

Talgo, S.A.
(formerly Pegaso Rail
International, S.A.)

Financial Statements for the year ended
31 December 2015 and Directors' Report
together with Independent Auditor's
Report

*Translation of a report originally issued in Spanish
based on our work performed in accordance with the
audit regulations in force in Spain. In the event of a
discrepancy, the Spanish-language version prevails.*

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Talgo, S.A. (formerly Pegaso Rail International, S.A.),

Report on the Financial Statements

We have audited the accompanying financial statements of Talgo, S.A., which comprise the balance sheet as at 31 December 2015, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Talgo, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2-a to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Talgo, S.A. as at 31 December 2015, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

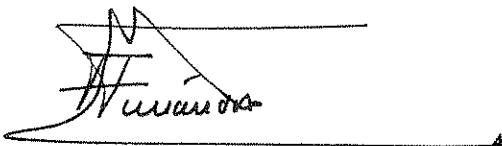
Emphasis of Matter

This auditor's report, following the reformulation of the Company's financial statements in standard format, replaces that issued on 26 February 2016 on the abridged financial statements initially prepared in which we expressed an unqualified opinion. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2015 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2015. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692



Francisco Fernández

18 March 2016

TALGO, S.A. (formerly known as Pegaso Rail International, S.A)

Annual Accounts and Directors' Report for the year ended 31 December 2015

**Translation of financial statements originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain (see Note 19). In the event of a discrepancy, the Spanish-language version prevails*

TALGO, S.A.

BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014
(Expressed in thousands of euros)

ASSETS	2015	2014
NON CURRENT ASSETS	150 317	147 105
Long-term financial investments in group companies and associates (note 5)	150 317	147 105
Investments in group companies	150 317	147 105
CURRENT ASSETS	24 876	5 857
Trade debtors and other accounts receivable (note 6)	24 667	5 743
Receivables from Public Administrations	24 667	5 143
Other receivables	-	600
Cash and cash equivalents (note 7)	209	114
TOTAL ASSETS	175 193	152 962
LIABILITIES AND SHAREHOLDER'S EQUITY	2015	2014
EQUITY	57 309	140 684
Equity (note 8)	57 309	140 684
Share capital	41 187	41 187
Share premium	68 451	68 451
Legal reserve	8 237	6 924
Reserves	(90 403)	(9 368)
Other Reserves	33 724	30 512
Result for the financial year	(3 887)	2 978
NON CURRENT LIABILITIES	103 598	-
Long-term debts (note 9)	103 598	-
Debts with financial institutions	58 175	-
Debts with group companies and associates	45 423	-
CURRENT LIABILITIES	14 286	12 278
Short-term debts (note 10)	14 002	12 253
Debts with group companies and associates	7 211	12 193
Debts with financial institutions	6 791	-
Other financial liabilities	-	60
Short-term creditors and other accounts payable (note 10)	284	25
Other debts with Public Administrations	81	-
Other creditors	203	25
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	175 193	152 962

Notes 1 to 18 of these annual accounts form an integral part of the balance sheet at 31 December 2015.

TALGO, S.A.

**INCOME STATEMENT ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2015
AND 2014**

(Expressed in thousands of euros)

CONTINUING OPERATIONS	2015	2014
Other operating income	60	600
Non-core and other operating revenues (note 11)	60	600
Other operating expenses	(1 277)	(49)
External services (note 11)	(817)	(49)
Other current operating expenses (note 11)	(460)	-
OPERATING RESULT	(1 217)	551
Financial income (note 11)	4	-
Financial expenses (note 11)	(835)	-
FINANCIAL RESULT (note 11)	(831)	-
PROFIT BEFORE TAX	(2 048)	551
Income tax (note 12)	(1 839)	2 427
EARNINGS FROM CONTINUING OPERATIONS	(3 887)	2 978
RESULT FOR THE YEAR	(3 887)	2 978

Notes 1 to 18 of these annual accounts form an integral part of the income statement at 31 December 2015.

TALGO, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2015 AND 2014
(Expressed in thousands of euros)

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES

	<u>2015</u>	<u>2014</u>
Result from the income statement	(3 887)	2 978
Direct assignment to equity		
Cash flow hedge	-	-
Grants, donations and bequests received	-	-
Opening balance adjustments for changes in value	-	-
	-	-
Transfers to the income statement		
Cash flow hedge	-	-
Grants, donations and bequests received	-	-
	-	-
TOTAL RECOGNIZED INCOME AND EXPENSES	<u>(3 887)</u>	<u>2 978</u>

Notes 1 to 18 of these annual accounts form an integral part of the statement of recognized income and expenses at 31 December 2015.

