

**Talgo, S.A. and subsidiaries
(formerly known as Pegaso
Rail International, S.A.)**

Consolidated Financial Statements
for the year ended December 31, 2015,
prepared in accordance with International
Financial Reporting Standards (IFRSs) as
adopted by the European Union and
Consolidated 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.*

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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Talgo, S.A. (formerly known as "Pegaso Rail International, S.A."):

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Talgo, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Director's Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for the preparing the accompanying consolidated financial statements so that they present a fairly the consolidated equity, consolidated financial position and consolidated results of Talgo, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2.1 to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud of error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

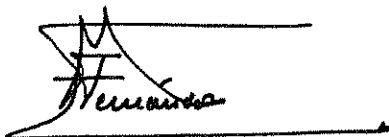
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Talgo, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

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

DELOITTE, S.L.

Registered in ROAC under no. S0692

A handwritten signature in black ink, appearing to read 'Francisco Fernández', is written over a horizontal line. The signature is stylized and cursive.

Francisco Fernández

26 February 2016

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

Consolidated annual accounts prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for the year ended 31 December 2015 and the consolidated directors' report*

"Translation of consolidated financial statements originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain (see Note 35). In the event of a discrepancy, the Spanish-language version prevails"

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS 2015 AND 2014

(Expressed in thousands of euros)

	Note	<u>31.12.2015</u>	<u>31.12.2014</u>
ASSETS			
Non-current assets			
Tangible fixed assets	6	68 672	70 898
Intangible assets	7	59 407	66 156
Goodwill	8	112 439	112 439
Investment in associates	2.3 y 10	10	10
Deferred tax assets	18	8 198	13 955
Other financial assets	10	<u>26 935</u>	<u>3 664</u>
		<u>275 661</u>	<u>267 122</u>
Current assets			
Non-current assets held for sale		6 114	6 114
Stock	12	88 808	71 723
Customers and other accounts receivable	11	277 381	158 470
Other financial assets	10	159	167
Asset accruals		1 999	1 803
Cash and cash equivalents	13	<u>21 812</u>	<u>87 910</u>
		<u>396 273</u>	<u>326 187</u>
TOTAL ASSETS		<u>671 934</u>	<u>593 309</u>

Notes 1 to 35 form an integral part of the consolidated statement of financial position.

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS 2015 AND 2014

(Expressed in thousands of euros)

	Note	<u>31.12.2015</u>	<u>31.12.2014</u>
EQUITY			
Capital and reserves attributable to the owners of the Parent Company			
Share capital	14	41 187	41 187
Share premium	14	68 451	68 451
Other reserves	15	3 945	2 608
Retained earnings	15	83 690	106 855
Other equity instruments	14	33 724	30 512
		<u>230 997</u>	<u>249 613</u>
Total equity		<u>230 997</u>	<u>249 613</u>
LIABILITIES			
Non-current liabilities			
Borrowings	17	148 003	73 809
Deferred tax liabilities	18	4 092	3 565
Provisions for other liabilities and charges	19	25 555	22 910
Government grants		5 575	5 101
		<u>183 225</u>	<u>105 385</u>
Current liabilities			
Suppliers and other payables	16	230 740	222 245
Current tax liabilities		268	125
Borrowings	17	23 186	12 379
Provisions for other liabilities and charges	19	3 518	3 562
		<u>257 712</u>	<u>238 311</u>
Total liabilities		<u>440 937</u>	<u>343 696</u>
TOTAL EQUITY AND LIABILITIES		<u>671 934</u>	<u>593 309</u>

Notes 1 to 35 form an integral part of the consolidated statement of financial position.

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2015 AND 2014

(Expressed in thousands of euros)

	Note	31.12.2015	31.12.2014
Net turnover	5	520 695	384 311
Other income		3 030	2 281
Stock variation for work-in-progress and finished goods		1 920	5 249
Work performed and capitalized by the Company		3 830	8 380
Procurement costs	22	(264 665)	(180 809)
Personnel costs	20	(98 712)	(104 556)
Other operating expenses	22	(67 274)	(47 698)
Amortization and depreciation charge	6, 7	(19 275)	(16 811)
Loss on disposal of fixed assets		(2)	(1)
Other results	23	481	530
Operating profit		80 028	50 876
Financial income	24	1 449	1 714
Financial expenses	24	(6 408)	(7 125)
Net financial result	24	(4 959)	(5 411)
Profit before tax		75 069	45 465
Income tax charge	25	(15 494)	(6 981)
Profit for the year from continuing operations		59 575	38 484
Profit for the year		59 575	38 484
Attributable to:			
Owners of the parent	26	59 575	38 484
Basic earnings per share attributable to the owners of the Company			
Continuing operations	26	0,58	28,12
Total		0,58	28,12
Diluted earnings per share attributable to the owners of the Company			
Continuing operations	26	0,58(*)	28,12
Total		0,58(*)	28,12

Notes 1 to 35 form an integral part of this consolidated statement of comprehensive income.

(*) The number of shares comprising the share capital has been split in the ratio of 1 to 100 (note 26).

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2015 AND 2014

(Expressed in thousands of euros)

	<u>31.12.2015</u>	<u>31.12.2014</u>
Profit for the year	59 575	38 484
Other comprehensive income:		
Cash flow hedges:		
Direct assignment to equity:		
Cash flow hedge	-	-
Tax effect of the equity assignment	-	-
Transfer to results:		
Cash flow hedge	-	-
Tax effect of the cash flow hedge	-	-
Foreign currency translation differences	1 337	2 507
Total other comprehensive income	1 337	2 507
Total comprehensive income for the year	<u>60 912</u>	<u>40 991</u>
Attributable to:		
-Owners of the parent	60 912	40 991
-Non-controlling interests	-	-
Total comprehensive income for the year	<u>60 912</u>	<u>40 991</u>

Notes 1 to 35 form an integral part of this consolidated statement of comprehensive income.

TALGO, S.A. AND SUBSIDIARIES

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

	Attributable to the owners of the company					Total equity
	Share capital (Note 14)	Share premium	Other reserves (Note 15)	Retained earnings	Other equity instruments (Note 14)	
Balance at 31 December 2013	41 187	68 451	101	68 405	12 152	190 296
Comprehensive income	-	-	-	38 484	-	38 484
Profit or loss	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Currency exchange differences	-	-	2 507	-	-	2 507
Total comprehensive income	-	-	2 507	38 484	-	40 991
Transactions with owners	-	-	-	-	-	-
Other movements	-	-	-	(34)	18 360	18 326
Total transactions with owners	-	-	-	-	18 360	18 326
Balance at 31 December 2014	41 187	68 451	2 608	106 855	30 512	249 613
Balance at 31 December 2014	41 187	68 451	2 608	106 855	30 512	249 613
Comprehensive income	-	-	-	59 575	-	59 575
Profit or loss	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Currency exchange differences	-	-	1 337	-	-	1 337
Total comprehensive income	-	-	1 337	59 575	-	60 912
Transactions with owners	-	-	-	-	-	-
Equity instruments payments (note 2.20)	-	-	-	(82 740)	3 212	(79 528)
Total transactions with owners	-	-	-	(82 740)	3 212	(79 528)
Balance at 31 December 2015	41 187	68 451	3 945	83 690	33 724	230 997

Notes 1 to 35 form an integral part of this consolidated statement of changes in equity.

TALGO, S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE FINANCIAL YEARS 2015
AND 2014**

(Expressed in thousands of euros)

	2015	2014
Cash flows from operating activities (note 27)		
(5 388)	19 717	
Cash used in operations	(15 023)	(19 162)
Interest paid	(5 388)	(5 496)
Interest received	121	1 596
Tax paid	(9 756)	(15 262)
Net cash flow generated from operating activities	(20 411)	555
Cash flows from investing activities		
Purchases of property, plant and equipment (note 6)	(4 453)	(17 666)
Purchases of intangible assets (note 7)	(5 816)	(6 221)
Other assets (note 10)	(23 000)	-
Net cash used in investing activities	(33 269)	(23 887)
Cash flows from financing activities		
Disbursements for loan repayments (note 17)	(13 717)	(3 512)
Proceeds from borrowings (note 17)	108 296	18 178
Share-based payments granted	(106 997)	-
Grants received	-	590
Net cash used / (generated) in financing activities	(12 418)	15 256
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	(66 098)	(8 076)
Cash, cash equivalents and bank overdrafts at the beginning of year (note 13)	87 910	95 986
Cash, cash equivalents and bank overdrafts at the end of year (note 13)	21 812	87 910

Notes 1 to 35 form an integral part of this consolidated statement of cashflows.

TALGO, S.A. AND SUBSIDIARIES

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

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

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

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

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

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

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

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

These activities may be carried out either wholly or partially by the Parent 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.

The main activity of the Parent Company and its subsidiaries (the Group) is the design, manufacture and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

The Parent Company (Talgo, S.A.) holds direct or indirect interests in the following companies:

Patentes Talgo, S.L.U.

Patentes Talgo, S.L.U. was constituted as a joint-stock company in Spain on 12 December 2005, for an indefinite period of time. Its registered address for corporate and tax purposes is in Las Rozas, Madrid and it is registered in the Commercial Registry of Madrid. On 13 March 2006, the Company was converted from a joint-stock company into a limited liability company.

The main activity of Patentes Talgo, S.L.U. is the design, manufacture and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

On 30 May 2012, the Parent Company, Talgo, S.A. proceeded to notarize an increase in its share capital, which had been agreed at an Extraordinary and Universal Meeting of the Shareholders on 26 April 2012. The payment for the new shares was performed through the non-cash contribution of shares in the company Patentes Talgo, S.L.U.

As a result of this capital injection, Talgo, S.A. became the holder of 100% of Patentes Talgo S.L.U.'s shares.

Talgo Deutschland GmbH

The company Talgo Deutschland, GmbH, which is 100% owned by Patentes Talgo, S.L.U., was constituted on 1 June 1993. Its corporate purpose is the sale, maintenance and repair of trains and train parts. Its registered office is in Berlin, Germany.

Talgo Rus

The company Talgo Rus was constituted in 2001. Patentes Talgo S.L.U. owns 51% of the shares of this company and therefore the Group's Parent Company holds an indirect equity interest of 51%. The other shareholder is RZD (The Russian Railway Federation), which holds a 49% stake.

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

The corporate purpose of Talgo Rus is the sale, maintenance and repair of trains and train parts.

Its registered office is in St. Petersburg, Russia.

This Company did not undertake any activity at the end of 2015 or 2014.

Talgo Inc.

Patentes Talgo, S.L.U. owns 100% of the company Talgo Inc., hence the Group's Parent Company holds an indirect shareholding of 100% of its share capital.

Talgo Inc. was constituted at the beginning of 2000 as a construction and maintenance company for the Talgo trains that operate in the American territory.

Its registered office is in Seattle, in the state of Washington (United States). The company also manufactures trains in Milwaukee (Wisconsin).

Talgo Bosnia Herzegovina d.o.o.

Patentes Talgo, S.L.U. owns 100% of this company, and therefore the Parent Company indirectly owns 100% of its share capital. Talgo Bosnia Herzegovina d.o.o. was incorporated in October 2009 and its primary corporate purpose is the development and execution of comprehensive maintenance work for railway equipment, as well as the performance of all of the tasks required to this end. Its registered office is located in Sarajevo, Bosnia-Herzegovina.

At year end 2015 the company is in liquidation process.

Talgo Kazajstán S.L.

Patentes Talgo, S.L.U. owns 100% of this company, and so the Parent Company indirectly owns 100% of its share capital.

Its registered office is in Las Rozas, Madrid.

On 6 August 2012, the company Talgo Kazakhstan, S.L. signed an addendum to the foundation agreement of Tulpar-Talgo LLP, whereby the stake held by this company in the aforementioned company was reduced to 0.00074%.

Given the ownership stake, as well as the fact that Talgo Kazajstán, S.L. does not have any control, decision-making power or voting rights, this company has not been considered part of the Talgo Group in fiscal years 2015 and 2014.

During 2015 the Group has paid €23,000 thousand for the purchase of 51 % of the company Tulpar Talgo LLP. This purchase is subjected to third parties approve the final purchase of that company. The total cost of the aforementioned acquisition in the event that finally

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

materializes will amount to €33,000 thousand.

Patentes Talgo Tashkent LLC

Patentes Talgo, S.L.U. constituted this company on 24 December 2011 and owns 100% of its shares, therefore the Parent Company's indirect equity interest is 100%.

Its registered office is located in Tashkent, Uzbekistan.

Talgo Demiryolu Aracli Üretim VE BA. A.S.

The Parent Company owns 100% of this company.

It was constituted in February 2014 and its primary corporate purpose is the manufacture and maintenance of railway rolling stock.

Its registered office is located in Istanbul, Turkey.

This company did not undertake any activity at the end of 2015 and 2014.

Consortio Español Alta Velocidad Meca-Medina, S.A.

This consortium was constituted on 2 November 2011. Patentes Talgo, S.L.U. holds 10,074 shares in the consortium, which have a nominal value of €1 per share; 100% of their nominal value had been disbursed at the end of 2015 and 2014. These shares represent a percentage stake of 16.79% in that company. Therefore, the Parent Company indirectly owns 16.79% of the company's shares.

