financial reporting), body responsible for analysing breaches and proposing corrective actions and sanctions.

Talgo, S.A., as the parent company of the other entities, has approved a code of conduct for the management and control of confidential information, the transparent communication of significant information, the performance of operations involving own shares and the detection and treatment of conflicts of interest; it also imposes certain obligations, limitations and prohibitions on affected persons, and the managers of the own shares.

Control of the application of the code of conduct corresponds to the compliance unit, which operates to ensure compliance with this code.

- Channel for whistleblowing that allows irregularities of a financial and accounting nature to be communicated to the Audit Committee, in addition to potential breaches of the code of conduct and irregular activities in the organisation, stating whether reports made through this channel are confidential.

The Talgo Group has specific channels in place that employees may use to communicate any irregular circumstances that may affect the performance of their work, to the Audit Committee through the Internal Audit Department.

In addition, a better tool is being developed to enable the communication to the Audit Committee of potentially significant irregularities of a financial and accounting nature. The sender of such a communication must identify himself, however the system guarantees confidentiality and the protection of his identity.

The Audit Committee is responsible for supervising these channels and that body is informed about both the activity and the measures taken in this regard on a regular basis by the Internal Audit Department. In its exercise of this oversight role, the Internal Audit Department meets with the Human Resources departments and the legal and employment teams, to the extent that it concludes that work needs to be performed within their respective areas of competence.

- Training programs and periodic refresher courses for staff involved in the preparation and review of financial information, as well as the assessment of SCIIF, which cover at least, accounting rules, audit standards, internal control and risk management.

The Group has a training budget at the corporate level and designs an annual training plan. Under this framework, the training needs are identified and activities are scheduled for each department, on the basis of the requirements of each job.

A performance evaluation is conducted for every employee on an annual basis, to determine a development plan and individual training program for each employee, which is integrated into the Global Training Plan.

Training is usually classroom based and is delivered by professionals from both inside and outside the group, in accordance with the requirements in each area to involve specialists, and it also uses IT resources, which are made available to the relevant people, so that they have access to the different course and seminars.

In addition, refresher courses are provided by external specialists at least once a year, with the aim of ensuring affected employees are updated about any regulatory changes that may affect the preparation of the financial statements.

The members of the Economic-Financial department also have refresher meetings with the external auditors, tax advisors and internal auditors, to understand the main changes that have happened in the last year, covering areas such as accounting and

financial reporting principles, audit guidelines and guidelines for the control and management of financial risks.

The key indicators about the training programs completed by the Economic-Financial department and other departments in the Group related to the systems of control over the Talgo Group's financial information that provide support to the different businesses in 2015 were as follows:

- Number of people in the financial department and other departments involved in training plans about financial reporting: 55
- Number of hours of training received: 573 hours
- Main training activities:
- Courses relating to IFRS (International Financial Reporting Standards) updates
- Training about management control
- Training about Spanish and international taxation

The training programs are extended to those members of the organisation that may be affected by them in the performance of their tasks.

F.2 Evaluation of the risks associated with financial reporting

Report, at least:

F.2.1. The main features of the process for identifying risks, including those relating to error or fraud, stating whether:

- **A process exists and has been documented.**

The identification of risks in the area of financial information is an on-going and documented process, carried out by the Economic-Financial Department, in collaboration with the Internal Audit Department under the framework of the analysis and risk management system, which establishes frequencies, methodologies, risk types and other basic guidelines. In this regard, the Group has received external advice from the auditors and advisors.

- **The process covers all of the objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and how often.**

Each year, analysis is performed to identify the areas and processes, as well as the companies and locations in which significant transactions are generated. This analysis includes a review of the routine processes involved in the generation of financial information. During the year, the risk areas identified are monitored and updated, taking into account any new significant events that happen during the period. In addition, the internal control system takes into account the performance of regular control activities focused on identifying new risk areas, such as for example, meetings between the financial and management control departments and the heads of the business areas, and meetings to review the financial information reported by the subsidiary companies. The process covers all of the financial reporting objectives. This process is ultimately overseen by the Audit Committee.

The functions to be carried out and their frequency are as follows:

1. Specification of the objectives of the financial reporting controls by those involved in the process to generate the financial information. These objectives should be aligned with the global objectives to ensure the reliability of the financial information:

- Completeness: Transactions that should have been recorded have not been recorded.
- Cut-off: Transactions recorded in a different accounting period to the period in which they were accrued.
- Accuracy: Transactions recorded with errors in the allocation of data (amounts, etc.).
- Valuation: Transactions (assets, liabilities, expenses, revenues and commitments) have been recorded for incorrect amounts because the valuation was not appropriate.
- Presentation: Erroneous classification in the different lines of the financial statements.
- Validity: Transactions recorded that are not valid, because they do not correspond to the year or because they have not been authorised (by the client, by the person with the appropriate authority, etc.).
- Safeguard assets: Relates to assets acquired or liabilities incurred (or settled) that have not been authorised at the appropriate level.
- Non-compliance: breach of the applicable regulations and/or of the obligations acquired with third parties due to the normal operation of the business, that may give rise to claims and therefore potential losses for the company.
- Identify and analyse the risks associated with achieving those objectives as the basis for determining which controls should be implemented.
- Obtain an understanding of the type of transactions carried out in the organisation, to determine their complexity and the applicable regulations, as well as the volume of them and the quantitative impact on the affected captions.
- Detect and analyse unusual transactions carried out during the period under review. For this, the Group establishes a communication channel between the users and departments affected. Consideration should mainly be given to the complexity of calculations, the need to rely on estimates and projections, the application of judgement, etc.
- Perform a regular review with the people responsible for generating financial information of the variations with respect to the previous period and with respect to the budgets approved by the Board of Directors.
- Review the manual adjustments made by the accounting department.
- Regularly review the existing control activities for each one of the process in the organisation that affect the preparation of financial information, and establish recommendations, where applicable, for implementation, as well as determining those controls that are considered necessary.