TALGO, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2015 and 2014
(Expressed in thousands of euros)

B) TOTAL STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Negative results from previous financial years	Legal reserve	Result for the financial year	Other Reserves (share compensation plan)	Total
Balance at 31 December 2013	41 187	68 451	(61)	6 924	(9 307)	-	107 194
Total recognized income and expenses	-	-	-	-	2 978	-	2 978
Other movements (note 5)	-	-	-	-	-	30 512	30 512
Distribution of results for 2013	-	-	(9 307)	-	9 307	-	-
Balance at 31 December 2014	41 187	68 451	(9 368)	6 924	2 978	30 512	140 684
Total recognized income and expenses	-	-	-	-	(3 887)	-	(3 887)
Other movements (note 5)	-	-	(82 700)	-	-	3 212	(79 488)
Distribution of results for 2014	-	-	1 665	1 313	(2 978)	-	-
Balance at 31 December 2015	41 187	68 451	(90 403)	8 237	(3 887)	33 724	57 309

Notes 1 to 18 of these annual accounts form an integral part of the balance sheet at 31 December 2015.

TALGO, S.A.

CASH FLOW STATEMENT FOR THE YEARS 2015 AND 2014
(Expressed in thousands of euros)

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES	(3 006)	(9 589)
Result for the financial year before taxes	(2 048)	551
Adjustments to the result	771	-
- Financial income	(4)	-
- Financial expenses	835	-
- Other incomes and expenses	(60)	-
Changes in working capital	(1 475)	(10 153)
- Debtors and other accounts receivable	(166)	(600)
- Creditors and other accounts payable	(1 309)	(9 553)
Other cash flows from operating activities	(254)	13
- Interest payments	(541)	-
- Income tax	287	13
CASH FLOW FROM INVESTING ACTIVITIES	-	-
CASH FLOW FROM FINANCING ACTIVITIES	3 101	9 394
Collections and payments on financial liability instruments	110 098	9 394
- Collections from credit entities and other debts	65 000	-
- Payment of debt with credit institutions and other debts	(325)	-
- Debt with group companies and associates	45 423	9 394
Payments for dividends and remuneration on other equity instruments	(106 997)	-
- Shares	(106 997)	-
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	95	(195)
Cash and cash equivalents at the beginning of the year	114	309
Cash and cash equivalents at the end of the year	209	114

Notes 1 to 18 of these annual accounts form an integral part of the cash flow statement for the financial year 2015.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

1. General Information

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

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

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

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

The corporate purpose of the Company is as follows:

- a) The manufacture, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of transport material, systems and equipment, especially relating to the railway sector.
- b) The manufacture, assembly, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of engines, machinery and parts and components thereof, intended for the electromechanical, iron & steel and transport industries.
- c) The research and development of products and technologies relating to the previous two paragraphs, along with the acquisition, operation, assignment and disposal of patents and trademarks relating to the corporate activity.
- d) The subscription, acquisition, disposal, possession and administration of stocks, shares, or interests, within the limits set forth by the regulations governing the stock market, collective investment companies and other regulations in force that may apply.
- e) The purchase, restoration, redesign, construction, leasing, promotion, operation and sale of all types of real estate.

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)**

These activities may be carried out either wholly or partially by the Company, either directly or in any other way permitted by law, including through equity interests in other companies with an identical or similar corporate purpose.

2. Basis of presentation

a) Applicable regulatory financial reporting framework

These annual accounts for 2015 have been prepared on the basis of the Company's accounting records and are presented in accordance with the applicable regulatory framework for financial information, in order to show a fair presentation of the equity, financial position and results of the Company. The regulatory framework is based on:

- The Commercial Code and other commercial legislation.
- The General Accounting Plan, approved by Royal Decree 1514/2007 and its adaptations, as well as the amendments made to it as a result of RD 1159/2010 and its transitional arrangement included thereof.
- The compulsory standards approved by the Accounting and Audit Institute as part of the development of the General Accounting plan and its supplementary rules.
- Other Spanish accounting regulations that may apply.

The figures contained in the documents that comprise these annual accounts, the statement of financial position, the income statement, the statement of changes in equity, the cash flow and this annual report, are expressed in thousands of euros, since the euro is the Company's functional currency.

b) Fair presentation

These annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with the applicable regulatory framework for financial information, in order to show a fair presentation of the equity, financial position and results of the Company.

On February 25, 2016, the Directors prepared the abbreviated annual accounts for the financial year 2015. On February 26, the auditors issued an unqualified audit report.

Notwithstanding the foregoing, after the formulation of the annual accounts and pursuant to the article 536 of the Companies Act Capital by which regulates that companies, whose securities are admitted to trading on a regulated market of any Member State of the European Union, cannot formulate abbreviated annual accounts, the Company Directors have reformulated the annual accounts in its standard form.

The consolidated annual accounts of Talgo S.A and Subsidiaries corresponding to the financial year ended 31 December 2015 have been prepared in accordance with

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

International Financial Reporting Standards (IFRS) adopted by the European Union, being formulated on 25 February 2016 and deposited in the Commercial Registry of Madrid.

c) Critical aspects of the valuation and estimation of uncertainty

The Group recognizes liabilities for any eventual tax claims based on estimates of whether additional taxes will be required. When the final tax outcome of these matters is different from the amounts initially recognized, such differences will affect the income tax and deferred tax provisions in the year in which such a determination is made. During the year 2015 it has been fulfilled the share compensation plan explained in note 5 and after paying the corresponding tax withholds to Tax Authorities amounting to 47,007 thousand euros, the Company consistently has deducted an amount of 19,045 thousand euros in income tax for the tax effect of the cost recorded in reserves of the Company mentioned in that note. In this regard, on May 2015 binding consultation to the General Department of Taxation of Legal Entities of the Directorate General of Taxes was formulated, which at the date of reparation of these financial statements is pending reply. In this situation, the Directors, considering the opinions of their tax advisors in this regard, have considered as deductible amount mentioned above, considering that the answer to the above binding request ratify this treatment.