The corporate purpose of this company is performance of the design, manufacturing, operating, maintenance and outsourcing activities for the double-line high-speed trains for the transportation of passengers between the cities of Mecca, Jeddah, Medina and any other cities in the Kingdom of Saudi Arabia, as well as the performance of any other activities relating to the project, signed in 2012. The members of this consortium are jointly liable for the liabilities of the consortium. To date, the Group has not received any claims or damages in relation to this project.

The primary objective of this company is to act as an intermediary, through which the various members of the consortium receive the fees associated with each one of their commitments per the contract.

This investment is classified as an associate investment.

OOO Talgo

The Parent Company owns the 100% of this company through its subsidiaries Patentes Talgo, S.L.U. (87.5%) and Talgo Kazajstán, S.L. (12.5%).

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

As of December 31st 2015, this Company is in process of being set-up. both companies mentioned above has deposit the investment. Its primary corporate purpose is the manufacture and maintenance, certification and technical approval of railway rolling stock.

Its registered office is located in Moscow, Russia.

2. Summary of the main accounting policies

The main accounting policies applied in the preparation of these consolidated annual accounts for 2015 are set out below. These policies have been consistently applied in all of the years presented, unless otherwise stated.

2.1 Basis of presentation

The Group's consolidated annual accounts for the financial year 2015, which have been prepared on the basis of the accounting records maintained by the Parent Company and by the other entities that form part of the Group, were formulated by the Directors of the Parent Company at the meeting of the Board of Directors held on 25 February 2016.

These consolidated annual accounts have been formulated by the Directors of the Parent Company, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, taking into consideration all of the accounting principles and rules, and compulsory applicable valuation criteria of IFRS-EU, in order to reflect an accurate view of the equity and consolidated financial position of the Group as at 31 December 2015, the comprehensive income arising from its operations, the changes in net equity and the consolidated cash flow generated by the Group during the financial year that ended on that date.

Nevertheless, given that the accounting principles and valuation criteria applied for the preparation of the Group's consolidated annual accounts for the financial year 2015 may vary from those used by some of the entities that form part of the Group, certain adjustments and reclassifications were made during the consolidation process in order to homogenize the principles and the criteria and adapt them to International Financial Reporting Standards.

In order to present the various items that comprise the consolidated annual accounts in a homogeneous way, the principles and valuation rules of the Parent Company have been applied to each and every company that sits within the consolidation perimeter.

The consolidated annual accounts of the Group corresponding to 2014 were approved at the General Meeting of the Shareholders of the Parent Company on 28 March 2015. The consolidated annual accounts of the Group and the annual accounts of the entities within the Group for the financial year 2015 are still pending approval by their corresponding Shareholders or Owners. Nevertheless, the Board of Directors of the Parent Company understands that these accounts will be approved without any modification.

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

2.1.1 Changes in accounting criteria

During 2015, no changes were made in the accounting criteria with respect to the criteria applied in 2014.

2.1.2. Functional currency

These consolidated annual accounts are presented in thousands of euros, since the euro is the main currency in the economic environment in which the Group operates. Overseas transactions are registered in accordance with the policy described in the Note 2.5.

2.2. Adoption of International Financial Reporting Standards

The consolidated annual accounts of the Group corresponding to the financial year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Regulation (EC) n° 1606/2002, issued by the European Parliament and the Board on 19 July 2002. In Spain, the obligation to file consolidated annual accounts in accordance with IFRS approved in Europe, is regulated by the final eleventh provision of Law 62/2003, dated 30 December 2003 governing tax, administrative and social order measures.

During 2015, the following compulsory rules and interpretations came into force, and have already been adopted by the European Union. Where appropriate, the Group has applied these rules in its preparation of these Consolidated Annual Accounts at 31 December 2015.

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

New standards, modifications and interpretations:		Obligatory application for financial years starting on or after:
Approved for use in the European Union		
IFRIC 21 Levies (published in May 2013)	Interpretation about when to recognize a liability for fees or levies that are conditional on an entity's participation in an activity on a specific date.	17 June 2014 (1)
Annual improvements 2011-2013 (published in Dec 2013)	Minor amendments to a set of standards	1 January 2015 (2)

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

2) The original application date set by the IASB was 1 July 2014.

The Group has been applying the standards and interpretations described above since they entered into force on 1 January 2015, without any significant impact on the preparation of the consolidated annual accounts.

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

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

		Obligatory application for financial years starting on or after:
Amendment to IAS 19 – Employee contributions to defined benefit plans (published in November 2013)	The amendment was issued to facilitate the possibility of deducting these contributions from the service cost in the same period they are paid if certain requirements are fulfilled.	1 February 2015 (1)
Annual improvements 2010-2012 (published in December 2013)	Minor amendments to a set of standards	1 February 2015 (1)
Amendment to IAS 16 and IAS 38 – Acceptable methods of depreciation and amortization (published in May 2014)	Clarifies the acceptable methods for amortizing and depreciating tangible and intangible assets	1 January 2016
Amendment to IFRS 11 Accounting for the acquisition of participations in joint ventures (published in May 2014)	Specifies how to account for the acquisition of a participation in a joint venture whose activity constitutes a business.	1 January 2016
Amendment to IAS 16 and IAS 41: producing plants (published in June 2014)	Producing plants should be consider by using cost method instead fair value.	1 January 2016
Annual improvements 2012-2014 (published in September 2014)	Minor amendments to a set of standards	1 January2016
Amendment to IAS 27- Equity method in separate financial statements (published in August 2014)	The equity method in separate financial statements of an investor is allowed	1 January2016
Amendment to IAS 1 disclosures initiative (published in December 2014)	Several clarifications regarding disclosures (materiality, aggregation, purchase orders, etc.)	1 January2016
Not Approved for use in the European Union		Obligatory application for financial years starting on or after:
New standards		
IFRS 15 Revenue from contracts with customers (published in May 2014)	New revenue recognition standard (which replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	1 January 2018
IFRS 16 Leases (published in Jan 2014)	New leases standard replaces IAS 17, lessees include all leases on the balance sheet as if they were financed purchases	1 January 2019
IFRS 9 Financial instruments (final stage published in July 2014)	Replaces the requirements for classification, valuation of financial assets and liabilities, derecognition and hedge accounting established by IAS 39	1 January2018
Amendment and/or understanding		
Amendment to IFRS 10 and IAS 28 On the sale or contribution of assets between an investor and its associate or joint venture. (published in September 2014)	Clarification regarding the results of these operations if they involve businesses or assets	(dates to be confirmed)
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entity (published in December 2014)	Clarification regarding the consolidation exception for investment entities	1 January2016

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

Currently, the Group is evaluating the impact that the future application of these standards will have on the annual accounts when they come into force. The Group's preliminary evaluation concludes that the impact of the application of these standards will not be significant.

2.3 Consolidation principles

a) Subsidiaries

Subsidiaries are all of the companies (including special purpose entities) over which the Group has the power to: govern the financial and operating policies exercise power over their significant activity, maintaining the exposure or right to receive the variable returns on investments and the capacity to use this power in such a way that it influences the amount of those returns, which generally results from holding a stake that exceeds half of the voting rights. When it comes to evaluating whether or not the Group exerts control over another entity, consideration is given to the existence and effect of potential voting rights that may currently be exercised or that are convertible. Subsidiaries are consolidated as of the date on which control is transferred to the Group, and they are excluded from the consolidation from the date on which that control ceases.

The Group uses the acquisition method to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the transferred assets, liabilities assumed and equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability that results from a contingent consideration arrangement. Acquisition expenses are recognized as expenses in the periods in which they are incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. For each business combination, the Group may choose between recognizing any non-controlling interest in the acquired company at fair value and recognizing the proportionate share of the non-controlling interest in the identifiable net assets of the acquired company.

Goodwill is measured as the excess of the sum of: the consideration transferred the amount of any non-controlling interest in the acquired company and the fair value at the acquisition date of the stake previously held by the acquiring company in the net equity of the acquired company less the net value at the acquisition date of the identifiable assets acquired and liabilities assumed. If this amount is less than the fair value of the equity of the acquired subsidiary, in the event that it involves a bargain purchase, the difference is recognized directly as income in the income statement.

The annual accounts of the subsidiary companies are consolidated with those of the Parent Company under the full consolidation method, and all intercompany transactions, balances and unrealized gains on transactions between the Group companies are eliminated. All unrealized losses are also eliminated. Furthermore, the accounting policies of the subsidiaries are changed where necessary to ensure

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consistency with the policies adopted by the Group. All of the Group's subsidiaries have their accounting close date on 31 December.

b) Associates

Associates are those entities over which the Parent Company has the capacity to exercise significant influence (i.e. not control or joint control). Significant influence is understood to exist when the Group holds a stake in a company and exerts power to intervene in decisions relating to the financial and operating policy of it, without exerting control. Usually, this influence is manifested by a shareholding (direct or indirect) equal to or greater than 20% of the voting rights of the associate company. Associate companies are consolidated under the equity method.

The company Consorcio Español Alta Velocidad Meca-Medina, S.A. was accounted for as an associate company as at 31 December 2015 and 2014. The members of the Board of Directors appointed by the Group are considered to exert significant influence over this consortium, but not control or joint control, since decisions are agreed in accordance with the shareholding rights of the consortium members and as a general rule, a majority of 75% is required.

The most significant financial information relating to this associate company is presented below in thousand euros:

	2015	2014
Current assets	165 329	113 071
Non-current assets	107	94
Total Assets	165 436	113 165
Current liabilities	165 029	113 426
Non-current liabilities	-	-
Total liabilities	165 029	113 426
Equity	407	(262)
Operating income	(12 572)	8 030
Operating expenses	12 620	(8 234)
Net result	367	(322)

The auditor of this company is KPMG S.A., the figures included are in auditing process.

Associate companies are included in the consolidated accounts under the equity method, i.e. in accordance with the percentage of net equity represented by the Group's stake in their share capital, after accounting for any dividends received from them and other equity eliminations. In the event of transactions with an associate, any resulting losses or gains are eliminated in accordance with the percentage stake held by the Group in its share capital.

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When the equity method is applied for the first time, the Group's stake in the company is valued on the basis of the percentage that the amount of equity held by the Group's companies in the associate represents over the associate's total net equity, after adjustments have been made to its net assets to reflect their fair value on the date significant influence is acquired.

The difference between the net book value of the associate company in the individual accounts and the amount indicated in the previous paragraph represents the goodwill, which is reported within 'Investments in associates'. In the rare case that the difference between the amount at which the investment is recorded in the individual accounts and the investment in the fair value of the net assets of the company is negative, the difference should be recorded in the statement of comprehensive income, once the assignment of the fair values of the assets and liabilities of the associate company have been evaluated again.

In general, except in the event of negative goodwill arising from the acquisition of a significant influence, investments are initially valued at cost.

The profit generated by a company consolidated under the equity method is recognized from the date that significant influence is acquired.

The book value of the participation is amended (increased or decreased) in proportion to the stake(s) held by the Group's companies, to reflect variations in the equity of the investee following its initial valuation, once the proportion of unrealized gains resulting from transactions between the associate and the Group's companies have been eliminated.

The highest value that may be assigned to a shareholding as a result of the application of the acquisition method is reduced in subsequent years, and charged to the consolidated results or to the corresponding equity caption; and to the extent that they depreciate, they lead to the derecognition or disposal of the corresponding equity elements to third parties. Similarly, a charge is made against consolidated income when losses arise due to the impairment of the assets of the associate company, up to the limit of the gain allocated to them at the date when they are first accounted for under the equity method.

Changes in the value of associate companies that correspond to the results for the year of the associate company form part of the consolidated results, and should appear within the caption 'Share of profit (losses) made by companies accounted for under the equity method'. However, if an associate company incurs losses, the reduction in the representative account of the investment shall be limited to the book value of the shareholding itself. If the shareholding is reduced to zero, any additional losses and corresponding liabilities shall be recognized to the extent that legal, contractual, implicit or tacit obligations are incurred, or as if the Group had made payments on behalf of the investee company.

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Changes in the value of the associate company corresponding to other changes in equity are shown in the relevant sections of equity, in accordance with their nature.

Valuation and timing homogenization applies to investments in associates in the same way as it does for subsidiary companies.

c) Joint ventures

A joint venture is a joint agreement whereby the parties that hold joint control under the agreement have rights to the assets and obligations with respect to the liabilities, relating to the agreement. Joint control is when the sharing of control is contractually agreed, which exists only when the decisions about the important activities require the unanimous consent of the parties that share the control. When a company in the Group carries out its business under a framework of joint ventures, the Group, as the joint operator will recognize a joint venture for its participation:

- its assets and liabilities, including its participation in the assets and liabilities held jointly
- Its participation in the income and expenses registered by the joint venture.

At the end of the financial years 2015 and 2014, the Group did not have any joint ventures.

2.4 Variations in the consolidation perimeter

No changes were made to the consolidation perimeter during 2015 and 2014. The advance payment made in May 2015 for the purchase of 51 % of the company Tulpar Talgo LLP is subject to third parties approve the final purchase of that stake, so that until all approvals are produced by those third parties, the investment may not be registered or their inclusion in the consolidated group (note 1).