2. Explicitly evaluate of the probability of a material error happening due to fraud. For this, the following guidelines shall be taken into consideration, performing reviews of:

- Agreements signed with third parties (suppliers, clients, etc.)
- The people authorised to sign agreements, contracts, etc.
- The people that hold powers in the organisation

- The valuations that are made on the basis of judgements and/or estimates that impact significantly on the generation of financial information.
 - Non-recurring transactions and operations.
 - Review in accordance with the Internal Audit Plan established for the procedure of oversight, the reliability and integrity of the IT systems that are responsible for generating financial information.
 - On-going review of the best practices in the sector and of the situation of the associations with which the Group is affiliated due to its relationship with the evolution of the sector, etc.
- The existence of a process to identify the consolidation perimeter, taking into account, inter alia, the possible existence of complex corporate structures or special purpose entities or vehicles.

The Group has a process in place for identifying the consolidation perimeter, which is performed by the consolidation team that forms part of the Finance Department in collaboration with the Department for Subsidiary Oversight, and this information is identified and updated at each monthly close.

- a) The entry of new companies into the Group both due to shareholder control as well as those resulting from other types of effective control, for which an informative procedure is established for all of the agreements/contracts signed by the existing powers of attorney, relating to the taking over and loss of control of companies.
- b) The departure of companies from the Group.
- c) Changes or amendments to the shareholding stakes or the voting rights (both directly and indirectly, due to both shareholder control, as well as those resulting from other types of effective control), for which an informative procedure is established for all the agreements and contracts signed by the existing powers of attorney, in relation to the acquisition/sale of shares and stakes in other companies.

In addition, the process considers the possibility of risks of error in certain processes not linked to specific classes of transactions, but particularly relevant in view of their impact on the preparation of the information reported, such as the process for reviewing judgement and significant accounting policies and the close and consolidation processes. In this sense, and in order to cover the risks arising from these processes, the Group has the appropriate control activities in place.

- The process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) insofar as they impact the financial statements.

The process takes into account all of the identifiable risks (operational, technological, financial, legal, reputation, environmental, etc.) to the extent that they affect the financial statements.

- Which of the Company's governing bodies is responsible for supervising the process.

The Audit Committee, through the Internal Audit Department, is the body responsible for overseeing the process for the preparation and presentation of the regulated financial information, which includes the process for the identification of risks.

F.3 Control activities

State whether the Company has the following components in place and indicate the main features in each case:

F.3.1. Procedures for reviewing and authorising the financial information and SCIIF description, to be disclosed to the securities markets, stating who is responsible in each case, as well as documentation describing the flows of activities and controls (including those relating to fraud risk) for the different types of transactions that may materially affect the financial statements, including the procedure for the accounting close and the specific review of significant judgements, estimates, valuations and projections.

The Group has descriptive documentation in place about the main processes in accordance with the details provided in the previous paragraph, which indicate the names of the people responsible for performing the various control activities.

In terms of the review of significant judgements and estimates, in a note to its annual accounts, the Group discloses the most relevant areas in which significant estimates and accounting judgements are applied, as well as the key hypotheses made with respect to these items. In this sense, the main estimates made relate to:

- Expected loss in terms of goodwill
- Tax on profits and assets of a tax nature
- Recognition of revenues using the percentage completion method
- The useful lives of the tangible and intangible assets
- Provisions

The main processes for generating financial information that affect the financial statements in a material way have been fully documented by the Group. The processes for generating financial information covered by this documentation include the following:

- Consolidation and Reporting
- Accounting close
- Personnel expenses
- Recognition of Revenues and Expenses
- Billing and Clients
- Inventory and Purchases (materials and services)
- Investments
- Taxes
- Provisions
- IT Systems

For each one of these processes, the risks of error that may affect the reliability of the financial information have been identified (including the risks of errors in the significant judgements, estimates, valuations and projections) and the control activities performed to mitigate those risks. The person responsible for executing and supervising each control activity has been identified, along with the frequency of their performance and the evidence required to demonstrate the execution of the control activity. This system is updated on a continuous basis and is adapted on the basis of the risks identified.

During 2015, work has continued in accordance with Internal Audit's

Annual Work Plan, which the Group has been working on for the last few years, and which has allowed the Group to have all of the control activities that exist in the main business cycles of the organisation formalised and documented. This documentation reflects the criteria established in the recommendations made by the CNMV in its Guidance for the preparation of the description of the internal control system over financial information, and the Internal Control System for Financial Reporting has been implemented and is in operation.

F.3.2. Internal control policies and procedures over the IT systems (including, amongst others, access security, control of changes, system operation, operational continuity and segregation of duties) that support the entity's significant processes regarding the preparation and publication of financial information.

The Group has an IT Systems department, which maintains a proper register and control of transactions and therefore, is dependent on its proper operation.

As part of the process for identifying the risks of error in the financial information, the team identifies which systems and applications are relevant for every one of the areas and processes that are considered to be significant. The systems and applications identified include, both those that are used directly for the preparation of financial information, as well as those that are significant for the effectiveness of the controls that mitigate the risk of errors in that information.

A methodological framework is defined in the design and implementation of the applications, which establishes the different points of control for ensuring that the solution obtained fulfils the requirements requested by the user and that the quality level fulfils the required standards of reliability, efficiency and maintainability.

The IT Systems department has established policies aimed at covering security in terms of access, through the access matrix and the segregation of duties with the definition of roles and resources, and the continuity of its operation, defining for this purpose a matrix of general controls structured around the following areas:

- Operations and safeguards for existing data, affecting the custody of it in external locations.
- Business continuity: the Group has developed appropriate systems involving access restrictions, protection plans, recovery, etc. in order to safeguard its operations.
- Security: the Group has established a Security Policy which is reviewed and updated on a regular basis, to ensure the absence of incompatibilities (matrix for the segregation of duties), and to define user profiles and adapt the access permitted by them.
- Change management: the process for all systems has been formalised (acquisition, development, amendments and maintenance, indicating the people responsible, approvals, evidence, etc.).

The Group receives advice and support from external, independent professionals, who are experts in this material to ensure the suitability of the processes and controls in place. Specifically, during 2015, a new version of the Group's ERP (Enterprises Resources Process) was implemented, with a view to, amongst other objectives, ensuring the safeguarding of

information, the integrity of data, as well as greater efficiency in the Group's daily operations.

In this sense, during 2015, as part of the Annual Internal Control Audit Plan, the Group, assisted by technological experts, reviewed the following areas within the management of the Company's IT systems: governance of the IT systems; security of information, transactions and the network; development of applications and management of changes, taking into consideration all of the recommendations detected and implementing a short-term action and improvement plan.