The Company's Management is not aware of the existence of any major uncertainties with regard to events or risks that may result in significant changes to the value of the assets and liabilities at the end of 2015.

d) Grouping items

For the purposes of enabling an understanding of the balance sheets, the income statement account, the cash flow, and the statement of changes in equity, these statements are presented on an aggregated basis. All corresponding analysis is contained in the accompanying notes.

e) Comparison of information

The information contained in these annual accounts pertaining to the year 2014 is presented for comparative purposes only, alongside the information for 2015.

3. Accounting principles

The main valuation principles used by the Company in preparing its financial statements for 2015, in accordance with the General Accounting Plan in force, are as follows:

a) Financial assets

Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are reported within current assets, with the exception of those that have maturity dates that fall more than 12

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

months after the year-end date, which are classified as non-current assets.

Loans and accounts receivable are included within "trade debtors and other accounts receivable".

These financial assets are initially valued at fair value, including transaction costs directly attributable to them, and subsequently, at amortized cost to reflect the interest accrued on the basis of their effective interest rate, which is understood to be the updated rate that equals the book value of the instrument with all of its estimated cash flows up to maturity. Notwithstanding the above, receivables for trade operations with maturity no greater than one year are valued, both at the time of initial recognition and subsequently, at their nominal value, provided that the effect of not updating the cash flows is not significant.

At least once a year, at year-end, the necessary valuation corrections are made when objective evidence exists that there has been an impairment loss and that not all of the amounts owed are therefore going to be recovered.

The amount of the loss due to impairment is the difference between the book value of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate at the time of initial recognition. These corrections in value, along with their subsequent reversal where appropriate, are recognized in the income statement.

Investments in group companies, multigroup and associates

These financial assets are valued at cost less the accumulated amount of any losses due to impairment, where appropriate.

If objective evidence exists that the book value of these assets is not recoverable, the necessary valuation corrections are made, equal to the difference between the book value and the recoverable amount, which is understood to be the fair value of the asset less the costs of sale or the present value of the cash flows resulting from the investment, whichever is greater. When estimating the impairment of its investments, the Company takes into account the equity of the investee company, adjusted for any unrealized gains or losses at the valuation date, unless better evidence of the recoverable amount exists. Impairment losses and any reversals, where appropriate, are recognized in the income statement during the year in which they are identified.

b) Financial liabilities

Debts and accounts payable

This category includes debts due to trade and non-trade operations. These borrowings are classified as current liabilities unless the Company has an unconditional right to defer their settlement for at least 12 months after the year-end date.

Borrowings are initially recognized at fair value, net of any directly attributable transaction costs and are subsequently measured at amortized cost in accordance with the effective interest rate method. This effective interest rate is understood to be the rate that equals

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

the book value of the instrument with all of its estimated future cash flows until maturity.

Debts for trade operations with maturity of no more than one year that do not have any contractual interest rate are valued, both initially and subsequently, at face value when the effect of not updating the cash flows is not significant.

c) Share capital

The share capital of the Company is represented by shares.

The costs of issuing new shares or options are disclosed directly against equity, as a reduction in reserves.

In the case of acquisition of own shares by the Company, the consideration paid, including any directly attributable incremental costs, is deducted from the equity until the shares are cancelled, reissued or disposed of. When these shares are sold or subsequently reissued, any amounts received, net of any directly attributable incremental transaction costs and related income tax effects, are included in the equity.

d) Current and deferred taxes

The Company forms part of the Tax Group 65/06, being the Parent of this Group. Therefore, the Company records, if applicable, the group's debt with the Tax Authority, registering as balancing entry the corresponding accounts receivable and payable with each company of the tax group, in accordance with their taxable basis contribution to the consolidated taxable base and the participation of each of them in the final balance of receivable and payable taxes.

The income tax charge (credit) is the amount that is accrued during the financial year. It includes the charge (credit) for both current tax and deferred tax.

The charge (credit) for both current and deferred taxes is recorded in the income statement. Nevertheless, the tax effects relating to items that are recorded directly in equity are also recognized in equity.

Assets and liabilities for current tax are valued in terms of the quantities expected to be paid to or recovered from the tax authorities, in accordance with existing regulations or approved and not yet published.