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2.5 Foreign currency transactions

a) Functional and reporting currency

The items included in the financial statements of each one of the Group's companies are measured using the currency of the main economic environment in which the company operates (functional currency). The consolidated annual accounts are presented in thousands of Euro, unless indicated otherwise, which is the Parent Company's functional and reporting currency.

b) 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 profit 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 other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Profits and losses arising due to exchange differences on borrowings and cash and cash equivalents are presented in the income statement within the 'financial income' and 'financial expenses' captions.

c) Group companies

The results and financial position of the Group's companies (none of which reports in the currency of a hyperinflationary economy) that have a functional currency that is different from the reporting currency, are converted into the reporting currency as follows:

- i) The assets and liabilities at each statement of financial position are converted at the closing rate on the date of the corresponding statement of financial position; the equity is converted at the historical rate;
- ii) The income and expenses recorded in each income statement are converted at average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are converted at the rate on the transaction dates; and
- iii) All resulting exchange differences are recognized in other comprehensive income.

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2.6 Tangible fixed assets

Tangible fixed assets are recognized at acquisition price less accumulated depreciation and the accumulated amount of any recognized impairment losses. The acquisition cost is understood to include all expenditure that is directly attributable to the purchase of property, plant and equipment.

Any work performed to develop tangible fixed assets is reflected in the accumulated cost that results from adding the internal costs to the external costs; the former are established in line with the Group's consumption of warehouse materials and its manufacturing costs, applied on the basis of the same hourly fee that is used for the valuation of manufacturing projects.

Subsequent costs incurred to extend, modernize, upgrade, repair and maintain items of property, plant and equipment are included in the corresponding asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and when the cost of the item can be measured reliably. The carrying amount of any replaced parts is derecognized. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. The depreciation of all other assets is calculated on a straight-line basis by dividing their cost (less residual value) over their respective estimated useful lives. Each item of property, plant and equipment that has a significant cost, as a percentage of the total caption cost, is depreciated separately. The estimated useful lives of the Group's assets are:

	<u>Years</u>	<u>%</u>
Buildings	50 – 33	2 - 3
Machinery	8	12,5
Other facilities, Tools and Furniture	3 - 14	33,3 – 7,14
Other tangible fixed assets	4 - 12	25 – 8,3

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each statement of financial position date.

When the book value of an asset exceeds its expected recoverable amount, its carrying amount is written down immediately to reflect its expected recoverable amount.

Gains and losses on asset disposals are calculated by comparing the proceeds obtained against the carrying amount; any gains or losses are recognized in the income statement under the caption 'Result on disposal of fixed assets'.

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2.7 Intangible assets

Intangible assets are recognized at acquisition cost, or production cost in the case of internally-developed intangible assets, less accumulated amortization and any accumulated impairment losses.

a) Software

Computer software licenses acquired from third parties are capitalized on the basis of the costs incurred to acquire them and bring specific programs into use; they are registered at acquisition cost. These costs are amortized over their estimated useful life of four years.

b) Development expenses

Development costs that are directly attributable to the design and delivery of projects relating to applied rail technology that are identifiable, unique and can be controlled by the Group, are recognized as intangible assets when the following criteria are met:

- i) It is technically feasible to complete the production of the intangible asset so that it will be available for use or sale;
- ii) Management intends to complete the intangible asset to use or sell it;
- iii) The entity has the ability to use or sell the intangible asset;
- iv) It is possible to show that the intangible asset will generate probable future economic benefits;
- v) Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- vi) The expenditure attributable to the intangible asset during its development can be reliably measured.

Development costs capitalized as intangible assets are recorded at the cumulative acquisition cost that results from adding up: the external costs; the in-house costs, calculated on the basis of the consumption of warehouse materials; and manufacturing costs allocated using hourly rates similar to those used to value manufacturing projects.

The costs that do not fulfill these criteria are recognized as an expense in the period in which they are incurred. Expenditure on intangible assets that is initially recognized as an expense during the year is not subsequently recognized as an intangible asset.

Development costs recognized as assets are amortized over their estimated useful lives, which do not exceed five years.

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The amortization of development costs recognized as assets begins when the Group starts to apply the developed technology to signed projects in its portfolio or when the development recognized as an asset is definitively completed, whichever occurs sooner.

c) Industrial property

Industrial property is measured at cost less accumulated amortization and any impairment losses recognized. These intangible assets are amortized on a straight-line basis over their estimated useful lives.

d) Intangible assets acquired through a business combination:

Any intangible assets acquired through a business combination and recognized separately from goodwill are initially registered at fair value on the acquisition date and are amortized over their useful lives.

Subsequently, they are valued at cost less accumulated amortization and any accumulated impairment losses, in the same way as for all other intangible assets.

2.8 Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the acquired subsidiary's net identifiable assets at the date of acquisition.

Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of any goodwill relating to the entity sold.

Goodwill is allocated to cash generating units (CGUs) for the purposes of carrying out tests for impairment losses. Goodwill is allocated to those CGUs or groups of CGUs that are expected to benefit from the business combinations on which the goodwill arises; they are identified in accordance with the operating segments.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortization, but are instead tested annually for impairment; the same principle applies to intangible assets not yet available for use. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the fair value of an asset less selling costs or its value in use, whichever is greater. For the purposes of evaluating impairment losses, assets are grouped together at the lowest level for which separate cash flows may be identified (cash generating units). Non-financial assets, other than goodwill, that have suffered an impairment loss are subject to review at

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each statement of financial position date, to assess whether the reversal of any losses have been triggered.

2.10 Non-current assets held for sale

The Group classifies an asset as a non-current asset held for sale when its carrying amount is expected to be recovered through its sale rather than through its continued use. This condition is considered to be met only when a sale is highly likely, the asset is available for immediate sale in its present condition and the sale is expected to be completed within a period of one year from the date of its disclosure, unless any delay occurs due to events or circumstances beyond the Group's control and the Group continues to be committed to its intention to sell the asset. Non-current assets held for sale are measured at the lower of their carrying amount and their fair value less selling costs.

2.11 Financial assets: disclosure, recognition and measurement

The Group classifies the majority of its financial assets within the loans and receivables category. The classification of financial assets depends on the purpose for which they are acquired. Management determines the classification of its financial assets when they are initially recognized.

a) 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 on the statement of financial position, with the exception of those that have maturity dates that fall more than 12 months after the statement of financial position date, in which case they are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently registered at amortized cost, in accordance with the effective interest rate method, which is understood to be the rate that equals the book value of the instrument with all of its cash flows estimated until maturity. Notwithstanding this, receivables for trade operations with maturities of less than one year are valued, both when they are initially recognized and subsequently, on the basis of their nominal value, provided that the effect of not updating the cash flows is not significant.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the amounts recognized, and when the Group intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

2.13 Impairment of financial assets

At each statement of financial position date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets may have suffered impairment.

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A financial asset or group of financial assets is deemed to be impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "event that causes loss") and when that loss event or events has/have an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be reliably estimated.

The criteria used by the Group to determine whether objective evidence of an impairment loss exists include:

- Significant financial difficulties of the issuer or obligor;
- A breach of contract, such as a default or delays in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulties, grants the borrower a concession or benefits that it would not otherwise consider;
- If it is increasingly likely that the borrower will file for bankruptcy or require any other kind of financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there has been a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, even if the decrease cannot yet be identified with the Group's individual financial assets, including adverse changes in the payment status of the Group's borrowers; and/or national or local economic conditions that correlate with defaults on the Group's assets

Firstly, the Group assesses whether objective evidence of impairment exists.

The amount of the loss itself is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (including future credit losses that have not yet been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through a provision and the amount of the loss is recognized in the income statement within 'Other operating expenses'. If a loan has a variable interest rate, then the discount rate for calculating the impairment loss is the current effective interest rate established under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), then the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2.14 Stock

Raw and auxiliary materials are valued at the lower of cost and net realizable value. Cost is determined according to the weighted average cost. The cost of finished goods and work in progress items comprises the cost of materials, direct labour, other direct costs and

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indirect construction costs accumulated during the execution of projects at the amounts effectively incurred. The net realizable value is the estimated selling price that would be obtained during the ordinary course of business, less any applicable variable selling costs, as well as the estimated costs to complete production in the case of raw materials and work in progress.

When the net realizable value of inventories is lower than their cost, a corresponding impairment provision is recognized and recorded as a cost in the income statement under the caption 'Procurement Costs'.

If the circumstances causing the impairment provision cease to exist, then the amount of the correction is reversed and is recognized as income in the statement of comprehensive income.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; demand deposits with credit institutions and other short-term investments with original maturities of three months or less; and any deposits which, by their contractual terms and/or specific characteristics, are considered deposits and accrue interest at a referenced rate for a period of less than three months.

2.16 Share capital

Incremental costs directly attributable to the issuance of new shares or options are presented within equity as a deduction, net of tax, from the proceeds obtained.

Whenever any company in the Group purchases shares in the Parent Company (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income tax), is deducted from the equity attributable to the owners of the Parent Company until the shares are cancelled, reissued or disposed of. When these shares are subsequently reissued, any amounts received, net of any directly attributable incremental transaction costs and related income tax effects, are included in the equity attributable to the owners of the shares in the Group.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of the suppliers' business. Accounts payable are classified as current liabilities if the payments are due within one year or less. Otherwise they are disclosed as non-current liabilities.

Trade payables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest rate method.

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2.18 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and redemption value is recognized in the income statement over the term of the borrowings in accordance with the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer their settlement for at least 12 months after the statement of financial position date.

Borrowings are derecognized when they have expired or when their associated contractual liabilities have been settled or cancelled.

2.19 Current and deferred taxes

The tax expense for the period comprises current and deferred taxes. Taxes are recognized in the income statement unless they relate to items that are recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group's taxable income is generated. Management periodically evaluates the positions recorded in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation, and where appropriate, recognizes provisions on the basis of the amounts expected to be paid to the tax authorities.

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.

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.

Deferred taxes are recognized on temporary differences arising from investments in subsidiaries and associates, except when the timing of the reversal of the temporary difference may be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when, and only when, there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the

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deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same entity or tax unit or on different entities or taxable units when there is an intention to settle the current tax asset and current tax liability balances on a net basis.

The tax authorities have granted the Parent Company the right to report on a consolidated basis for Corporation Tax purposes, on the basis that the subsidiaries Patentes Talgo, S.L.U. and Talgo Kazakhstan, S.L. form part of this Group.

2.20 Employees benefits

a) Defined contribution pension plan

Patentes Talgo, S.L.U. operates a defined contributed pension plan for its active employees, whereby the aforementioned subsidiary makes a monthly contribution of 4% of the gross salary plus an amount for the tenure of each employee, where the fund is assigned specifically to each worker. Once the contributions have been paid, the company is under no obligation to make any additional payments.

The agreement that was signed with the employees regarding all of their accrued rights, established a sole contribution to the financial entity that manages the pension fund, plus future contributions, which the company has been making. The company outsourced this pension plan in March 2000.

b) Compensation for redundancies

Compensation for redundancy is paid to employees in the event that the Group decides to terminate their employment contracts. The Group recognizes these benefits when it commits, in a demonstrable way, to terminate the employment of some of its workers. Any benefits that will not be paid within twelve months of the statement of financial position date are discounted to their current value.

c) Profit participation plans and bonus

When the required conditions are met, the Group recognizes a liability and an expense for the payment of objectives on the basis of individual agreements with each one of its employees.

Since the last quarter of 2012, on an exceptional basis, by virtue of the new contracts signed with 21 Group's executives through one of its subsidiaries, Patentes Talgo, S.L.U., the entity has held 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 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

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next few years. The amount is calculated as a fixed percentage based on the estimated increase in the value of the Talgo 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.

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 €82,740 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 (in 2012) was calculated in accordance with the contract signed for this purpose, based on valuation techniques, primarily cash flow projections and its 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 disclosed in note 8 regarding goodwill impairment tests, following the criteria established in the long-term share compensation plan. The fair value of services received from the employee is recognized as a personnel expense in the Group's income statement, with a corresponding balancing entry being recognized in equity (note 14.d). Expenses for this concept in 2015 amounted to €3,212 thousand (€18,360 thousand in 2014). 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,
- 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 value in the date of the plan liquidation was calculated with the listing price.

2.21 Provisions

Provisions are recognized when the Group 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.

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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.

Contingent liabilities are not recognized in the consolidated annual accounts, but information about them is disclosed in accordance with the requirements of IAS 37.

2.22 Revenue recognition

Revenue is recorded at the fair value of the consideration received and represents the amounts receivable for goods delivered and services rendered during the ordinary course of the Group's activities, less any returns, reductions, deductions and value-added tax.

The Group recognizes revenue when the amount thereof can be valued reliably, when it is likely that the future economic gains are going to flow to the Group and when the specific conditions for each one of the activities are met. Ordinary contract revenue is measured at fair value on the basis of the consideration received or to be received. The valuation of ordinary revenue will be affected by a number of uncertainties, which depend on the outcome of future events. The estimations need to be reviewed on a regular basis to the extent that events occur and uncertainties are resolved.

A variation may lead to an increase or decrease in ordinary contract revenue and such variations will be reflected in the ordinary revenue when:

- It is probable that the customer will approve the plan and the amount that will result from the variation; and
- The size of the variation can be measured with sufficient reliability.