F.3.3. Internal control policies and procedures for overseeing the management of activities outsourced to third parties, as well as those aspects involving appraisals, calculations and valuations entrusted to independent experts, when they may materially affect the financial statements.

The Group regularly reviews which activities carried out by third parties are relevant for the process for the preparation of financial information or that may indirectly affect its reliability.

The main activities subcontracted to third parties focus on the outsourcing of direct and indirect labour for railway material construction and maintenance work, as well as engineering work (this is governed internally and the compliance by these subcontracted companies with all of the employment, legal and other obligations is reviewed in a strict way) and services for the IT systems department (whose effectiveness is monitored regularly). Occasionally, valuations have been requested from independent experts (valuation of assets).

When the Group turns to external independent experts for advice, in those cases, the departments responsible for the areas involved execute the controls and supervise their compliance with respect to the work of these experts, in order to verify their competence, training, accreditation and independence, as well as the validity of the data and methods used and the reasonableness of the hypotheses employed. In these cases, the company's policy is to use independent firms with prestigious reputations.

In this context, when the Group intends to rely on the work of an independent expert (understood as those third parties who issue advice or opinions about specialist subjects and who have adequate and accredited training and experience in the required field) that may affect the financial information in a significant way, the following aspects should be evaluated:

- Adequate professional competence and approval by the corresponding professional body (when so required by a relevant legal standard).
- The relationships or links held by the external professional with the organisation for the purposes of assessing their independence.

F.4 Information and communication

State whether the Company has the following components in place and indicate the main features in each case:

F.4.1. A specific function responsible for defining and updating the accounting policies (an accounting policies team or department) and for resolving queries or conflicts resulting from their interpretation, maintaining regular communication with the managers responsible for

the operations in the organisation, as well as an updated accounting policy manual that has been sent to all of the units through which the entity operates.

The Group's Economic-Financial Department is responsible for preparing the consolidated financial statements as well as the parent company's financial statements. Its responsibilities include the resolution of accounting questions for the other Group companies, with which a direct and open relationship is maintained through the controllers and financial managers assigned to each subsidiary. The Economic-Financial Department is responsible for identifying, defining and communicating the accounting policies that affect the Group, and those policies are reflected in the Manual of Accounting and Financial Procedures and Policies, which is updated regularly and is available on the Group's internal network to which the affected departments have access.

The procedures for reviewing and authorising the Group's financial information that is published in the markets begins with the review performed by the Finance Department of each company, before being centralised in the Consolidation Department, after the Group's Financial Department has established the corresponding controls. This process of control and supervision is performed by the Group's Internal Audit Department as part of its functions. The Audit Committee reviews the individual and consolidated annual accounts, and the quarterly financial reports, before they are formulated by the Board of Directors, as established in the Rules of the Board. According to the provisions of the Rules of the Board, the Audit Committee is responsible for reading and reviewing the information, as well as discussing it with the Internal Audit Department and with the External Auditors (in the case of the annual accounts), before submitting it to the Board of Directors.

Once the Audit Committee has reviewed this information and agreed the changes and observations to be incorporated, the Board of Directors proceeds to sign the annual accounts.

Regarding the quarterly information, the Audit Committee reviews the critical financial information (financial information, evolution of results, details about the main captions, variations in cash flows, etc.) before submitting this information to the Board of Directors and subsequently to the Market.

F.4.2. Mechanisms for collating and preparing financial information in standard formats that may be applied and used by all of the units in the entity or group, which support the main financial statements and accompanying notes, as well as disclosures concerning SCIIF.

The Group has a set of documents that are adapted to the needs, requirements and size of the Group, which determine and explain the rules for preparing financial information and how those rules should be applied to specific operations undertaken by the entity, known as the Information Pack. These documents make explicit reference not only to the rules that apply to every type of transactions, but also develop and explain their interpretation so that they faithfully reflect each kind of transaction. Each year, a calendar is established detailing the information needs for the preparation of financial information in the following year, stipulating all of the documents, document owners and delivery dates in each case.

These documents are updated on a regular basis and at least once per year, and incorporate the applicable rules for the year in progress. The

significant changes made are communicated to the subsidiary companies where applicable, by e-mail, videoconference or through specific meetings led by the managers responsible in each case.

This process for the consolidation and preparation of the financial information is conducted in a centralised way by the subsidiary Patentes Talgo S.L.U., and the Group has a very detailed consolidation process describing all of the underlying sub-processes, the staff involved, locations, support documentation used and frequency of the activities and controls that are performed, amongst others. This process uses the financial statements reported by the Group's subsidiaries in the established formats, as well as the other financial information required both for the accounting homogenisation process, as well as to cover the established information needs. The Group has a series of controls in place to ensure the reliability and correct treatment of the information it receives from the various subsidiaries, including the centralised performance of several accounting adjustments, analysis of variations in all equity and results captions, variations in the results obtained compared with previous years and approved budgets, analysis of the evolution of the most significant events and variables.

F.5 Supervision of the operation of the system

State whether the Company has the following components in place and indicate the main features in each case:

- F.5.1. The SCIIF monitoring activities undertaken by the Audit Committee, as well as whether the entity has an internal audit function whose competencies include providing support to the committee in its oversight of the internal control system, including SCIIF.

Also, report about the scope of the SCIIF assessment conducted during the year and the procedure by which the person responsible for carrying out the assessment communicated his results, whether the entity has an action plan that details the potential corrective measures, and whether its impact on the financial information has been considered.

The Audit Committee is responsible for overseeing the Group's financial information. The Audit Committee should ensure the effectiveness of the SCIIF, obtaining sufficient evidence of its proper design and operation, which requires it to evaluate the risk identification process, which may affect the fair presentation of the financial information, verify that controls exist to mitigate them and check that they function effectively.

The Audit Committee delegates the SCIIF evaluation role to the Internal Audit Department.

In addition, under the framework of the external audit, it meets with the external auditors so that they can present the conclusions from the audit work performed (which should include significant aspects detected in the area of internal control).

The Audit Committee supervises that the employees involved in the tasks to evaluate the SCIIF:

- Display integrity and are independent when performing their work, in such as way that their conclusions are objective and impartial.
- Are competent and have the technical training necessary to carry out their work in a diligent way.