Deferred income tax is recognized, in accordance with the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises upon initial recognition of an asset or liability in a transaction, other than a business combination, which at the time of the transaction affects neither the accounting result or the taxable profits or losses. The deferred income tax charge is determined using the tax rates that have been enacted or substantially enacted as at the statement of financial position date and that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

Deferred tax assets are recognized to the extent that it is likely that future taxable profits will be available against which the temporary differences may be offset.

e) Revenue recognition

Income and expenses are recognized when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Dividend income is recognized as income in the income statement when the right to receive the amount is established. Notwithstanding this, if the distributed dividends come from results generated prior to the acquisition date, they are not recognized as income, and the accounting value of the investment is reduced.

f) Related party transactions

In general, transactions between Group companies are accounted for initially at their fair value. Where appropriate, if the agreed price differs from the fair value, then the difference is recognized, bearing in mind the economic reality of the transaction. The later valuation is done pursuant to the corresponding rules and regulations.

g) Provisions and contingent liabilities

Provisions are recognized when the Company has an existing obligation, legal or implicit, as a result of past events, that will likely require an outflow of resources to settle the obligation and when that amount can be estimated reliably.

No provisions are recognized for future operating losses.

Provisions are measured based on the present value of the disbursements that are expected to be necessary to settle the obligation using a pre-tax rate that reflects the current market's assessment of the time value of money and the specific risks of the obligation. Any adjustments to the provision, in order to update its value, are recognized as financial expenses as and when they accrue.

Provisions with a maturity of less than or equal to one year that do not have a significant financial effect are not discounted.

When it is expected that part of the payment to be made to settle the provision will be reimbursed by a third party, the reimbursement is recognized as a separate asset, as long as receipt is virtually certain.

Meanwhile, contingent liabilities are considered to be those potential obligations arising as a result of past events, whose materialization depends on the occurrence of future events lying beyond the will of the Company. Such contingent liabilities are not registered in the accounting records.

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)**

h) Foreign currency transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates in force on the dates of the transactions. Foreign currency profits and losses resulting from the settlement of these transactions, and from the conversion of monetary assets and liabilities denominated in foreign currencies at closing exchange rates, are recognized in the income statement, except if they are deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of available-for-sale monetary securities denominated in foreign currencies are analyzed as the exchange differences resulting from changes in the amortized cost of the instrument and other changes in the security's carrying value. Exchange differences are recognized in the income statement and other changes in carrying value are recognized in equity.

Exchange differences on non-monetary items, such as equity instruments recorded at fair value with changes in the income statement, are presented as part of the profit or loss on their fair value. Exchange differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets are included within equity.

i) Group Employee Benefits - Equity instrument compensation

Since the last quarter of 2012, on an exceptional basis, by virtue of the new contracts signed with executives of the Group, through one of its subsidiaries, Patentes Talgo, S.L.U. there were a number of obligations with the management team in the form of a long-term share compensation plan. This share compensation plan is linked, on one hand, to the fulfillment of objectives, linked to the fulfillment of the Consolidated Group's business plan (EBITDA, % Gross margin and operating cash), as well as growth objectives (the signing of new contracts); and on the other hand, to the continuation (of the management team) in the Group over the next few years. The amount was calculated as a fixed percentage based on the estimated increase in the value of the Group pursuant to the formula specified in the contract signed to that effect, in accordance with the fulfillment of the hypotheses underlying the share compensation plan, with the most important hypotheses being the estimated plan payment date and the degree of compliance with the aforementioned management objectives. This plan may be paid in cash or shares, at the discretion of the Group, being its best estimation the settlement through the delivery of shares. During the year 2015 after the Company, IPO (Initial Public Offering) took place; the plan has been fulfilled with a share purchase to deliver to employees for a total gross cost of €101,739 thousand (note 5).

4. Information on the nature and level of risk

In view of the activity carried out by the Company, there are not significant risks additional to those related to investments in group companies and associates.

The financial risk management is centralized through the Directors of the Company, who have established the means to control the exposure to interest rates and exchange-rate

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

variations, as well as credit and liquidity risks.

5. Long-term financial investments in group companies and associates

a) Investments in group companies and associates

The movements in the "Investments in group companies and associates" balance during 2014 were as follows:

	€ in thousands			
	Balance at 31.12.13	Additions	Disposals	Balance at 31.12.14
Investments in group companies	116 593	30 512	-	147 105
	116 593	30 512	-	147 105

The movements in the "Investments in group companies and associates" balance during 2015 are as follows:

	€ in thousands			
	Balance at 31.12.14	Additions	Disposals	Balance at 31.12.15
Investments in group companies	147 105	3 212	-	150 317
	147 105	3 212	-	150 317