A claim is an amount that the contractor expects to collect from the customer or a third party in return for the costs not incurred in the contract price. The valuation of revenue associated with a claim is subject to a high degree of uncertainty and depends on the outcome of the relevant negotiations, therefore it will be included in ordinary revenue only when:

- Negotiations have reached a sufficiently advanced stage that it is probable that the customer will accept the claim; and
- The amount that the customer will probably accept can be valued with sufficient reliability.

In 2015 and 2014, the Group did not recognize any revenue for variations or customer claims. Not any relevant penalties have been recorded as costs in both financial years.

Revenues from manufacturing contracts for rolling stock and auxiliary machines that are specifically negotiated on the basis of the technical characteristics defined by the end client, which involve the manufacture of an asset or group of assets that are very closely related

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to each other in terms of design, technology and function, or in terms of their final allocation or use, and that have different structural and technical characteristics from other assets, are recognized during the contractual period, if the result of the contract can be reliably estimated and it is likely that the contract will be profitable. The criteria for recognizing revenue from construction contracts for trains and auxiliary machines varies depending on the estimated profit and includes all of the costs related to any potential delays, claims or penalties. When the costs of a contract are likely to exceed the total income from it, the expected loss is immediately recognized as an expense.

The Group uses the percentage completion method to calculate the amount to be recognized in a given accounting period. The degree of completion is determined on the basis of the contract costs incurred at the statement of financial position date as a percentage of the total estimated costs for each contract.

The Group discloses an account receivable ("manufacturing completed not yet invoiced") within the 'Customers and other accounts receivable' caption for the amount of any completed contracts, when the costs incurred plus the profits recognized (less any losses recognized) exceed the partial invoicing amount.

The Group recognizes a liability ('Advanced orders') within the 'Suppliers and other payables' caption for the amount of all of the contracts in progress, for which partial invoices / advances received exceed the incurred costs plus the recognized profits (less any recognized losses).

The Group reviews its budgets on an ongoing basis to keep its percentage completion calculations updated.

Revenue from contracts whose purpose is the manufacture of standard products to which small modifications are made for each class of customer on an ad hoc basis, which do not materially change the technical specifications of the product, is recognized when the product is delivered and the significant risks and rewards of ownership have been transferred.

Revenue from the sale of spare parts is recognized when the goods are delivered and the significant risks and rewards of ownership have been transferred.

Revenue from maintenance services, established on the basis of fees negotiated annually, is recognized to the extent that services are rendered in accordance with the annual maintenance plans agreed with end customers, which are linked to the distance (in kilometers) travelled by the trains maintained or are based on flat fees agreed with customers.

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Interest income

Interest income is recognized using the effective interest rate method. When an account receivable suffers an impairment loss, the Group reduces the carrying amount to reflect its recoverable amount, by discounting the estimated future cash flows at the original effective interest rate of the instrument; it classifies this discount as a reduction in interest income.

2.23 Government grants

Grants received from the government are recognized at fair value when there is reasonable assurance that the grant will be received and the group will comply with all established conditions.

Government grants relating to costs are deferred and recognized in the income statement, within 'Other income' during the period required to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of property, plant and equipment or intangible assets are included within non-current liabilities, as deferred government grants and released to the income statement, within 'Other income' on a straight-line basis over the expected lives of the related assets.

Subsidized interest-free loans, granted primarily to fund research and development works, are recognized within liabilities at fair value. In the case of grants awarded to fund development projects, the difference between the fair value and redemption value of the amount received is recognized as a grant under the caption 'Government grants' and is released to the income statement as the associated assets are amortized. If a grant applies to research expenses, the difference between its fair value and redemption value is recognized in the income statement when the related expenses are incurred.

Basically, zero-rate refundable advances are included under this caption, when they are considered as capital grants conceded as part of the Competitiveness Plan promoted by the Ministry of Industry, as are others granted by the Center for Industrial Technological Development (CDTI).

2.24 Operating leases

Leases in which the lessor substantially retains the risks and rewards resulting from ownership are classified as operating leasing. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

2.25 Finance leases

The Group leases some of its tangible assets. When the Group leases fixed assets and assumes substantially all of the risks and rewards associated with the ownership of the asset, then it classifies these leases as finance leases. Finance leases are capitalized at

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the beginning of the lease term based on the fair value of the leased property or the present value of the minimum lease payments required by the lease, the lesser of the two. The present value is calculated using the implicit interest rate in the contract and, if that cannot be determined, the interest rate paid by the Group on similar operations.

Each lease payment is allocated between the liability and financial charges. The total financial charges are distributed over the lease term and are recognized in the statement of comprehensive income over the years during which they accrue under the effective interest rate method. Contingent instalments are recognized as expenses in the financial years in which they are incurred. Any related lease obligations, net of financing charges are included within 'Finance lease liabilities'. Any fixed assets acquired under finance lease agreements are depreciated over their corresponding useful lives or over the contract term, the lesser of the two.

2.26 Dividend distribution

The distribution of dividends to the Parent Company's shareholders is recognized as a liability in the Group's consolidated annual accounts in the period in which the dividends are approved.

2.27 The environment

The costs of business actions undertaken by the Group that have an impact on the environment, as detailed in note 31, are recorded as an expense during the year or as an increase in the value of the corresponding asset, provided that the conditions detailed in note 2.6 regarding the valuation of tangible fixed assets are fulfilled.

2.28 Segment reporting

a) Segmentation criteria

Operating segments are disclosed in accordance with the internal information that is presented to the highest authorized body for decision making. The highest decision making body is responsible for allocating resources to operating segments and evaluating the performance of these segments. In this case, the Board of Directors of Talgo, S.A. is the highest authority for strategic decision making.

The criteria applied by the Talgo Group for segment reporting in the consolidated annual accounts are set out below:

- Segmentation is performed to reflect the business units; a distinction is made between the "Rolling Stock" and "Auxiliary Machines and others" operating activities.
- The corporate general services segment has been classified as "General".

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b) Basis and methodology for segment reporting

The income and expenses assigned to each segment are those that are directly attributable to the segment. Although the performance measure used by the highest decision-making body to evaluate segment performance is 'Operating profit', the Group also reports results by segment down to the 'Profit before tax' level.

The assets and liabilities in each of the segments are those that directly relate to the operations thereof or with the shareholding in companies dedicated to that activity.

Through this segmentation, the Group distinguishes between the identifiable components of the Talgo S.A. Group that are subject to risks and returns that are different from those associated with other operating components that conduct their business in different environments.

In this way and in accordance with past experience and the future evolution of the Group, the aforementioned segments have been identified, which comply with the requirements of internal homogeneity, and which are differentiated from the other segments for the same reasons.

The "rolling stock" segment includes both manufacturing activities and the maintenance of trains built using Talgo technology, as well as any other closely related activities. Likewise, the "Auxiliary Machines and others" segment primarily includes the manufacture of lathes and other equipment, repairs, modifications and the sale of spare parts.

The general segment includes general corporate expenses not directly assignable to other segments (note 5).

2.29 Business combinations

The acquisition by the Parent Company of control in a subsidiary constitutes a business combination, to which the acquisition method will be applied. Business combinations are accounted for in accordance with the acquisition method, whereby: the acquisition date is established, the combination cost is calculated, and the identifiable assets acquired and liabilities assumed are recognized at their respective fair values on the aforementioned date, except when:

- deferred tax assets and liabilities or assets and liabilities relating to staff benefit agreements are valued using IAS 12 and IAS 19 respectively.
- liabilities or equity instruments relating to a share compensation plan for employees are valued in accordance with IFRS 2 at acquisition date.
- assets that are classified as held for sale are valued in accordance with IFRS 5.

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The goodwill or negative difference resulting from the combination is determined on the basis of the difference between the fair values of the acquired assets and the liabilities assumed and the combination cost, all in relation to the acquisition date.

The combination cost is determined by aggregating the following:

- The fair values of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, on the date of the acquisition.
- The fair value of any contingent consideration that depends on future events or on the fulfillment of the predetermined conditions.

The combination cost does not include: expenses relating to the issuance of equity instruments or of financial liabilities delivered in exchange for the elements acquired.

Furthermore, the combination cost does not include: the fees paid to legal advisors or other professionals that take part in the combination or the costs generated internally for these concepts. These sums will be charged directly to the income statement.

If the business combination is performed in phases, in such a way that a previous investment existed before the acquisition date (date on which control is taken), then the goodwill or negative difference is calculated on the basis of the difference between:

- The business combination cost plus the fair value of any previous participation held by the acquiring company in the acquired company at the acquisition date; and,
- The value of the identifiable assets acquired less the value of the liabilities assumed, determined in accordance with the description above.

Any profit or loss that arises as a consequence of the fair value valuation of any previously-held investment on the date on which control is taken of the acquired company shall be recognized in the statement of comprehensive income. If the previously-held investment in this company had been valued at fair value, then the valuation adjustments pending to include in the profit for the year would be transferred to the statement of comprehensive income. On the other hand, we assume that the business combination cost is the most accurate benchmark that can be used to estimate the fair value of any previous stake owned on the acquisition date.

Goodwill is not amortized and is valued subsequently at cost less any impairment loss. Any adjustments for impairment losses that are recognized against Goodwill are not subject to reversal in subsequent financial years.

If at the end of the year in which the combination takes place, the necessary valuation processes for the implementation of the acquisition method described above cannot be concluded, then the accounting records are considered provisional, and these provisional values can be adjusted in the period necessary to provide the information required. This period may not be any longer than one year. The effects of the adjustments made in this

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period are accounted for retroactively, and the comparative information is amended if necessary.

The subsequent changes in the fair value of contingent consideration are recorded against profits, except when this consideration is classified within equity, in which case all subsequent changes in its fair value are not recognized.

3. Financial risk management

3.1 Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including exchange rates, interest rates and prices), credit risk and liquidity risk. The Group's global risk management program focuses on minimizing the effects resulting from uncertainties in the financial markets and seeks to minimize the potential adverse effects on the Group's financial profitability.

Risk management is controlled through different levels of supervision in accordance with the policies approved by the Board of Directors, which exercises responsibility for maintaining the internal control system, including the monitoring and control of significant risks to the Group.

Based on an operating risk assessment, the Board of Directors carries out the control and management of risk and approves actions to improve existing procedures, when so required.

- a) Market risk
 - (i) Foreign currency risk

The Group's foreign currency risk is low, since most of its transactions are made in the functional currency. In addition, sales in other countries beyond this environment are made in the United States, and they do not account for a significant percentage of the Group's total turnover.

- (ii) Price risk

In order to mitigate price risk, the Group maintains a very competitive cost structure, through clauses that it establishes and agrees in the various contracts it enters into with its customers and suppliers.

- (iii) Cash flow interest rate risk

The Group's interest rate risk arises on its long-term borrowings. The debt securities issued by the Group at variable (interest) rates expose it to cash flow interest rate risk. To this end, Management has put a policy in place to manage its interest rate risk.

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b) Credit risk

The Group's main financial assets comprise cash and cash equivalents, customers and other receivables and other financial assets, which represent the Group's maximum exposure to credit risk in terms of its financial assets.

The Group's credit risk is primarily attributable to its customers and other receivables balance. The amounts reflected on the consolidated statement of financial position are net of any provisions for bad debt, estimated by the Group's Management based on the policy described in notes 2.11 and 2.13 for Financial assets.

The Group's portfolio of clients mostly belong to the public railway sector and therefore the exposure to credit risk resulting from the insolvency of or late payments by these customers is very low. Nevertheless, the Group's financial management team considers this risk to represent a key aspect in the daily management of the business, and it focuses its efforts on ensuring the appropriate supervision and control of the evolution of receivables balances and defaulted payments. During, 2015 and 2014, the Group made a significant effort to monitor and recover overdue receivables balances, as well as to conduct a detailed analysis by client of the risk of late or non-payment. On a monthly basis, the Group performs an ageing analysis of the debt to cover any possible risks of insolvency. The Group has an established client acceptance policy based on the regular assessment of liquidity and solvency risks, and these aspects form an important part of the analysis that is performed to decide which tenders to participate in.

The Group only works with reputable, prestigious financial institutions, which have credit ratings that indicate that they do not pose any risk of insolvency.

c) Liquidity risk

Prudent management of liquidity risk entails the maintenance of sufficient cash, the availability of financing through a sufficient level of committed credit facilities and the capacity to settle market positions. The Group's Management regularly monitors its liquidity projections on the basis of its expected cash flows, both in the short term and long term. The Group maintains enough cash to meet its liquidity needs.

The table below shows an analysis of the Group's financial liabilities, grouped by remaining term to contractual maturity as at the statement of financial position date:

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At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Debt with credit entities (note 17.a)	20 731	19 766	101 734	2 000
Suppliers and other payables (note 16) (*)	210 237	-	-	-
Debts for refundable advances (note 17 b)	1 892	2 534	6 345	14 069
Finance lease creditors (note 17 c)	563	-	-	-
	233 423	22 300	108 079	16 069
At 31 December 2014				
Debt with credit entities (note 17.a)	10 231	8 000	30 000	4 000
Suppliers and other payables (note 16) (*)	132 688	-	-	-
Debts for refundable advances (note 17 b)	1 403	1 993	6 734	19 780
Finance lease creditors (note 17 c)	685	600	-	-
	145 007	10 593	36 734	23 780

(*)The figures in this caption contain the payable balance disclosed in note 16, less a deduction for the advances received.