The Head of Internal Audit must present his work plan for the following year to the Audit Committee at least once a year. The plan shall include the tasks that will be performed to properly assess the SCIIF. The contents of the annual work plan are reviewed and updated on an on-going basis.

On the basis of this basis, the Head of Internal Audit must report his assessment of the SCIIF to the Audit Committee, summarising his most important findings, as well as the action plans proposed to address them. This report may be delivered in person, by attending the Audit Committee meetings or by means of reports send to the Committee.

In 2015, the Annual Work Plan presented and subsequently carried out by the Internal Audit team included the following aspects in relation to the SCIIF:

- Analysis of the company's annual plan and identification of the main risks relating to financial information.
- Review of the quarterly financial information sent to the CNMV, together with the review of the correct performance of the main control activities for the accounting close, consolidation and information processes and for the main judgements and estimates.
- Audit of the processes for generating financial information and of the main subsidiary companies, according to a rotation plan.
- Monitoring of the status of the action plans proposed to address the weaknesses detected.
- Presentation of the results of the work performed to the Audit Committee.

the accounts (in accordance with the provisions of TAS), the internal audit function and other experts may inform senior management and the Audit Committee or the Directors of the entity about significant internal control weaknesses identified during the annual accounts review process or any others entrusted to them. Also, report whether the entity has an action plan to try to correct or mitigate the weaknesses observed.

The Audit Committee meets regularly and prior to the issue of financial information to the markets. During 2015, the Audit Committee held meetings at which the Internal Audit Department reported the results of the work performed and the action plans it had put in place to introduce corrective measures.

In addition, the Committee met twice with the external auditors in 2015, and obtained information about regulatory updates, and the progress and results of the external audit corresponding to each half year.

Meanwhile, the auditor of the Group's accounts has direct access to the highest level of the Group, through regular meetings both to obtain the information it requires to perform its work, as well as to report the weaknesses identified in its controls.

The Group has a Multi-Year Internal Control Audit Plan that, amongst other things, established the procedure that is required to implement the corrective measures required after the development of the different work to supervise and review the controls established in the Group's main processes. Similarly, an established process exists for the supervision of the SCIIF defined by the Audit Committee, which contains aspects relating to the general criteria to apply in terms of the specific supervisory activities to which the SCIIF relates. The corresponding reports, which present the situation after the work entrusted has been performed, are evaluated by the members of the Audit Committee, together with the weaknesses identified during the aforementioned work. The Committee is also responsible for approving the proposed action plan to remedy the aforementioned control weaknesses.

F.6 Other relevant information

No other relevant information exists regarding the SCIIF that has not already been included in this report.

F.7 External auditor's report

Report whether:

F.7.1. The SCIIF information provided to the markets has been subject to review by the external auditor, in which case, the entity should attach the corresponding report as an annex. If not, it should report the reasons why.

The Group did not subject the information about the "Internal Control System for Financial Reporting" for review by the external auditor in

2015.

This Annual Corporate Governance Report has been prepared in accordance with the contents and structure of the model established in the governing legislation by the National Securities Market Commission.

Although this information is not subject to review for the issue of a report by the auditor, it has been made available to the external auditors so that they are aware of it and can verify it in the context of their audit of the accounts.

The Directors of the Group are aware of the recommendations, guidelines and references established for the completion of this information, and have applied them in their entirety. The information about the “Internal Control System for Financial Reporting” contained in the Annual Corporate Governance Report, in accordance with the scope of the procedures and report templates that the I.C.A.C. and the respective corporations that represent auditors established, where applicable.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company’s degree of compliance with the recommendations stipulated in the Good Governance Code for listed companies.

In the event that any recommendation is not followed or is only partially followed, a detailed explanation should be provided of the reasons so that the shareholders, investors and the market in general, have sufficient information to assess the conduct of the Company. Explanations of a general nature are not acceptable.

- 1. The bylaws of listed companies should not place an upper limit on the number of votes that may be cast by a single shareholder, nor should they contain any other restrictions that hinder the takeover of the Company by means of share purchases in the market.**

Compliant Explain

2. When the parent company and a subsidiary company list on the stock exchange, they should accurately disclose:

- a) Their respective areas of activity and any potential business relationships between them, as well as any business dealings between the listed subsidiary company and the other companies in the group.
- b) The mechanisms in place for resolving any potential conflicts of interest that may arise.

Compliant Partially compliant Explain Not applicable

3. During an ordinary General Shareholders' Meeting, in addition to distributing the written Annual Corporate Governance Report, the Chairman of the Board of Directors should verbally inform the shareholders about the most relevant corporate governance considerations for the Company, in sufficient detail, and, in particular, he should provide information about:

- a) Any changes that have happened since the previous ordinary General Shareholders' Meeting.
- b) The specific reasons why the Company is not following any of the recommendations from the Corporate Governance Code and, where applicable, the alternative rules that apply in this regard.

Compliant Partially compliant Explain

The Company was admitted to trading in the month of May 2015 and since that date, the Company has not held a Shareholders' meeting and therefore could not facilitate such information.

Notwithstanding the above the Company intention is to comply expressly with the legal requirements.

4. The Company should define and promote a policy of communication and contact with shareholders, institutional investors and advisors with a right to vote, which is fully respectful of the rules against market abuse and ensures the similar treatment of shareholders who find themselves in the same position.

And the Company should publish this policy on its website, including information about the way in which the policy has been put into practice and identifying the contact people or managers responsible for carrying it out.

Compliant Partially compliant Explain

5. The Board of Directors should not present any proposals to the General Shareholders' Meeting for the delegation of powers, to issue shares or convertible securities excluding the right to preferential subscription, for an amount exceeding 20% of the capital at the time of delegation.

And when the Board of Directors approves the issue of any shares or convertible securities excluding the right to preferential subscription, the Company should immediately publish reports about this exclusion on its website, as referred to by commercial legislation.

Compliant Partially compliant Explain

6. The listed companies that prepare the reports cited below, be they mandatory or voluntary, must publish them on their website sufficiently in advance of the date of the ordinary General Shareholders' Meeting, even though their distribution is not mandatory:

- a) Report about the independence of the auditor.