The additions recorded during the financial years 2014 and 2015 correspond to Patentes Talgo, S.L.U equity instruments-based payment transaction with its employees (note 3.i). In these contracts it was provided the possibility to deliver shares of the Companies Talgo S.A. (formerly known as Pegaso Rail International S.A.) or Patentes Talgo, S.L.U. Until the financial year 2014, the best estimation of the Company was that this plan would be fulfilled with Patentes Talgo, S.L.U. shares, however during 2014 taking into consideration the possibility of the Group's future admission to trading, it was concluded that the consideration would be made through Talgo, S.A. equity instruments, delivering this Company its own equity instruments to the Patentes Talgo, S.L.U. employees. Pursuant to a Consultation 7 of the BOICAC 75, the Company recorded the contribution to the subsidiary Patentes Talgo, S.L.U., as Investments in group companies with charge to equity in the Other Reserves item, consistent in fulfill the service that Patentes Talgo, S.L.U. receives which is settled with the delivery of its parent Company Talgo, S.A. own equity instruments, without any consideration. Provided that no accounting regulatory framework applicable to this particular situation exists, the Company Directors fully registered the transaction in 2014 at fair the value of the equity instruments at the time of the delivery. During the year 2015 after the IPO (Initial Public Offering) took place the plan has been fulfilled with a share purchase to deliver to employees for a total gross cost of €101,739 thousand, the impact registered in reserves net of taxes amounts to €82.700

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

thousand, turning to the stock market to purchase the equity instruments, own shares, for a sum of €54.732 thousand delivered to the beneficiaries and paying the corresponding tax withholds to the Tax Authorities amounting to €47.007 thousand.

The estimated value of the Talgo Group on the date the plan was granted was calculated in accordance with the contracts signed for this purpose, based on valuation techniques, primarily cash flow projections and valuation based on multiples, performed in the year the contracts were signed. The main assumptions used for this valuation, namely the growth and discount rates, are coherent with those regarding goodwill impairment tests, following the criteria established in the long-term share compensation plan. The aforementioned fair value was calculated during 2012 on the basis of the following assumptions:

- The discount rate for the cash flows is the Group's cost of capital for each one of the years being set at 9% for the years 2014 and 2015.
- The timeframe coincides with the termination periods of the contracts in the portfolio of projects
- The collections charged in the various years are calculated on the basis of the delivery and billing clauses that appear in the various contracts.
- The payments have been estimated in accordance with the standard budgeted costs, based on the Group's cost accounting.

The increase in the Group's value on the settlement date of the plan was calculated on the basis of the IPO share price.

The total balance registered in this caption, relates to the investments that Talgo, S.A. holds in the company Patentes Talgo, S.L.U., being this stake of 100% for the years 2014 y 2015.

Name and place of business	Activity	Ownership stake (% direct)	Voting rights
Patentes Talgo, S.L.U.	Construction and maintenance of railway rolling stock	100%	100%

The amounts of share capital, reserves, result for the financial year and other relevant information as shown in the individual audited annual accounts of subsidiaries companies at 31 December 2015 are shown as follows in thousands of euro:

Company	Share Capital	Reserves	Result 2015	Other items	Operating Results	Net book value in parent company books
Patentes Talgo, S.L.U.	51 914	184 312	58 331	33 724	77 091	150 317

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

The amounts of share capital, reserves, result for the financial year and other relevant information as shown in the individual audited annual accounts of subsidiaries companies at 31 December 2014 are shown as follows in thousands of euro:

Company	Share Capital	Reserves	Result 2015	Other items	Operating Results	Net book value in parent company books
Patentes Talgo, S.L.U.	51 914	152 599	31 713	30 512	43 142	147 105

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately.

Talgo S.A. consolidated annual accounts for the financial year 2015, have been formulated by the Directors of the Company at the meeting of the Board of Directors held on 25 February 2016, in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and deposited in the Commercial Registry of Madrid. They show that the Group recorded equity of €230,997 thousand, a profit of €59,575 thousand, total assets of €671,934 thousand and total turnover of €520,695 thousand.

The consolidated annual accounts of Talgo S.A. corresponding to 2014 were approved at the General Meeting of the Shareholders of the Parent Company on 28 March 2015 and deposited in the Commercial Registry in Madrid.

6. Trade debtors and other accounts receivable

The breakdown of the "Trade debtors and other accounts receivable" balances at 31 December 2015 and 2014 is as follows:

	€ in thousands	
	Balance at 31.12.15	Balance at 31.12.14
Receivables from Public Administrations	24 667	5 143
Other receivables	-	600
	24 667	5 743

a) Receivables from Public Administrations

This caption contains at year-end the refunds of corporate tax of the consolidated Tax Group for the years 2015 and 2014.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

7. Cash and cash equivalents

The breakdown of the Company's Cash and cash equivalents is as follows:

	<u>2015</u>	<u>2014</u>
Cash	209	114
	<u>209</u>	<u>114</u>

8. Equity

a) Share capital

As at 31 December 2014, the Company's share capital amounted to €41,186,702.90 and comprised 1,368,329 shares with a nominal value of €30,10 each. On 28 March 2015, the General Shareholders' Meeting approved the cancelation of various classes of shares and the splitting by 100 of the number and nominal value of the shares, which meant that, from that date onwards, the Company's share capital comprised 136,832,900 shares and had a nominal value of €0.301.