3.2 Capital risk management

To date, the Group's goal in terms of capital management has been to ensure its ability to continue as a going concern in order to maximize returns and achieve greater profitability and efficiency.

The Group has defined net financial debt as the sum of the debt it holds with financial institutions, plus its finance lease creditors less cash and cash equivalents.

	€ in thousands	
	31 December 2015	31 December 2014
Debt with financial institutions (note 17)	144 231	52 231
Finance lease creditors (note 17)	563	1 285
Cash and cash equivalents (note 13)	(21 812)	(87 910)
Total net financial debt	122 982	(34 394)

The Group regularly monitors its Net financial Debt position and its impact on total capital calculated as the equity attributable to the owners of the Parent Company, as shown in the consolidated statement of financial position plus net financial debt:

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	€ in thousands	
	31 December 2015	31 December 2014
Total Net Financial Debt	122 982	(34 394)
Equity attributable to the owners of the parent	230 997	249 613
Total share capital	353 979	215 219
Indebtedness	34,74%	(15,9%)

3.3 Fair value estimates

The carrying amount less the provision for impairment of current receivables and payables approximates to their fair value. The fair value of financial liabilities, for the purposes of reporting financial information, is estimated by discounting the future contractual cash outflows at the current market interest rate that is available to the Group for similar financial instruments.

The valuations of assets and liabilities recorded at their fair value are indicated in accordance with the following hierarchy, determined by IFRS 7:

- Quoted prices (unadjusted) on active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs) (level 3)

During fiscal year 2015, the Group had not engaged asset or liability within this category (level 3).

4. Significant accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under normal circumstances.

4.1 Significant estimates and hypotheses

The Group makes estimates and hypothesis concerning the future. The resulting accounting estimates will, by definition, not match the actual corresponding results exactly. The main estimates and judgments made by Group Management are outlined below.

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a) Estimated loss due to goodwill impairment

The Group performs an annual test to determine whether its goodwill has suffered any loss due to impairment, in accordance with the accounting policy described in note 2.8. The recoverable amounts of cash generating units (CGU) are determined based on the calculation of their value in use. These calculations require the use of estimations. Based on the calculations of value in use, prepared in accordance with the hypothesis described in note 8 for the years 2015 and 2014, the recoverable amount of CGUs to which goodwill has been allocated exceeded its book value, even after performing certain sensitivity analyzes on the discount rates and growth rates. This sensitivity has been analyzed by applying variations of 100 basis points to the discount rates used and variations of 50 basis points to the growth rates used.

b) Income tax and assets of a fiscal nature

The Group is subject to income taxes in several jurisdictions. A significant degree of judgment is required to determine the provision for income taxes at the global level. 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 has been fulfilled the share compensation plan explained in note 2.20 c) and after paying the corresponding tax withholds to Tax Authorities amounting to 47,007 thousand euros, the Parent 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 Parent 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 preparation of these consolidated 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, taking the view that the answer to the above binding request ratify this treatment.

Similarly, the Group assesses the recoverability of tax assets, primarily deferred tax assets and deductions at each statement of financial position date, based on a number of criteria:

- The existence of future taxable income against which these assets may be offset.
- The existence of adequate documentary support, especially in relation to certain types of deductions, on the one hand to reliably prove the amount of tax assets recognized and on the other, to provide Management with a basis for its estimates on the reliability and amount of the deductions to activate. In the event that on a certain date, Management does not have all of the appropriate documentation to allow it to measure reliably the tax assets, based on its own judgment, and therefore its recovery is unlikely, then such tax assets may not be activated until the moment when the two aforementioned conditions are met, in accordance with all of the supporting documentation relating to the tax assets.

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- The assessment by Management of all of the available evidence to justify or not the recognition of tax assets. For this assessment, Management takes into account both favorable and unfavorable evidence, as well as current and historical evidence, its objective verification and / or prove-ability, and the weight assigned to each piece of evidence.

c) Revenue recognition

The Group uses the percentage completion method, based on the percentage of completion to account for revenues from manufacturing contracts for trains and auxiliary machinery. The completion percentage is calculated as the percentage of contract costs incurred over the total estimated costs for the completion of the contract. This revenue recognition method only applies when the income from the contract can be reliably estimated and it is likely that the contract will generate a profit. If the contract income cannot be estimated reliably, revenue is recognized to the extent that the costs will be recovered. When it is probable that the contract costs exceed the contract revenue, the loss is recognized immediately as an expense. Using this method requires the Group to make significant estimates with respect to the total costs necessary for completing each contract. These estimates are reviewed periodically in order to verify whether a loss has been generated and whether it is possible to continue to apply the percentage completion method and to re-estimate the expected margin on the contract. During the contract term, the Group also estimates the probable contingencies relating to any total estimated cost increase and varies the recognition of revenues accordingly.

d) Useful lives of tangible and intangible assets

The Group's Management determines the estimated useful lives and related amortization charges for Tangible Fixed Assets and Intangible Assets. These estimates are based on the period during which the elements that comprise the Tangible Fixed Assets and Intangible Assets will generate economic benefits. At each year end, the Group reviews the useful lives of the Tangible and Intangible Assets and if the estimates differ from those previously made, then the effect of the change is accounted for prospectively in the income statement in the year in which the change occurs.

e) Provisions for guarantees

The Group generally offers two or three-year warranties for trains and auxiliary machinery it manufactures and the repair work it performs. Management estimates the provision for future works under warranty on the basis of historical information about actual costs during previous warranty periods, as well as on recent trends if they suggest that past information may differ from the cost of future works. Estimates are made on the basis of the best available information and circumstances at 31 December 2014 and 2013, and no significant changes in those estimations are expected.

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f) Provision for compensation

As indicated in Note 2.20 c), the Group has contracted a number of obligations relating to a compensation plan; and for the calculation of these obligations, it must make a series of estimates, as explained in the aforementioned note. This plan was liquidated during the year 2015 by delivering its shares. At December 31, 2015 there are no compensation plans.

5. Segment reporting

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

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

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

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

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

The segment information supplied to the Board of Directors of Talgo, S.A. for decision making relating to the financial years ended 31 December 2014 and 2015 was obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

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	31.12.2015			
	€ in thousands			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	491 491	29 204	-	520 695
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	491 491	29 204	-	520 695
Amortization and depreciation charge	17 852	211	1 212	19 275
Operating result	100 770	7 043	(27 785)	80 028
Financial income	1 362	83	4	1 449
Financial expenses	(5 245)	(327)	(836)	(6 408)
Result before tax	96 887	6 799	(28 617)	75 069
Total Assets	593 652	35 844	42 438	671 934
Total Liabilities	314 664	13 624	112 649	440 937
Fixed asset investments	8 851	499	919	10 269
	31.12.2014			
	€ in thousands			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	370 909	13 402	-	384 311
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	370 909	13 402	-	384 311
Amortization and depreciation charge	15 442	139	1 230	16 811
Operating result	81 677	5 516	(36 317)	50 876
Financial income	1 510	204	-	1 714
Financial expenses	(6 872)	(253)	-	(7 125)
Result before tax	76 315	5 467	(36 317)	45 465
Total Assets	556 663	26 944	9 702	593 309
Total Liabilities	266 569	9 323	67 804	343 696
Fixed asset investments	22 280	521	1 086	23 887

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

Total net Turnover from external customers in 2015 and 2014 was distributed geographically as follows:

	€ in thousands	
	2015	2014
Spain	109 329	106 143
Rest of Europe	17 580	11 125
USA	18 218	7 403
Middle East and North Africa	245 325	103 841
Commonwealth of Independent States	130 243	155 799
	520 695	384 311

Total non-current assets, other than financial instruments and deferred tax assets were distributed geographically as follows in 2015 and 2014:

	€ in thousands	
	2015	2013
Spain	230 463	238 948
Overseas	10 055	10 545
	240 518	249 493

The Group's turnover from the permanent establishment in Kazakhstan amounted to €25,998 thousand in 2015 (2014: €19,255 thousand).

The Group's turnover from the permanent establishment in Uzbekistan amounted to €2,038 thousand in 2015 (2014: €1,952 thousand).

In 2013, the Group registered a permanent establishment in Russia in the form of a branch, whose main activity is the maintenance of Talgo trains. Its registered office is in Moscow, Russia. The Group's turnover from the permanent establishment in Russia amounted to €2,544 thousand in 2015, in 2014 did not undertake any activity.

In 2014, the Company registered a permanent establishment in Saudi Arabia in the form of a branch, whose main activity is the maintenance of Talgo trains. Its registered office is in Jeddah, Saudi Arabia. This branch did not undertake any activity as at 31 December 2015 or 2014.

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6. Tangible fixed assets

The movements in the accounts included within tangible fixed assets in 2014 and 2015 were as follows:

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

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	€ in thousands					
	Balance at 31.12.14	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.15
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	47 443	99	46	-	455	48 043
Technical installations and machinery	27 362	202	345	(165)	1 858	29 602
Other facilities, tools and furniture	47 975	123	267	(160)	4 127	52 332
Advances and work in progress	4 673	-	3 774	-	(6 939)	1 508
Other fixed assets	7 277	6	21	(29)	499	7 774
	<u>144 624</u>	<u>430</u>	<u>4 453</u>	<u>(354)</u>	<u>-</u>	<u>149 153</u>
Depreciation						
Buildings	(20 029)	(99)	(1 706)	-	-	(21 834)
Technical installations and machinery	(15 849)	(180)	(1 954)	151	-	(17 832)
Other facilities, tools and furniture	(32 310)	(107)	(2 768)	158	-	(35 027)
Advances and work in progress	(5 538)	(5)	(272)	27	-	(5 788)
	<u>(73 726)</u>	<u>(391)</u>	<u>(6 700)</u>	<u>336</u>	<u>-</u>	<u>(80 481)</u>
Net book value	<u>70 898</u>	<u>39</u>	<u>(2 247)</u>	<u>(18)</u>	<u>-</u>	<u>68 672</u>

The transfers caption at the end of the year 2014 included a transfer made by the Group to classify a property as a non-current asset as held for sale, amounting to €6,114 thousand. The Group continues proceedings to sell this property. The Group has a recent appraisal of this property, performed by an independent expert, which shows that its current value exceeds its book value at the end of the year 2015.

Various types of investments were classified within the 'additions' figure recorded in 2015 €4,453 thousand, which was split as follows:

Recurrent investment: €1,305 thousand.

Investment to increase production capacity: €3,148 thousand.

The main additions to tangible assets in 2015 and 2014 related to investment projects at the factories in Rivabellosa and Las Matas II, which are owned by the company Patentes Talgo, S.L.U.

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

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

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(Expressed in thousands of euros)

a) Updates

Net accumulated updates as at 31 December 2015, made in accordance with RDL 7/1996, dated 7 June, amounted to €245 thousand (2014: €258 thousand) and the depreciation charge for the year 2015 corresponding to these updates amounted to €13 thousand (2014: €13 thousand).

The expected effect of updating the statements of financial position in accordance with Royal Decree Law 7/1996, dated 7 June, on the depreciation charge for the next financial year amounts to €13 thousand. The amount for the previous financial year also amounted to €13 thousand.

b) Fully depreciated tangible assets

At 31 December 2015, tangible fixed assets with an initial cost of €40,183 thousand had been fully depreciated and were still operational (2014: €38,983 thousand). From this amount €5,937 thousand belongs to Buildings (2014: 5,784 thousand).

c) Insurances

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

d) Impairment losses

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

e) Tangible fixed assets subject to guarantees

In 2015 and 2014, none of the Group's tangible fixed assets were subject to guarantees

f) Assets under operating leases

The consolidated statement of comprehensive income for 2015 includes operating lease expenses for the rental of computer systems amounting to €892 thousand (2014: €889 thousand), transport vehicles amounting to €551 thousand (2014: €350 thousand), buildings amounting to €498 thousand (2014: €597 thousand), and other leases amounting to €244 thousand (2014: €250 thousand). The volume of leases for the coming years will be in line with those registered at the end of 2015.

At the end of 2015 and 2014, the Group had committed to making the following minimum lease instalments, based on its current existing contracts, which do not take into account the impact of common costs, any future increments in CPI or any future updates in the rents agreed under the contracts:

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(Expressed in thousands of euros)

Operating leases Minimum instalments	Nominal Value in € thousands	
	2015	2014
Less than 1 year	1 398	1 112
Between one and five years	3 352	2 801
	4 750	3 913

g) Assets under finance leases

At the end of 2015, the Group had contracted one finance lease agreement for several spare parts (note 17.c).

h) Fixed assets not used directly in operations

At 31 December 2015, certain fixed assets that were not directly assigned to operations were classified within 'Non-current assets held for sale'. The net book value of these assets amounted to €6,114 thousand at 31 December 2015.