***b)* Reports about the operation of the Audit Committee and the Appointments and Remuneration Committee.**

c) Report from the Audit Committee about related party transactions.

d) Report about the policy regarding corporate social responsibility.

Compliant Partially compliant Explain

7. The Company should stream the General Shareholders' Meetings live on its website.

Compliant Explain

8. The Audit Committee ensures that the Board of Directors presents the accounts to the General Shareholders' Meeting without limitations or qualifications in the audit report and, in the exceptional cases in which qualifications exist, both the Chairman of the Audit Committee and the auditors must clearly explain to the shareholders the content and scope of those limitations or qualifications.

Compliant Partially compliant Explain

9. The Company should permanently publish on its website the requirements and procedures that it accepts for proving the ownership of shares, the right to attend the General Shareholders' Meeting and the exercise or delegation of the right to vote.

And those requirements and procedures should favour the shareholders' attendance and exercise of their rights and be applied in a non-discriminatory manner.

Compliant Partially compliant Explain

Explain

10. When a legitimate shareholder has exercised his right to add an item to the meeting agenda or to present new agreement proposals, prior to the date on which the General Shareholders' Meeting is held, the Company:

a) Should immediately communicate those complementary points and new proposed agreements.

b) Should publish the attendance card template or vote delegation form or proxy vote form with the necessary amendments so that votes may be cast on the new agenda items and alternative agreement proposals, under the same terms and conditions as those proposed by the Board of Directors.

c) Should subject all of those points and alternative proposals to a vote and apply the same voting rules to them as to those formulated by the Board of Directors, including, in particular, assumptions and inferences about the direction of the vote.

d) After the General Shareholders' Meeting, the Company should communicate the breakdown of the vote on all of the complementary points and alternative proposals.

Compliant Partially compliant Explain Not applicable

11. In the event that the Company intends to pay attendance premiums for the General Shareholders' Meeting, establish, in advance, a general policy for such premiums and that policy should be stable.

Compliant Partially compliant Explain Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independence of judgement, affording the same treatment to all shareholders who find themselves in the same position. It should also be guided by the corporate interest, understood as the achievement of a profitable and sustainable business over the long-term, which promotes continuity and maximises the Company's economic value.

And in pursuit of the corporate interest, as well as with respect for the laws and rules and a behaviour based on good faith, the ethics and the respect for the uses and the commonly accepted good practices, it should try to reconcile its own corporate interest with, as appropriate, the legitimate interest of its employees, its suppliers, its clients and the other stakeholder groups that may be affected, as well as the impact of the Company's activity on the community as a whole and on the environment.

Compliant Partially compliant Explain

13. The Board of Directors should have the necessary size for its effective and participatory operation, which means that it is advisable for it to comprise between five and fifteen members.

Compliant Explain

14. The Board of Directors should approve a policy for selecting Directors that:

- a) Is specific and verifiable.
- b) Ensures that the proposals for appointment or re-election are based on previous analysis of the needs of the Board.
- c) Favours diversity in terms of knowledge, experience and gender.

The results of the prior analysis of the needs of the Board of Directors should be collated in a justification report by the Appointments Committee, which should be published when the General Shareholders' Meeting is convened for the ratification, appointment or re-election of each Director.

And the policy for selecting Directors should promote the objective that the number of female Directors should represent, at least, 30% of the total number Board members by 2020.

The Appointments Committee shall verify compliance with the Director selection policy on an annual basis and shall report its findings in the Annual Corporate Governance Report.

Compliant Partially compliant Explain

15. The Proprietary and Independent Directors should constitute a large majority of the Board of Directors and the number of Executive Directors should be the minimum necessary, taking into account the complexity of the company group and the percentage shareholdings held by the Executive Directors in the Company's share capital.

Compliant Partially compliant Explain

16. The percentage of Proprietary Directors over the total number of Non-Executive Directors should not be greater than the proportion of the share capital held by those Directors, over the total share capital balance.

This criteria may be relaxed:

- a) **For companies with high levels of capitalisation, in which only a few of the shareholders' stakes are legally considered to be significant.**
- b) **In the case of companies with a plurality of shareholders represented on the Board of Directors that have no relationships between them.**

Compliant Explain

17. The number of Independent Directors should represent, at least, half of the total number of Directors.

Nevertheless, when the Company does not have a high level of capitalisation or even if it does, when one or several shareholders, who control more than 30% of the share capital, are acting together, then the number of Independent Directors should represent, at least, one third of the total number of Directors.

Compliant Explain

18. The companies should publish and update the following information about their Directors on their website:

- a) **Professional and biographical profile.**
- b) **Details of other Board of Directors to which they belong, regardless of whether they are listed companies or not, as well as the other paid activities that they perform, whatever their nature.**
- c) **An indication of the category of Director to which they belong, stating, in the case of Proprietary Directors, the shareholder that they represent or with whom they have links.**
- d) **Date of their first appointment as a Director of the Company, as well as the dates of any subsequent re-elections.**
- e) **Any shares that they own in the Company, and options they hold over them.**

Compliant Partially compliant Explain

19. In the Annual Corporate Governance Report, following verification by the Appointments Committee, reasons should be provided to explain why Proprietary Directors have been appointed at the request of shareholders whose shareholdings represent less than 3% of the total share capital; and reasons should be provided to explain why formal requests to participate in the Board have been denied for shareholders whose shareholdings are the same size or larger than those held by others who have been appointed as Proprietary Directors upon request

Compliant Partially compliant Explain Not applicable

20. Proprietary Directors should submit their resignation when the shareholder that they represent sells its entire shareholding. And they should also resign when the shareholder that they represent reduces its shareholding to a level that requires a reduction in the number of Proprietary Directors, to the extent required.

Compliant Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of any Independent Director before he has completed his statutory term in office, except when just cause requires it, as assessed by the Board of Directors based on a report from the Appointments Committee. In particular, just cause shall be understood to exist when: the Director takes over new roles or enters into new obligations that prevent him from devoting the necessary time to the performance of the duties inherent to the role of Director; when he breaches the duties inherent to his role; or when circumstances arise that cause him to lose his independent status, in accordance with the provisions of applicable law.

The removal of Independent Directors may also be proposed as a result of a takeover bid, merger or other similar corporate transaction that involves a change in the share capital of the Company, when such changes in the structure of the Board of Directors are promoted by the criteria of proportionality indicated in recommendation 16.