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

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

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

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in the share capital of the Company, both directly and indirectly, which individually exceeded 3% of the Share Capital as at 31 December 2015:

Company	<u>% of share</u>
Trilantic Capital Investment GP Limited	32,1%
MCH Inversiones Industriales S.A.R.L.	4,7%
MCH Iberian Capital Fund III, FCR	4,2%
Capital Research and Management Company	3,2%
Smallcap World Fund Inc. (SCWF)	3,3%
Universities Superannuation Scheme	3,0%
	<u>50,5%</u>

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

The percentage stake of the shareholders at year-end 2014 was as follows:

	nr shares	% stake
Pegaso Transportation International SCA	869 633	63,55%
MCH Inversiones Industriales, S.a.r.l. y MCH Iberian Capital Fund III	221 256	16,16%
Otros accionistas	277 440	20,29%
	1 368 329	100,00%

b) Share Premium

The share Premium is €0.50025 per share, with a total of €68.451 thousand. This share premium is freely available.

c) Legal reserve

The legal reserve has been recognized in accordance with article 274 of the Capital Company Act, which requires that a figure equals to 10% of the profit for the year be transferred to the reserve until that reserve amounts to at least 20% of the share capital.

If the reserve does not exceed the limit established, then it may not be distributed; and if it is used to offset losses, in the event that no other reserves available or sufficient for the purpose, then it must be replenished with future profits.

The legal reserve had reached the legally required minimum at year-end after the distribution of the result for the financial year 2014.

d) Result for the year

The proposed distribution of the result, which will be presented to the General Shareholders' Meeting of the Company, is as follows:

	2015	2014
To Legal Reserve	-	1 313
To the negative results from previous financial years	(3 887)	1 665
	(3 887)	2 978

e) Other reserve

The "Other reserve" caption included the equity component described in note 5.a, which amounts to €33,724 thousand.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

9. Long-term debts

The breakdown of the "Long-term debts" balances at 31 December 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Debts with financial institutions	58 175	-
Debts with group companies and associates	45 423	-
	<u>103 598</u>	<u>-</u>

a) Debts with financial institutions

On 16 April 2015 the Company and the subsidiary Patentes Talgo S.L.U. have signed a loan agreement, amounting to €100,000 thousand. The loan to Talgo S.A. amounts €65,000 thousand. At year-end 2015, €58,175 thousand of the aforementioned loan was classified as a long-term liability and €6,500 thousand was classified as a short-term liability. The amount of interest and commissions accrued and unpaid at year-end 2015 in relation to the aforementioned contract amounted to €291 thousand. The aforementioned contract contains a number of associated obligations which the Group has complied with since the beginning of the contract. This loan accrues fixed interest at a market rate.

b) Debts with group companies and associates

The Company has received a long-term loan from its subsidiary Company Patentes Talgo, S.L.U. amounting to €45,423 thousand, and accrues interest at a market rate

10. Short-term debts and other accounts payable

The breakdown of the "Short-term creditors and other accounts payable" balances at 31 December 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Debts with group companies and associates	7 211	12 193
Debts with financial institutions	6 791	-
Other debts with Public Administrations	81	1
Other creditors	203	24
Other financial liabilities	-	60
	<u>14 286</u>	<u>12 278</u>

At year-end 2014 and 2015, the income tax is a receivable balance which is recognized within "Receivables from Public Administrations" on the current assets of the statement of financial position (note 6).

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

The caption "Debts with group companies and associates" contains recorded balances with the subsidiary Patentes Talgo, S.L.U. for income tax outstanding balances with the Tax Authority.

The caption short-term debts contain the Debts with financial institutions (note 9.a), furthermore outstanding interests and commissions at year-end 2015 are included.

Below is detailed the information required by the third additional Provision of Act 15/2010, of 5 July (amended by the second final Provision of Act 31/2014, 3 December) prepared in accordance with the ICAC (Accounting and Audit Institute) Resolution of 29 January 2016, on the information to provide in the annual accounts in relation to the average period of payment for trade operations to suppliers.

As permitted by the sole additional Provision of the aforementioned Resolution, It being the first year of implementation thereof, no comparative information for the previous year is presented.

	<u>€ in thousands</u>
	<u>2015</u>
Average Suppliers payment period (days)	34
Paid operations ratio (days)	41
Pending to be paid operations ratio (days)	<u>7</u>
Total payments	827
Total pending payments	203

Pursuant to the ICAC (Accounting and Audit Insitute) resolution, the average period of payment to suppliers calculation is based on the trade operations corresponding to goods delivered or services provided accrued from the date from which Act 31/2014, 3 December, came into force.

For the sole purpose of detailing the information required by the Resolution, it is considered suppliers the trade creditors for debts with suppliers for goods and services, included within the "suppliers" and "other creditors" items on the current asset of the statement of financial position.