The Group is looking to complete the sale of the building it owns in Las Rozas within the next twelve months, so is currently negotiating with potential buyers. No impairment losses have been recognized with respect to the aforementioned property since the Directors of the Company estimate that its fair value less selling costs will exceed the book value of the asset. The Group has a recent appraisal of this property, performed by an independent expert, which shows that its current value exceeds its book value.

i) Fixed assets located overseas

At 31 December 2015 and 2014, the Group had fixed asset investments located overseas whose net book values are detailed below:

Fixed assets	€ thousands	
	2015	2014
Land and buildings	16 586	15 997
Technical installations and machinery	9 635	8 487
Other facilities, tools and furniture	3 143	3 420
Advances and work in progress	-	-
Other tangible fixed assets	130	147
Accumulated depreciation	(19 464)	(17 906)
Net Book Value	10 030	10 145

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

j) Purchase commitments

At 31 December 2015, the Group held purchase commitments for tangible fixed assets amounting to €2,964 thousand (€5,863 thousand in 2014).

7. Intangible assets

The movements in the intangible assets accounts during 2014 and 2015 were as follows:

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

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

	Balance at 31.12.14	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.15
Cost						
Research and Development	91 724	-	-	-	2 511	94 235
Industrial property	1 749	-	-	-	-	1 749
Software	10 281	97	55	-	951	11 394
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	7 576	-	5 781	-	(3 462)	9 875
Amortization and impairment losses	136 409	97	5 816	-	-	142.322
Research and Development	(57 587)	-	(9 855)	-	-	(67 442)
Industrial property	(22)	-	-	-	-	(22)
Software	(8 987)	(87)	(792)	-	-	(9 866)
Maintenance contracts	(1 928)	-	(1 928)	-	-	(3 856)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(70 253)	(87)	(12 575)	-	-	(82 915)
Net book value	66 156	10	(6 759)	-	-	59 407

During 2014, technology from the AVRIL R&D project started to be applied to some of the Group's other sales projects, therefore during the year the corresponding amount was transferred from the work in progress caption to the Research and Development caption. Furthermore, this amount is now being amortized.

Various types of investments were classified within the 'additions' figure recorded in 2015 (€5,816 thousand), which was split as follows:

Recurrent investment: €708 thousand.

Investment in new products: €4,838 thousand.

Investment to increase production capacity: €270 thousand.

Development expenses at 31 December 2015 and 2014 mainly included the costs incurred by Patentes Talgo S.L.U. for the development of the AVRIL project, and for the projects relating to high speed rail and auxiliary machines.

At 31 December 2015 and 2014, the main fixed asset additions within the work in progress caption related to costs incurred during the development of the AVRIL project, a very high-speed train with integrated Talgo traction, which has a very high capacity and a continuous low floor and EMU (*Electric Multiple Unit*).

The provision for impairment related to a patent owned by the Group that was 100% impaired prior to the date of transition to IFRS, since its income-generating capacity was not guaranteed.

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(Expressed in thousands of euros)

The difference that arose during the business combination performed by the subsidiary Patentes Talgo, S.L.U. in 2013, between the combination cost and the fair value of the acquired net assets of the acquired company, was completely assigned to the contracts with clients formalized by the acquired company Tarvia Mantenimiento Ferroviario, S.A. This asset, recorded under 'Maintenance contracts', will be depreciated over the remaining terms of the contracts with which it is associated, i.e. over 13 years as at 31 December 2013, starting its depreciation in the fiscal year 2014.

a) Fully-depreciated intangible assets

At 31 December 2015, the Group held intangible assets that were fully depreciated and still operational, which had an initial cost of €58,981 thousand (2014: €54,796 thousand).

b) Insurance

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

c) Grants and subsidies

Some of the fixed asset acquisitions (€4,732 thousand at 31 December 2015) were partially financed through grants and loans received from official entities (2014: €5,412 thousand).

d) Impairment losses

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

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

This impairment test was performed by discounting the cash flows of the manufacturing projects, using a discount rate of 9% and a growth rate of 0,5%.

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(Expressed in thousands of euros)

e) Intangible assets located overseas

At 31 December 2014, the Group held the following investments in intangible assets that were located overseas:

Intangible assets	€ in thousands			Net book value
	Cost	Accumulated amortization	Impairment losses	
Software	1 906	(1 506)	-	400
	1 906	(1 506)	-	400

At 31 December 2015, the Group held the following investments in intangible assets that were located overseas:

Intangible assets	€ in thousands			Net book value
	Cost	Accumulated amortization	Impairment losses	
Software	1 978	(1 703)	-	275
	1 978	(1 703)	-	275

8. Goodwill

The movement in goodwill was as follows:

	€ in thousands
Balance at 31.12.13	112 439
Additions	-
Disposals	-
Balance at 31.12.14	112 439
Additions	-
Disposals	-
Balance at 31.12.15	112 439

Goodwill impairment tests

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

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

	31.12.2015	31.12.2014
Rolling stock	101 886	101 886
Auxiliary machines and other	10 553	10 553
Total Goodwill	112 439	112 439

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(Expressed in thousands of euros)

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

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

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

- a) Growth rate in perpetuity: The Group has assumed that cash flows grow in perpetuity at an equivalent average rate that does not exceed the average growth rate of the sector in which the Group operates, over the long term.
- b) Discount rate: The Group has used the weighted average cost of capital (WACC) in its calculations. It has used the weighted average of its cost of debt and its cost of own funds or capital. In turn, to obtain the Beta used in the capital cost calculation, the Group has used the historical Betas of companies in the sector in which it operates as a best estimate.
- c) Cash flow projections over 5 years: The Group's Management prepares and updates its business plan for the projects that correspond to the different segments defined. The main components of this plan are the margin projections, working capital and other structural costs. The business plan and therefore the projections have been prepared on the basis of experience and available best estimates.
- a) Investments, Corporation tax and others: The projections include the investments necessary for the maintenance of the current assets, as well as those necessary for the implementation of the business plan. The corporation tax payment has been calculated on the basis of the expected average rate.

Key hypothesis:

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

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

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Sensitivity analysis:

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

In addition, the Group has considered a sensitivity by varying the growth rate in perpetuity, by +/- 50 basis points, as well as by varying the discount rate by +/-300 basis points.

Similarly, the Group has subjected a combination of the aforementioned variables to a further sensitivity analysis. The Group has not identified any sign of impairment in the recoverable value calculated on the basis of the value in use in any of the cases.

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

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

9. Financial instruments by category

a) The breakdown of financial instruments by category is as follows:

	€ in thousands		
	Loans and Accounts receivable	Hedge Derivatives	Total
31 December 2014			
Assets on the statement of financial position			
Customers and other accounts receivable (note 11)*	147 874	-	147 874
Other financial assets (note 10)	3 841	-	3 841
Cash and cash equivalents (note 13)	87 910	-	87 910
	239 625	-	239 625
31 December 2015			
Assets on the statement of financial position			
Customers and other accounts receivable (note 11)*	242 551	-	242 551
Other financial assets (note 10)	27 104	-	27 104
Cash and cash equivalents (note 13)	21 812	-	21 812
	291 467	-	291 467

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

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(Expressed in thousands of euros)

	€ in thousands		
	Financial liabilities at amortized cost	Hedge Derivatives	Total
31 December 2014			
Liabilities on the statement of financial position			
Borrowings (note 17)	86 188	-	86 188
Suppliers and other payables (note 16)*	127 557	-	127 557
	213 745	-	213 745
31 December 2015			
Liabilities on the statement of financial position			
Borrowings (note 17)	171 189	-	171 189
Suppliers and other payables (note 16)*	205 018	-	205 018
	376 207	-	376 207

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

b) Credit quality of financial assets

The credit quality of financial assets that have not yet expired and have not suffered impairment losses can be assessed according to the credit ratings assigned by external specialist entities.

In terms of the 'Customers' and other financial assets' balances, which do not have a specific credit rating, the Group considers that there is no significant impairment risk, since the balances are owed by Public Entities or similar, which normally carry lower impairment risk. The financial assets that do have specific ratings are cash and cash equivalents held with credit entities that have prestigious reputations and do not carry impairment risk. Of this balance 56.05% (69.62% in 2014) was held with A-rated entities and 43.95% was held with entities rated BBB or higher (30.38% in 2014) in 2015.

Six customers accounted for 90.55% of the Group's turnover in 2015 (2014: 93.3% belongs from 5 clients), which mainly corresponded to the Rolling Stock segment.

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10. Other financial assets and investments in associates

The breakdown of this balance is as follows:

	<u>€ in thousands</u>	
	<u>31.12.15</u>	<u>31.12.14</u>
Other non-current financial assets and investment in associates		
Loans to third parties and other loans (note 10 a)	1 237	1 046
Loans to associates (note 10 c)	1 719	1 719
Deposits and guarantees (note 10 b)	979	899
Investment in associates	10	10
Other financial assets (note 10 d)	23 000	-
	<u>26 945</u>	<u>3 674</u>
Other current financial assets		
Loans to third parties	51	51
Deposits and guarantees	108	116
Other financial assets	-	-
	<u>159</u>	<u>167</u>
Total other financial assets	<u>27 104</u>	<u>3 841</u>

a) Loans to third parties and other loans

The 'Loans to third parties' caption includes balances with related parties amounting to €879 thousand (note 20) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €358 thousand.

b) Deposits and guarantees

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

c) Credits to associates

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

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(Expressed in thousands of euros)

d) Other financial assets

The "Other financial assets" caption included the advance payment to the acquisition of the 51% of Tulpar Talgo, LLP, amounting €23,000 thousand. This acquisition is subjected to third parties approval as of December 31st, 2015. The total cost of the aforementioned acquisition in the event that finally materializes will amount to €33,000 thousand.

11. Customers and other accounts receivable

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

During 2015, the Group has continued the construction contracts in its portfolio, which included 603 coaches for the Kazakhstan Republic Railways, 7 trains for the Russian Railways and 36 high-speed trains for the Meca-Medina route for the Saudi Arabian state railway company SRO.

During 2015, the Group continued its maintenance activity of the hauled coaches, Intercity trains and high-speed trains for RENFE Operadora. Furthermore, it continued to carry out train maintenance work through its permanent establishments in Kazakhstan and Uzbekistan for the national railways companies Temir Zholy and Temir Yullari, respectively. In June, 2015 the Group has started the maintenance activity in Russia, in the Moscow - Nizhni-Nóvgorod line, for the national railway Russian company RZD.

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

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

This caption is broken down as follows:

	€ in thousands	
	31.12.15	31.12.14
Customers	101 785	91 750
Construction completed not yet invoiced	136 188	40 634
Customers – group companies and associates	66	6 089
Provision for impairment losses	(2 237)	(4 927)
Customers – Net	235 802	133 546
Public entities	38 040	22 248
Sundry debtors	3 128	2 329
Personnel	411	347
Total	277 381	158 470

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At 31 December 2015, as in the previous year, the caption "Customers – group companies and associates" included the balance held with Consorcio Español de Alta Velocidad Meca Medina S.A..

At 31 December 2015, the customer accounts receivable balance not yet due amounted to €231,121 thousand (2014: €97,991 thousand).

At 31 December 2015, the Group's sale commitments amounted to €3,117 million (2014: €3,703 million).

The ageing breakdown of the debt with customers, net the corresponding provision, was as follows:

	€ in thousands	
	31.12.15	31.12.14
Not yet due	231 147	97 991
Between 0 and 1 month	1 433	10 263
Between 1 and 3 months	972	4 461
Between 3 and 6 months	809	20 435
Between 6 and 12 months	662	93
More than 12 months	779	303
	235 802	133 546

At 31 December 2015, the customer accounts receivable balances that have suffered impairment and have been provisioned against amounted to €2,237 thousand (2014: €4,927 thousand). The ageing analysis of these accounts is as follows.

	€ in thousands	
	31.12.15	31.12.14
Between 0 and 3 months	-	-
Between 3 and 6 months	413	313
More than 6 months	1 824	4 614
	2 237	4 927

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

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The carrying amount of the Group's customer accounts receivable and other receivables balance is denominated in the following currencies:

	€ in thousand	
	31.12.15	31.12.14
Euro	234 234	132 513
American dollars	874	825
Ruble	446	-
Saudi riyal	248	208
	235 802	133 546

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

	€ in thousand	
	2015	2014
At 1 January	4 927	11 308
Provision recognition	-	2 394
Reversals	(2 690)	(8 775)
31 December	2 237	4 927

The recognition and application of the provision for the Group's impaired accounts receivable balances has been included within Other operating expenses in the income statement (note 22). The amounts charged to the impairment provision account are written off when there is no expectation that any additional cash will be received. The remaining accounts included within the customer accounts receivable and other receivables balances do not contain any assets that have suffered any impairment.

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

The breakdown of the caption "Public Entities" is as follows:

	€ in thousands	
	31.12.15	31.12.14
Public administrations tax receivables for VAT	9 027	4 031
Public administrations debtors for grants	3 210	11 652
Public administrations debtors for other taxes	720	1 025
Public administrations tax withholding and prepayments	25 083	5 540
	38 040	22 248

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At year-end 2015, the 'Public administrations debtors for grants' caption primarily included an amount receivable from the Center for Industrial Technological Development (CDTI) relating to the research project Smart Urban Train.

The 'Public administrations tax withholding and prepayments' caption also included the consolidated tax Group's corporation tax rebate for the financial years 2015 and 2014.