Compliant Explain

22. The companies should establish rules that oblige the Directors to report and, where applicable, resign in those cases that may harm the Company's credibility and reputation and, in particular, that oblige them to report any criminal proceedings in which he appears as the accused, as well as any subsequent legal proceedings, to the Board of Directors.

And if a Director is prosecuted or brought to trial for any of the crimes mentioned in corporate law, the Board shall examine his case as soon as possible and, in light of the specific circumstances, shall decide whether or not it is appropriate for him to remain in office. Furthermore, everything that the Board is aware of shall be included, in a reasoned way, in the Annual Corporate Governance Report.

Compliant Partially compliant Explain

23. All of the Directors should clearly express their opposition when they consider that a proposed resolution submitted to the Board may be contrary to the corporate interest of the Company. And this should apply, in particular, to the Independent Directors, as well as to any other Directors not affected by the potential conflict of interest, in cases of decisions that may harm the shareholders not represented on the Board.

And when the Board adopts significant or repeated decisions about which the Director has expressed serious reservations, he should draw the appropriate conclusions and, resign if he so chooses, explaining the reasons in a letter that makes reference to the following recommendation.

This recommendation also applies to the Secretary of the Board, even if he is not a Director.

Compliant Partially compliant Explain Not applicable

24. When a Director leaves office before the end of his term, either because he resigns or for another reason, he should explain the reasons in a letter that should be sent to all of the members of the Board. And, notwithstanding the fact that this should be communicated as a significant event, the reason for the departure should be included in the Annual Corporate Governance Report.

Compliant Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that the Non-Executive Directors have sufficient time available to properly carry out their functions.

And the Rules of the Board should establish the maximum number of company boards on which its Directors may sit.

Compliant Partially compliant Explain

26. The Board should meet with the necessary frequency to properly perform its functions and, at least, eight times a year, in accordance with the calendar of dates and agendas established at the beginning of the year, to which each Director may propose the addition of other items, not initially considered.

Compliant Partially compliant Explain

27. Director absences should be kept to a bare minimum and quantified in the Annual Corporate Governance Report. And when Directors have no choice but to delegate their vote, they should do so with instructions.

Compliant Partially compliant Explain

28. When the Directors or the Secretary express concerns about a proposal or, in the case of the Directors, about the Company's performance and those concerns are not resolved at the Board meeting, then the person expressing them can request that they be recorded in the meeting minutes.

Compliant Partially compliant Explain Not applicable

29. The Company should establish appropriate channels for the Directors to be able to obtain the advice they need to carry out their duties, including, when the circumstances so require it, external advice at the expense of the Company.

Compliant Partially compliant Explain

30. Independently of the knowledge that the Directors need to perform their duties, the Companies should also provide the Directors with training programs to update their knowledge when the circumstances so require it.

Compliant Explain Not applicable

31. Meeting agendas should clearly state the points regarding which the Board should adopt a decision or agreement, so that the Directors can study or request the necessary information for such adoption, in advance of the meeting.

When, on an exceptional basis, for reasons of urgency, the Chairman wants to submit to the Board, decisions or agreements that do not appear on the agenda, then the prior and express consent of a majority of the Directors in attendance shall be required, and that event should be duly noted in the meeting minutes.

Compliant Partially compliant Explain

32. The Directors should be periodically informed about movements in shareholdings and about the opinions that the significant shareholders, investors and ratings agencies have about the Company and the group.

Compliant Partially compliant Explain

33. The Chairman, as the person responsible for the effective operation of the Board, in addition to exercising the functions that are legally and statutorily attributed to him, should prepare and submit to the Board: a calendar of dates and matters to discuss; organise and coordinate the periodic evaluation of the Board, as well as, where applicable the CEO of the Company; be responsible for the leadership of the Board and for the effectiveness of its operation; ensure that sufficient discussion time is dedicated to strategic questions; and adopt and review the programs for updating the knowledge of each Director, when the circumstances so require it.

Compliant Partially compliant Explain

34. When there is a coordinating Director, the bylaws and Rules of the Board should attribute him with the following powers, in addition those powers that correspond to him legally: to chair the Board in the absence of the Chairman and the Vice-Chairman, where applicable; to echo the concerns of the Non-Executive Directors; to maintain contact with investors and shareholders to understand their points of view for the purposes of forming an opinion about their concerns and, in particular, regarding the corporate governance of the Company; and to coordinate the succession planning for the Chairman.

Compliant Partially compliant Explain Not applicable

35. The Secretary of the Board should act in a special way to ensure that the Board is mindful in its actions and decisions of the recommendations regarding good governance contained in this Good Governance Code, where applicable to the Company.

Compliant Explain

36. The Board plenary should evaluate, at least once a year, and adopt an action plan, where applicable, to correct deficiencies identified regarding:

- a) **The quality and efficiency of the operation of the Board.**
- b) **The operation and composition of its committees.**
- c) **Diversity in terms of the composition and competencies of the Board.**
- d) **The performance of the Chairman of the Board and the CEO of the Company.**
- e) **The performance and contribution made by each Director, paying special attention to those Directors who are responsible for the various Board committees.**

In order to carry out the evaluation of the different committees, the Board will begin with the reports that those committees submit to it, and for the evaluation of the Board itself, it shall depend on the report submitted to it by the Appointments Committee.

Every three years, the Board will be assisted in the performance of its evaluation by an external consultant, whose independence shall be verified by the Appointments Committee.

The business relationships that the consultant or any company in the group has with the Company, or any company in the group, should be disclosed in the Annual Corporate Governance Report.

The process and areas evaluated shall be described in more detail in the Annual Corporate Governance Report.

Compliant Partially compliant Explain

37. When there is an Executive Committee, the structure of the participation of the different categories of Directors should be similar to that of the Board of Directors and the Secretary of the Board should also serve as the Secretary of the Executive Committee.

Compliant Partially compliant Explain Not applicable

38. The Board should always be aware of the matters discussed and the decisions adopted by the Executive Committee, and all of the members of the Board should receive copies of the minutes of the meetings of the Executive Committee.

Compliant Partially compliant Explain Not applicable

39. The members of the Audit Committee and in particular, its Chairman, should be appointed taking into account their knowledge and experience in terms of accounting, audit and risk management, and the majority of the members should be Independent Directors.