"Average period of payment to suppliers" is understood to be the time between the supply of goods or services delivered and the effective payment of the transaction.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

11. Income and expenses

a) The breakdown of the "Other operating income" is as follows:

	<u>2015</u>	<u>2014</u>
Other operating income	60	600
	<u>60</u>	<u>600</u>

b) The breakdown of the "Other operating expenses" is as follows:

	<u>2015</u>	<u>2014</u>
Professional services	(817)	(49)
Other current operating expenses	(460)	-
	<u>(1 277)</u>	<u>(49)</u>

c) The breakdown of the Company's financial result is as follows:

	<u>2015</u>	<u>2014</u>
Financial income:		
From investments in equity instruments		
- Interest income	4	-
	<u>4</u>	<u>-</u>
Financial expenses:		
Other financial expenses	(835)	-
	<u>(835)</u>	<u>-</u>
Financial result	<u>(831)</u>	<u>-</u>

d) Personnel expenses

The Company has not employees for the years 2015 and 2014.

12. Income tax and the fiscal situation

The Company annually presents income tax return. Profits, as determined in accordance with tax legislation, are subject to taxation at the rate of 28%. Notwithstanding, certain deductions may be applied to the resulting tax liability. As a consequence of the treatment permitted by fiscal legislation for certain transactions, the accounting profit may differ from taxable income.

The income tax expense for the year is calculated at the rate of 28% of the pre-tax profit (25% as from 2016), adjusted for permanent differences and taking into consideration any applicable deductions

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015 (Expressed in thousands of euros)

On 11 September 2014, the Tax Authority notified that it would begin an inspection of the tax returns of the consolidated tax group for Corporation Tax in 2012, at the request of the Company. This inspection was completed on 19 November 2014 and the minutes were signed accordingly. The Tax Authority has not modified the returns presented during the aforementioned year, in such a way that no corrections were required as a result of this inspection.

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

The reconciliation between profits before tax and taxable income for 2015 is as follows:

			€ in thousands
	<u>Increases</u>	<u>Decreases</u>	
Result before tax			(2 048)
Permanent differences:	8 614	-	8 614
Timing differences:	-	-	-
Taxable income for the year (Tax Result)			<u>6 566</u>
Income tax			<u>(1 839)</u>

Permanent differences correspond to previous year expenses considered as non-deductible expenses.

At year-end 2015, the Company had inspections pending for the last four years for all of the taxes that apply to it.

13. Other information

a) Foreign currency

The Company does not hold foreign currency balance sheet items during 2015 and 2014, furthermore foreign currency transactions have been made during 2015 amounting to €164 thousand resulting positive exchange rate differences for an amount of €0.2 thousand (no transactions were recorded in 2014).

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

b) Transactions with related parties

	<u>2015</u>	<u>2014</u>
External services	15	15
Patentes Talgo, S.L.U.	15	15
Expenses	<u>15</u>	<u>15</u>

14. Compensation for the Senior Management and Directors

The role of member of the Board of Directors of the Company was remunerated during 2015 for an amount of €460 thousand (€0 thousand during 2014).

The Company has neither regular staff nor senior management members at year-end 2015 and 2014.

15. The environment

Given the activity of the Company environmental matters are not applicable.

16. Information on Director's conflicts of interest

Pursuant to the provisions of Article 229 of the Revised Text of the Corporation Tax Law, the Directors of the Company have issued the Company with notices, in accordance with section 3 of the aforementioned Article, which indicate that neither they nor the persons linked to them, as defined by Art. 231 of the aforementioned legal text, find themselves in any situations involving conflicts of interest, directly or indirectly, as provided for in the aforementioned legal text, which is why these annual accounts do not include any disclosure in this regard.

17. Events after the statement of financial position date

No subsequent events have taken place between the close of the financial statements and the date of which they were prepared.

18. Fees for audit and other services provided

During 2015, the fees regarding the services provided for the audit of the individual and consolidated annual accounts by the Company's auditor Deloitte, S.L. amounted to €20 thousand (€10 thousand in 2014).

Non-audit services have not been provided by the auditor.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

19. Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

TALGO, S.A.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

Organizational structure

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

Business development

The evolution of the main magnitudes of the income statement was as follows:

	€ in thousands	
	2015	2014
Operating result	(1 217)	551
Profit before taxes	(2 048)	551
Result for the year	(3 887)	2 978

IPO and Talgo market performance

Talgo shares were admitted to be listed on the Spanish stock exchange (Madrid, Barcelona, Bilbao y Valencia) on May 7th, 2015, which represented the main Company's milestone for the year. Talgo S.A. began trading as a result of an Initial Public Offering (IPO) of 61,574,805 shares representing 45.0% of the Company's capital structure (free float). The transaction structure undertaken considered a partial and equitable divestment of the shareholders positions, including Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, MCH Inversiones Industriales S.a.r.l. and the Oriol's family.

The share market performance during 2015 was heavily penalized by different macroeconomic factors that have affected stock markets globally and specifically those sectors with exposure to commodities and the financial industry. The weaknesses shown by some economies, especially in countries influenced by the crude and commodities drop, together with the current geopolitical situation have contributed to instability and volatility in financial markets.