12. Stock

The composition of this caption is shown below:

	€ in thousands	
	31.12.15	31.12.14
Raw Materials	69 504	47 562
Work in progress	19 922	16 372
Advances	7 798	10 542
Provision for the depreciation of raw materials	(8 416)	(2 753)
	88 808	71 723

At 31 December 2015, the Group's commitments for the purchase of raw materials and other services amounted to €250,862 thousand (2014: €320,130 thousand).

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

	Balance at 31.12.14	Exchange differences	Provision	Applicatio n	Balance at 31.12.15
Provision for the depreciation of raw materials	(2 753)	(9)	(6 164)	510	(8 416)
	(2 753)	(9)	(6 164)	510	(8 416)

The Group and the State of Wisconsin have signed a Settlement Agreement connected with the civil action filed by the subsidiary Talgo Inc. and the State of Wisconsin due to the cancelation of the contract for the purchase and maintenance of 2 intercity passenger trains signed in second half 2009. According to the Settlement Agreement during 2015 the State of Wisconsin paid Talgo Inc. the abovementioned amount. The State and Talgo Inc. agreed that Talgo Inc. remains the 2 trains owner and will have to share with the Wisconsin State the proceeds arising from the sale (30% of the net purchase price of such sale) this amount is capped at a total amount of \$ 9,748 thousand. The Group has accrued year-end, based on its best estimate, the depreciation of the aforementioned trains, netting the margin recognized by the said agreement.

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(Expressed in thousands of euros)

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

13. Cash and cash equivalents

The breakdown of this caption is as follows:

	€ in thousands	
	31.12.15	31.12.14
Cash	21 812	47 927
Cash equivalents	-	39 983
Total	21 812	87 910

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

All of the cash equivalent assets register in 2014 belong to the subsidiary Patentes Talgo, S.L.U. They included a fixed term deposit amounting to €25,000 thousand. It also included a promissory note amounting to €14,983 thousand. Both instruments were held with Spanish financial institutions with maturity in March, 2015.

14. Share capital and share premium

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

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

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

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

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

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

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

Company	% stake
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%
Small Cap World Fund Inc. (SCWF)	3,0%
Universities Superannuation Scheme	3,0%
	50,2%

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%

a) Limitations on the distribution of dividends

The freely distributable accumulated earnings and the profit of the year, determined based on local accounting principles, are subject to the limitations in terms of their distribution, as set forth below:

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- Dividends may not be distributed if they reduce the balance of reserves to an amount lower than the total sum of the activated development costs balance pending to amortize.
- The companies domiciled in Spain are obliged to transfer 10% of their profits each year to a Legal Reserve until that reserve amounts to at least 20% of the share capital. The reserve cannot be distributed and if it is used to compensate for losses, in the event no other sufficient reserves are available for that purpose, then it must be replenished with future profits. The Legal Reserve of the Parent Company at 31 December 2015 amounts to €8,237 thousand and €6,924 thousand in 2014.
- Until 31 December 2015, the Company Patentes Talgo, S.L.U. endowed 5% of the amount of goodwill. However, however the subsidiary Company is currently analyzing future impacts of Accounting Audit Act 22/2015, of 20 July, which has introduced certain amendments to the Code of Commerce (art. 39.4) related to intangible fixed assets and goodwill. It determines that intangible assets have finite useful lives, and if the latter is not possible to be reliably estimated, they will be amortized in 10 years, unless a different period is provided for in another law. Goodwill is presumed, unless proven otherwise, to have a useful life up to 10 years. These amendments are mandatory for financial statements corresponding to financial years starting on or after 1 January 2016. The Group is currently analyzing future impacts of these modifications, although it is not possible to provide a reliable estimation of them while the Royal Decree, is not yet approved at the date of this annual accounts preparation.

b) Result for the year

Based on local accounting principles, the distribution of the Parent Company's profit for 2014, approved at the General Meeting of the Shareholders, and the proposed distribution of its profit for 2015 is detailed below:

	€ in thousands	
	2015	2014
Basis for distribution		
P&L	(3 887)	2 978
Total	(3 887)	2 978
Application		
Legal Reserve	-	1 313
Losses from previous years	(3 887)	1 665
Total	(3 887)	2 978

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c) Dividend per share

During the years 2014 and 2015, no dividends were distributed.

d) Other equity instruments

This caption includes the equity component mentioned in note 2.20, which amounts to €33,724 thousand (€30,512 thousand in 2014)

15. Other reserves and accumulated gains

The movements in this caption were as follows:

	€ in thousands		
	Exchange differences	Hedge Reserve	Total
Balance at 31 December 2013	101	-	101
Exchange differences on foreign currency - Group	2 507	-	2 507
Balance at 31 December 2014	2 608	-	2 608
Exchange differences on foreign currency - Group	1 337	-	1 337
Balance at 31 December 2015	3 945	-	3 945

a) Exchange rate differences

The exchange rate difference recognized within Other reserves corresponds entirely to the translation of the functional currency of the financial statements of the Group's subsidiaries Talgo Inc. and Patentes Talgo Tashkent, LLC.

b) Accumulated earnings

In 2015, the consolidated company reserves comprised: €9,147 thousand contributed by the subsidiary Talgo Deutschland, GmbH; €3,329 thousand contributed by the subsidiary Talgo Inc.; €40 thousand contributed by the subsidiary Talgo Rus; €37 thousand contributed by the subsidiary Talgo Bosnia, d.o.o.; and a negative amount €3 thousand contributed by the subsidiary Patentes Talgo Tashkent, LLC.

In 2014, the consolidated company reserves comprised: €7,848 thousand contributed by the subsidiary Talgo Deutschland, GmbH; a negative amount €2,527 thousand contributed by the subsidiary Talgo Inc.; €40 thousand contributed by the subsidiary Talgo Rus; €17 thousand contributed by the subsidiary Talgo Bosnia, d.o.o.; and a negative amount €4 thousand contributed by the subsidiary Patentes Talgo Tashkent, LLC.

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16. Suppliers and other payables

The caption is broken down as follows:

	€ in thousands	
	31.12.15	31.12.14
Suppliers	178 861	106 477
Associate company suppliers	17 816	11 160
Advances on orders	20 503	89 557
Social Security and other taxes	5 219	5 131
Personnel	8 341	9 920
Total	230 740	222 245

The caption 'Advances on orders' includes advances received from the Group's customers, in accordance with the accounting policy described in note 2.22.

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.

	2015
Average period of payment to suppliers	80
Ratio operations paid	84
Ratio operations pending to be paid	72
Total payments made	303 336
Total pending payments	171 001

Pursuant to the ICAC (Accounting and Audit Institute) 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 "other account payable" 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.

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The Spanish companies of the Group subject to this law, have stipulated their payments on the 10th day of the month, from which the average period of payment can be increased for a lead time offset between the invoice due date and the payment fixed date.

17. Borrowings

The breakdown of this caption is as follows:

	€ in thousands	
	31.12.15	31.12.14
Non-current		
Debt with credit institutions	123 500	42 000
Finance lease creditors	-	600
Other financial liabilities	24 503	31 209
	<u>148 003</u>	<u>73 809</u>
Current		
Debt with credit institutions	20 731	10 231
Finance lease creditors	563	685
Other financial liabilities	1 892	1 463
	<u>23 186</u>	<u>12 379</u>
Total borrowings	<u>171 189</u>	<u>86 188</u>

a) Debt with credit institutions

On 19 December 2012, the subsidiary Patentes Talgo S.L.U. signed a financing contract with the European Investment Bank for up to €50,000 thousand, of which €42,000 thousand was the balance at the end of 2015 and €50,000 thousand had been drawn down at the end of 2014. The aforementioned contract accrues fix interest at a market rate.

The amount of interest and commissions accrued and unpaid at year end 2015 in relation to the aforementioned contract amounted to €23 thousand (€398 thousand in 2014), which was recognized within current liabilities on the consolidated statement of financial position.

At year end 2015, €34,000 thousand of the aforementioned loan was classified as a long-term liability and €8,000 thousand was classified as a short-term liability.

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

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

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At 31 December 2015, the Group held lines of credit amounting to €130,000 thousand (€20,000 thousand in 2014) through its subsidiary Patentes Talgo S.L.U. At 31 December 2015 an amount of €1,317 thousand has been drawn on them (2014: €0 thousand).

On 16 April 2015, the Parent company and its subsidiary Patentes Talgo, S.L.U. signed a financing contract per an amount of €100,000 thousand. This loan accrues interest at a fix market rate. The aforementioned contract contains a number of associated obligations which the Group has complied with since the beginning of the contract.

At year end 2015, €89,500 thousand of the aforementioned loan was classified as a long-term liability and €10,000 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 €427 thousand.

Similarly, during 2015, the subsidiary Patentes Talgo, S.L.U. signed guarantee lines and surety bonds with various financial institutions amounting to €110,950 thousand (€368,450 thousand in 2014).

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

	€ in thousands					
31 December 2014	2015	2016	2017	2018	Subsequent years	Totals
Debt with credit institutions	10 231	8 000	10 000	10 000	14 000	52 231
31 December 20145	2016	2017	2018	2019	Subsequent years	Totals
Debt with credit institutions	20 731	19 766	19 900	19 911	63 923	144 231

The fair values of the debts with credit institutions are similar to their book values, because although the loans from the Credit Entities accrues interest at a fixed rate, that rate is virtually equal to market interest rates.

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b) Other financial liabilities

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

	€ in thousands	
	31.12.15	31.12.14
Non-current		
Debts due to reimbursable advances	22 948	28 507
Other debts	1 555	2 702
	24 503	31 209
Current		
Debts due to reimbursable advances	1 892	1 403
Other debts	-	60
	1 892	1 463
Total other financial liabilities	26 395	32 672

b.1) Debts due to reimbursable advances

This caption includes zero-rate debts that the Group's subsidiary Patentes Talgo, S.L.U. holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Education and Science. These loans accrue interest at a lower rate than charged in the market, as such the Group recognizes a grant to reflect the difference between the two rates. The refundable advances were granted to Patentes Talgo, S.L.U. and its technology partner, mainly in connection with projects for the development of gauge-switching and high-speed systems.

The fair value of the reimbursable advances at 31 December 2015 amounted to is €25,238 thousand (2014: €30,328 thousand).

The maturities of the debts due to reimbursable advances were as follows:

	€ in thousands					
31 December 2014	2015	2016	2017	2018	Subsequent years	Totals
Debts due to reimbursable advances	1 403	1 993	3 169	3 565	19 780	29 910

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31 December 2015	2016	2017	2018	2019	Subsequent years	Totals
Debts due to reimbursable advances	1 892	2 534	2 941	3 404	14 069	24 840

b.2) Other debts

At 31 December 2015, this caption included non-current debt convertible into grants amounting to €1,497 thousand (2014: €2,644 thousand). These related to funds received from the Ministry for Science and Innovation relating to the AVRIL and EMU research and development projects, as well as the funds received from the European Commission relating to the "Roll2Rail" project.

The fair values of other borrowings approximate their carrying amount.

c) Finance lease creditors

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

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

The movements in this caption during the year 2014 were as follows:

	31.12.2013	Additions	Disposals	Transfers	31.12.2014
Long term finance lease creditors	1 292	-	-	(692)	600
Short term finance lease creditors	685	-	(692)	692	685
	1 977	-	(692)	-	1 285

The movements in this caption during the year 2015 were as follows:

	31.12.2014	Additions	Disposals	Transfers	31.12.2015
Long term finance lease creditors	600	-	-	(600)	-
Short term finance lease creditors	685	-	(722)	600	563
	1 285	-	(722)	-	563

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18. Deferred taxes

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

	€ in thousands	
	31.12.15	31.12.14
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	8 198	13 955
	8 198	13 955
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered in more than 12 months	4 092	3 565
	4 092	3 565
Deferred tax assets (net)	4 106	10 390

The movement in the deferred tax asset balance during the financial years 2015 and 2014 was as follows:

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

	Balance at 31.12.14	Exchange differences	Additions	Disposals	Other Movements	Balance at 31.12.15
Guarantees	1 237	-	1 763	(1 248)	-	1 752
Deductions	-	-	2 305	(2 305)	-	-
Fiscal credits	-	38	1 980	-	-	2 018
Other concepts	12 718	-	1 873	(10 327)	164	4 428
	13 955	38	7 921	(13 880)	164	8 198

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

	€ in thousands			
	Tax credits	Deductions	Other concepts	Total
Balance at 31 December 2013	-	3 365	11 527	14 892
Credit/(Charge) to income statement	-	2 647	2 528	5 175
Other movements and transfers	-	(6 012)	(100)	(6 112)
Balance at 31 December 2014	-	-	13 955	13 955
Credit/(Charge) to income statement	1 980	2 305	3 636	7 921
Other movements and transfers	38	(2 305)	(11 411)	(13 678)
Balance at 31 December 2015	2 018	-	6 180	8 198

Almost all of the 'Other movements and transfers' caption within 'deductions' correspond to the deductions used for the calculation of corporation tax for the year 2015, while 'Other movements and transfers' caption within 'other concepts' correspond to commitments held with personnel.