Compliant Partially compliant Explain

Cumple Cumple parcialmente Explicue

40. The Company should have a unit that assumes the functions of internal audit, under the supervision of the Audit Committee, to ensure the proper functioning of the information and internal control systems. Such a unit should functionally report to the non-executive Chairman of the Board or to the Audit Committee.

Compliant Partially compliant Explain

Cumple Cumple parcialmente Explicue

41. The head of the unit who assumes the internal audit function should present his annual work plan to the Audit Committee, and report directly about any incidents arising during its implementation, as well as submit an activity report at the end of each year.

Compliant Partially compliant Explain Not applicable

42. In addition to the functions established by law, the following functions correspond to the Audit Committee:

1. In relation to the information and internal control systems:

- a) Supervise the preparation process and the completeness of the financial information relating to the Company and, where applicable, to the group, reviewing compliance with regulatory requirements, the appropriate delimitation of the consolidation perimeter and the correct application of accounting criteria.
- b) Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit services; propose the budget for this service; approve the direction and work plans, ensuring that its activity is focused primarily towards the most significant risks facing the Company; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism that allows the employees to report, in a confidential way and, where possible and if appropriate, anonymously, any irregularities of potential importance, especially of a financial and accounting nature, that they identify in their positions in the Company.

2. In relation to the external auditor:

- a) In the event that the external auditor resigns, examine the circumstances that have given rise to his resignation.
- b) Ensure that the remuneration received by the external auditor for his work does not compromise his quality or his independence.
- c) Supervise that the Company notifies the CNMV of the change of auditor as a significant event, and that its report is accompanied by a declaration regarding the potential existence of disagreements with the outgoing auditor and, if they exist, their contents.
- d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to inform them about the work performed and about the evolution of the accounting environment and the risks facing the Company.
- e) Ensure that the Company and the external auditor adhere to governing legislation regarding the provision of services other than those of an audit nature, the limits in terms of the concentration of the auditor's business and, in general, the other rules relating to the independence of auditors.

Cumple Cumple parcialmente Explicue

43. The Audit Committee should be able to call upon any employee or manager of the Company, and even request that they appear without the presence of any other executive.

Compliant Partially compliant Explain

44. The Audit Committee should be informed about operations of a structural change and corporate nature that the Company plans to undertake, for analysis and reporting to the Board of Directors regarding the economic conditions and the accounting impact and, in particular and where applicable, about the proposed exchange ratio.

Compliant Partially compliant Explain Not applicable

45. The control and risk management policy should identify at least:

- a) The different types of risk, financial and non-financial (amongst others, operating, technological, legal, social, environmental, political and reputational risks) that the Company faces, including any contingent liabilities and other off balance sheet risks within the financial or economic risks.
- b) The level of risk that the Company considers acceptable.
- c) The measures established to mitigate the impact of the risks identified, in the event that they ended up materialising.
- d) The information and internal control systems that will be used to control and manage the aforementioned risks, including any contingent liabilities or off balance sheet risks.

Compliant Partially compliant Explain

46. Under the direct supervision of the Audit Committee or, where applicable, a specialist Board Committee, an internal control and risk management function should exist, exercised by a unit or internal department of the Company that is expressly attributed the following functions:

- a) Ensure the proper functioning of the control and risk management systems and, in particular, that all of the important risks that affect the Company are identified, managed and quantified appropriately.
- b) Actively participate in the preparation of the risk strategy and in important decisions regarding its management.
- c) Ensure that the control and risk management systems adequately mitigate the risks within the framework of the policy defined by the Board.

Compliant Partially compliant Explain

47. The members of the Appointments and Remuneration Committee – or of the Appointments Committee and the Remuneration Committee, if they are separate groups – should be responsible for ensuring that they have the knowledge, skills and experience required for the duties that they have been called upon to perform, and the majority of those members should be Independent Directors.

Cumple Cumple parcialmente Explicue

48. Companies with a high level of capitalisations should have two separate committees for Appointments and Remuneration.

Compliant Explain Not applicable

49. The Appointments Committee should consult with the Chairman of the Board and the CEO of the Company, especially when dealing with matters relating to the Executive Directors.

And any Director should be able to request that the Appointments Committee take into consideration potential candidates to fill any Director vacancies, if they are suitable in his opinion.

Compliant Partially compliant Explain

50. The Remuneration Committee should exercise its functions independently and, as well as the functions attributed to it by law, the following functions correspond to it:

- a) Propose the basic conditions to the Board for the senior management contracts.**
- b) Check compliance with the remuneration policy established by the Company.**
- c) Periodically review the remuneration policy applied to the Directors and senior management, including any remuneration systems involving shares and their application, as well as ensuring that individual remuneration is proportionate to the amounts paid to the other Directors and senior managers of the Company.**
- d) Ensure that any potential conflicts of interest do not harm the independence of the external advice rendered to the Committee.**
- e) Verify the information about Director and senior manager remuneration contained in the different corporate documents, including the annual report about Director remuneration.**

Compliant Partially compliant Explain

51. The Remuneration Committee should consult the Chairman and CEO of the Company, especially when dealing with matters relating to Executive Directors and senior management.

Compliant Partially compliant Explain

52. The rules governing the composition and operation of the supervision and control committees should feature in the Rules of the Board and are consistent with those legally binding rules that apply to the committee, in accordance with the previous recommendations, including:

- a) It should comprise exclusively Non-Executive Directors, with a majority of Independent Directors.**
- b) Its Chairmen should be Independent Directors.**

- c) **The Board should appoint the members of these Committees, taking into account the knowledge, skills and experience of the Directors and the duties of each committee; it should deliberate over their proposals and reports; and it should be accountable for their activity and respond to the work performed, in the first full Board meeting after their respective meetings.**
- d) **The Committees should be able to engage external advisors when they consider it necessary for the performance of their functions.**
- e) **Minutes should be kept of all meetings, which should then be made available to all of the Directors.**

Compliant Partially compliant Explain Not applicable

The job to supervise compliance with the rules of corporate governance, the rules of the internal codes of conduct and the rules pertaining to the corporate social responsibility policy should be attributed to one or shared amongst several Board Committees, which may be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, if one exists, or a specialist committee that the Board of Directors, exercising its powers of self-organisation, decides to create for this purpose, to which the following minimum functions will be specifically attributed:

- a) **Supervision of compliance with internal codes of conduct and the Company's corporate governance rules.**
- b) **Supervision of the communication strategy and of the relationship with shareholders and investors, including small and medium-sized shareholders.**
- c) **The periodic evaluation of the adequacy of the Company's corporate governance system, with the aim of enabling it to fulfil its mission to promote the corporate interest and taking into account, as appropriate, the legitimate interests of the other stakeholders.**
- d) **Review of the Company's corporate responsibility policy, ensuring that it is focused on value creation.**
- e) **Monitoring the strategy and corporate social responsibility practices and evaluating the degree of compliance.**
- f) **Supervising and evaluating the processes relating to different stakeholder groups.**
- f) **Evaluation of everything relating to the Company's non-financial risks – including any operating, technological, legal, social, environmental, political and reputational risks.**
- h) **Coordination of the process for reporting about non-financial information and diversity, in accordance with applicable legislation and international standards of reference.**

Cumple Cumple parcialmente Explicue

54. The corporate social responsibility policy should include details of the principles or commitments that the Company assumes voluntarily in its relationship with the different stakeholder groups and it should identify, at least:

- a) The aim of the corporate social responsibility policy and the development of support tools.**
- b) The corporate strategy relating to sustainability, the environment and social questions.**
- c) The specific practices in questions relating to: shareholders, employees, clients, suppliers, social questions, the environment, diversity, fiscal responsibility, respect for human rights and prevention of illegal behaviour.**
- d) The methods or systems used to monitor the results of the application of the specific practices described in the previous paragraph, the associated risks and their management.**
- e) The mechanisms for monitoring non-financial risk, ethics and business conduct.**
- f) The channels of communication, participation and dialogue with stakeholders.**
- g) Responsible communication practices that prevent the manipulation of information and protect the integrity and honour of the Company.**

Compliant Partially compliant Explain

55. The Company should report, in a separate document or in its management report, about matters relating to corporate social responsibility, using one of the internationally accepted methodologies established for that purpose.

Compliant Partially compliant Explain

56. The Directors' remuneration should be sufficient to attract and retain Directors of the desired profile and to remunerate the dedication, qualification and level of responsibility required by the role, but not so high as to compromise the independence of judgement of the Non-Executive Directors.

Compliant Explain

57. The Executive Directors' variable remuneration that is linked to the performance of the Company and individual performance should be limited, as should the remuneration paid through shares or share options or instruments that depend on the share value, as well as the long-term savings plans, such as pension plans, retirement plans and other social welfare systems.

Shares may be considered as remuneration for Non-Executive Directors when those Directors are obliged to hold those shares until the end of their term in office. This shall not apply to the shares that Directors need to transfer, where applicable, to meet the costs related with their acquisition.

Cumple Cumple parcialmente Explicue

58. In the case of variable remuneration, the remuneration policy should incorporate the necessary limits and technical safeguards to ensure that such remuneration relates to the professional performance of its beneficiaries and does not only depend on the general evolution of the markets or the Company's sector or other similar circumstances.

And, in particular, the variable components of the remuneration should:

- a) **Be linked to the performance criteria that are determined in advance and are measurable, and that those criteria reflect the risk assumed to obtain a result.**
- b) **Promote the sustainability of the Company and include non-financial criteria that are appropriate for the creation of value over the long-term, such as compliance with the Company's rules and internal procedures and its policies for the control and management of risks.**
- c) **Are configured on the basis of a balance between fulfilling the short-term, medium-term and long-term objectives, which allow the remuneration of continued performance over a sufficiently long period of time to appreciate the contribution to the sustainable creation of value, in such as way that the measurement elements of that performance do not revolve solely around one-off, occasional or extraordinary events.**

Compliant Partially compliant Explain Not applicable

59. The payment of a significant proportion of the variable components of remuneration should be deferred for a minimum period of time that is sufficient to enable checks to be performed to verify that the performance conditions established previously have been met.

Compliant Partially compliant Explain Not applicable

60. The remuneration relating to the results of the Company should take into account any potential qualifications that appear in the external auditor's report and reduce those results.

Compliant Partially compliant Explain Not applicable

61. A significant percentage of the variable remuneration paid to the Executive Directors should be linked to the delivery of shares or financial instruments linked to the share value.

Compliant Partially compliant Explain Not applicable

62. Once the corresponding shares or share options or rights over shares have been allocated to the remuneration systems, the Directors may not transfer ownership of a number of shares equivalent to twice their fixed annual remuneration, nor may they exercise the options or rights until a period of, at least, three years has elapsed since their allocation.

This shall not apply to shares that Directors need to transfer, where applicable, to meet the costs relating to their acquisition.

Compliant Partially compliant Explain Not applicable

63. Contractual agreements should include a clause that allows the Company to demand the return of the variable components of the remuneration when the payment has not reflected the performance conditions or when it has been paid on the basis of data whose accuracy is subsequently discredited.

Compliant Partially compliant Explain Not applicable

64. Payments for contract terminations should not exceed an established amount equivalent to two years of total annual remuneration, nor should payments be made until the Company has been able to check that the Director has complied with the performance criteria previously established.

Compliant Partially compliant Explain Not applicable

H OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects relating to the corporate governance of the Company or entities of the group that have not been captured in the other sections of this report, but which should be included to ensure a more complete and reasoned set of information about the governance structure and practices of the entity or group, briefly describe them.
2. Within this section, you may also include any other information, clarification or details relating to the previous sections of the report to the extent that there are relevant and not repetitive.

Specifically, indicate whether the Company is subject to legislation other than Spanish law in terms of corporate governance and, where applicable, include details of the information that it is obliged to supply and that is different from the information required in this report.

3. The Company may also state whether it has voluntarily acceded to any international, sectorial or other codes of ethical principles or codes of good practice. Where applicable, the code in question should be identified along with the date of accession. In particular, mention should be made as to whether the Company has adhered to the Code of Good Tax Practices, dated 20 July 2010.

This Annual Corporate Governance Report has been approved by the Board of Directors of the Company, at its meeting on _____.

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

Yes

No

Name or corporate name of the Director that has not voted in favour of the approval of this Report	Reasons (against, abstention, not present)	Explain the reasons