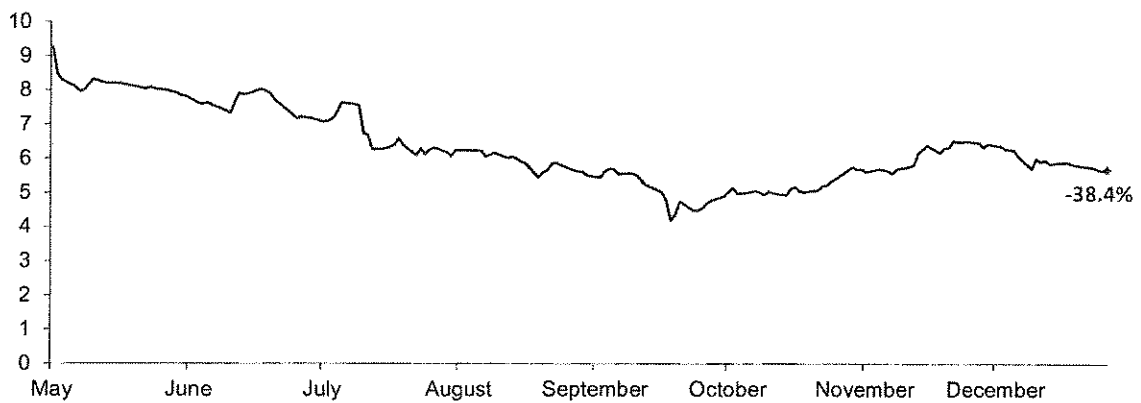
Thus, at December 31, 2015 Talgo's share price stood at € 5.69 (-38.4% since IPO), with an average daily volume of over 289 thousand shares (excluding the first 10 days of trading) for a total in excess of € 1,400 million for the year. The market cap at year close was € 779 million.

TALGO, S.A.

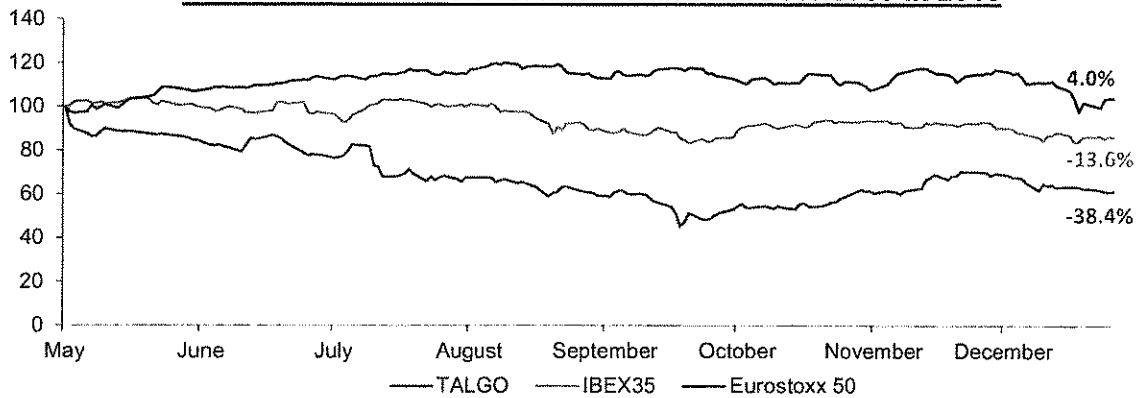
DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

In 2015 the net earnings per share stood at € 0.58, and at December 31, 2015 the price-to-earnings ratio (P/E) was 9.8x.

Talgo share performance since IPO in 2015



Stock Price evolution vs. Ibex 35 and EuroStoxx 50 in 2015



TALGO, S.A.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)

Talgo share key figures

Talgo key trading data at December 31, 2015

Number of publicly traded shares at december 31, 2015	136,832,900
Average number of shares in 2015	102,966,757
Share price (in €)	5.695
Market capitalization (in € million)	779.26
Earnings per share over average number of shares (in €)	0.58
PER	9.8x

(1) Calculated over the average number of shares in 2015

Talgo key trading data since IPO (May 7, 2015)

% change in Share price vs. IPO shares (9,25 €/share)	-38.4%
Number of trading days	170
Maximum share price (€)	8.72
Minimum share price (€)	4.07
Weighted average share price (€)	6.33
Average daily volume (# shares)	424,922
Average daily volume, excluding first 10 days of trading (# shares)	288,812
Annual volume (thousands of euros)	1,367.70

Significant events after the statement of financial position date

The subsequent events that may have a significant influence on these annual accounts are detailed in note 17.

Research and development activities

The Company has not undertaken any R&D investment during 2015.

Risk policy

In view of the activity carried out by the Company, there are not significant risks additional to those related to investments in group companies and associates.

The financial risk management is centralized through the Directors of the Company, who

TALGO, S.A.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2015
(Expressed in thousands of euros)**

have established the means to control the exposure to interest rates and exchange-rate variations, as well as credit and liquidity risks.

Quality and the environment

The Company has not undertaken any investment which could have impact in the environment. Additionally to his knowledge, there is not any litigation which regards environment issues.

Information about delaying payments to suppliers

The Company, pursuant to the ICAC (Accounting And Audit Institute) Resolution of 29 January 2016, discloses the information to provide in the annual accounts.

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

Own shares

The Company did not hold any of its own shares at 31 December 2015.