Similarly, the Group has registered a deferred tax assets on the statement of financial position that are associated with the negative tax bases generated by the subsidiary Talgo Inc. considered, based on their current assessment, that it is the positive taxable bases that will be generated in the future to allow their recovery. This deferred tax amount to €2,018 thousand. At 31 December 2015, the negative taxable bases pending offset in the USA, relating to the subsidiary Talgo Inc., amounted to €42,183 thousand (€44,896 thousand in 2014) and their expiry dates are detailed below:

Year	€ in thousands	Final year
2001	266	2021
2002	3 213	2022
2003	5 431	2023
2004	13 555	2024
2005	8 542	2025
2006	7 266	2026
2012	3 910	2032
	42 183	

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a) Deductions

No deductions pending application existed at 31 December 2015.

b) Other Concepts

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

Deferred tax liabilities

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

	€ in thousands		
	Cash flow hedge	Other concepts	Total
Balance at December 2013	-	6 108	6 108
Credit/(Charge) to income statement	-	(2 643)	(2 643)
Tax (credit) / charge to equity	-	-	-
Other movements	-	100	100
Balance at December 2014	-	3 565	3 565
Credit/(Charge) to income statement	-	527	527
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at December 2015	-	4 092	4 092

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

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19. Provisions for other liabilities and charges

	€ in thousands					
	Non-current			Current		
	Other provisions	Guarantee provision	Subtotal	Other provisions	Guarantee provision	Subtotal
Balance at 31/12/2014	16 413	6 497	22 910	1 914	1 648	3 562
Provisions	2 873	-	2 873	816	3 275	4 090
Applications	(1 519)	-	(1 519)	(1 105)	(1 739)	(2 844)
Transfers	-	1 291	1 291	-	(1 291)	(1 291)
Balance at 31/12/2015	17 767	7 788	25 555	1 625	1 893	3 518

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

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

20. Employee benefit expenses

a) The breakdown of this caption is as follows:

	€ in thousands	
	2015	2014
Wages, salaries and similar	73 749	82 041
Contributions and provisions for defined pension contributions and other obligations	1 709	1 655
Other welfare charges	23 254	20 860
	98 712	104 556

The 'Wages, salaries and similar' caption includes compensation costs, which amounted to €440 thousand as at 31 December 2015 (2014: €262 thousand) and the cost relating to the remuneration paid to Senior Management explained in note 20 b.

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

In 2015, the remuneration paid to the senior management team, which is understood to be formed by those members that sit on the Steering Committee, amounted to €2,045 thousand and the amount relating to the share compensation plan totalled €37,041

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thousand (€2,009 thousand and €9,547 thousand, respectively, in 2014) note 2.20, for both fixed and variable remuneration. Meanwhile, the remuneration paid to the directors of the group amounted to €970 thousand and the amount relating to the share compensation plan totalled €28,493 thousand at 31 December 2015 (€999 thousand and €7,344 thousand, respectively, at 31 December 2014).

The Group has taken out life insurance for all of its employees, including management personnel. The cost of this insurance for management personnel amounted to €41 thousand in 2015 (€41 thousand at 31 December 2014) including variable and fixed concepts. The amount corresponding to the pension plan of this same collective amounted to €69 thousand in 2015 and €69 thousand in 2014. In addition, the Group has taken out civil liability insurance policies for some members of its Senior Management member, whose coverage is considered sufficient

During 2012, the subsidiary Patentes Talgo, S.L.U. granted loans to members of the management team for the purchase of shares in the ultimate Parent Company amounting to €637 thousand. The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread. These loans has been reimbursed during 2015, and a new loans has been granted amounted to €879 thousand. This new loans accrue interest at a rate that is linked to Euribor plus a market spread (note 10).

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

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).

21. Average headcount

The distribution of the average headcount by job category and gender during the years 2015 and 2014 is as follows:

	2015		2014	
	Men	Women	Men	Women
Board members and Senior Management	11	2	11	2
Management	32	3	25	2
Middle management	202	25	187	24
Technicians	1 371	213	1 233	200
	1 616	243	1 456	228

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Similarly, the distribution of the headcount at year-end 2015 and 2014 by job category and gender was as follows:

	2015		2014	
	Men	Women	Men	Women
Board members and Senior Management	11	2	11	2
Management	34	2	26	2
Middle management	201	25	185	24
Technicians	1 444	215	1 282	203
	1 690	244	1 504	231

As at year-end 2015, the Group employed 18 people with disabilities (17 in 2014), of which 5 were women (4 in 2014) and 13 were men (14 in 2014).

22. Cost of materials and other operating expenses

a) The breakdown of the 'Cost of materials' caption is as follows:

	2015	2014
Domestic purchases	197 404	106 405
Intra-Community acquisitions	48 392	29 320
Imports	8 159	3 640
Change in stock	(21 942)	(1 670)
Consumption of raw materials and other consumables	232 013	137 695
Other external expenses	27 021	43 033
Other external expenses	27 021	43 033
Impairment of raw materials and other supplies (note 12)	5 631	81
Impairment of raw materials and other supplies	5 631	81

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

	€ in thousands	
	2015	2014
External Services	63 717	45 102
Taxes	1 080	344
Losses, impairment and variation in provisions	1 979	2 109
Other current operating expenses	498	143
Total other operating expenses	67 274	47 698

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23. Other results

The details of the amounts contained in the Group's 'Other results' caption are as follows:

	€ in thousands	
	2015	2014
Other expenses	(20)	(337)
Other income	501	867
Total Other Results	481	530

At 31 December 2015 and 2014, the 'Other income' caption mainly included proceeds received as compensation for claims, whose related expenses were recorded in previous years. It also included proceeds received from the sale of scrap metal.

24. Financial income and expenses

The breakdown of this caption is as follows:

	€ in thousands	
	2015	2014
Interest expenses:		
- Bank borrowings and other charges	(6 408)	(7 125)
Financial expenses	(6 408)	(7 125)
- Interest income on short term deposits with credit institutions	124	1 596
- Exchange differences	1 325	118
Financial income	1 449	1 714
Net financial result	(4 959)	(5 411)

25. Income tax

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

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

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

	<u>2015</u>	<u>2014</u>
Profit before tax	75 069	45 465
Consolidated tax at 28% (*)	21 019	13 640
Tax effects of:		
Differences due to differing tax rates in each country	3 988	1 454
Permanent differences	(2 934)	(6 269)
Activation of deductions	(2 305)	(2 647)
Tax losses carryforwards	(1 980)	-
Other concepts	-	481
Prior years' adjustment	(2 294)	322
Tax expense	<u>15 494</u>	<u>6 981</u>

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

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

In 2014, the Group adjusted for the effect of a change in the tax rate approved in Spain with effect from 2015 onwards, in accordance with Law 27/2014, as a result of which the tax rate will be 28% in 2015 and 25% from 2016 onwards. The impact of this adjustment amounted to €481 thousand.

As a result of, amongst other things, the different possible interpretations of the tax legislation in force, additional liabilities may arise in the event of a tax inspection. However, the directors consider that any liabilities that may arise would not significantly affect these consolidated annual accounts.

The breakdown of the expense for corporation tax is as follows:

	<u>2015</u>	<u>2014</u>
Total current tax	9 210	8 587
Total deferred tax	6 284	(1 606)
Income tax	<u>15 494</u>	<u>6 981</u>

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26. Earnings per share

Basic earnings per share

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

	<u>€ in thousands</u>	
	<u>2015</u>	<u>2014</u>
Profit attributable to the owners of the Parent Company	59 575	38 484
Weighted average number of ordinary shares in issue	102 966 757	1 368 329
Basic earnings per share from continued operations	<u>0,58</u>	<u>28,12</u>
	<u>0,58</u>	<u>28,12(*)</u>

(*)The number of shares comprising the share capital has been split during 2015 in the ratio of 1 to 100 (note 14) for information purposes only and comparability of information, the same number of weighted average shares in the year 2014 would have a basic earning per share of 0.37.

Diluted earnings per share

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

	<u>€ in thousands</u>	
	<u>2015</u>	<u>2014</u>
Profit attributable to the owners of the Parent Company	59 575	38 484
Profit used to determine diluted earnings per share	59 575	38 484
Weighted average number of ordinary shares in issue	102 966 757	1 368 329
Adjustments for hypothetical conversion of convertible loan		
Weighted average number of ordinary shares for the purposes of diluted earnings per share	102 966 757	1 368 329
Diluted earnings per share from continued operations	<u>0,58</u>	<u>28,12</u>
	<u>0,58</u>	<u>28,12(*)</u>

(*)The number of shares comprising the share capital has been split during 2015 in the ratio of 1 to 100 (note 14) for information purposes only and comparability of information, the same number of weighted average shares in the year 2014 would have a diluted earning per share of 0.37.

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

27. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

	€ in thousands	
	2015	2014
Profit for the year before tax	75 069	45 465
Adjustments for:		
- Depreciation of tangible fixed assets (note 6)	6 700	5 683
- Amortization of intangible assets (note 7)	12 575	11 128
- (Gain)/loss on the sale of non-current assets held for sale	2	1
- Net change in provisions (notes 19 and 11)	7 299	20 079
- Financial expenses (note 24)	6 407	7 125
- Financial income (note 24)	(125)	(1 596)
- Allocation of grants	(2 143)	(1 215)
- Other income and expenses	7 292	(4 988)
Changes in working capital (excluding the effects of the acquisition and exchange differences on consolidation):	(118 464)	(61 965)
Stocks (note 12)	(21 118)	(9 570)
Other financial assets (note 10)	715	37
Customers and other account receivables (note 11)	(106 266)	(47 536)
Suppliers and other payables (notes 16 and 17)	8 205	(4 896)
Cash flows from operating activities:	(5 388)	19 717

28. Guarantees and other contingencies

At 31 December 2015, the Group had a volume of bank guarantees and surety bonds amounting to €576 million (2014: €422 million), of which, €534 million (2014: €386 million) correspond to manufacturing projects, either as performance bonds or advances received.

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

At 31 December 2015, the amount available from the bank guarantee lines amounted to €295 million (€358 million in 2014).

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

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

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

29. Commitments

a) Commitments to purchase fixed assets

At 31 December 2015, the Group had commitments to purchase fixed assets amounting to €2,964 thousand (2014: €5,863 thousand).

b) Operating lease commitments

The directors of the consolidated Group do not expect any material changes in the future operating lease expense with respect to the expenditure incurred in 2015 and 2014 (note 6.f).

30. Related party and foreign currency transactions

The shareholders of the Parent Company that hold stakes of more than 3% are disclosed in note 14. The Group conducts all of its transactions with related parties at market prices. In addition, the transfer prices are adequately supported and so the Directors of the Parent Company consider that there is no significant risk that any significant liabilities may arise in the future for this concept.

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

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

a) Transactions with the Parent Company's significant shareholders

No transactions were undertaken with the Parent Company's shareholders.

The loans granted to the shareholders are detailed in note 10 a.

b) Transactions with the Parent Company's Board members

The compensation paid during 2015 to the Board members amount to €460 thousand (€0 thousand in 2014)

c) Shareholdings, duties and activities that the members of the Board of Directors held in companies with the same, analogous or complementary activity as the activity that constitutes the corporate purpose of the Parent Company in 2015:

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

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

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.

d) Commercial transactions with related parties

	€ in thousands	
	2015	2014
External services:		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	1 297	7 235
Expenses	1 297	7 235

e) Share compensation plan

Through its subsidiary, Patentes Talgo, S.L.U., the Group held a share compensation plan in place with the employees of that company relating to shares in the parent company (note 2.20.c). The amount accrued in this regard amounted to €3,212 thousand in 2015 (€18,360 thousand in 2014). This plan has been liquidated during 2015.

f) Breakdown of supplier / customer balances with associates companies:

	€ in thousands	
	31.12.15	31.12.14
Customers –associates companies (note 11)	66	6 089
Customers –associates companies	66	6 089
	€ in thousands	
	31.12.15	31.12.14
Suppliers - associates companies (note 16)	17 816	11 160
Suppliers – associates companies	17 816	11 160

At 31 December 2015 and 2014, the “Customers – associates companies” caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A. At 31 December 2015 and 2014, the “Suppliers – associates companies” caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A.

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

g) Foreign currency transactions

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

	<u>2015</u>	<u>2014</u>
Purchases	18 053	10 985
Sales	19 377	7 539

31. The environment

The breakdown of the expenses incurred during 2015 and 2014 to protect and improve the environment was as follows:

	<u>€ in thousands</u>	
	<u>2015</u>	<u>2014</u>
Periodic (waste management, periodic analysis and other):		
Drinking water and waste water analysis and waste water purifier expenses	87	65
Management of hazardous and inert waste	109	101
Material purchases and other	22	29
Safety Advisor	4	4
Specification for modification of painting facilities	2	-
Dumping tax and legionellosis control	12	11
Diesel installation	3	-
Analysis of noises	1	-
Legislation updates	-	2
Total periodic expenses	<u>240</u>	<u>212</u>
	<u>€ in thousands</u>	
	<u>2015</u>	<u>2014</u>
Non-periodic:		
ISO 14001 Certification	5	4
Total non-periodic expenses	<u>5</u>	<u>4</u>

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2015

(Expressed in thousands of euros)

The breakdown of the investments incurred during 2015 to protect and improve the environment is as follows:

	<u>€ in thousands</u>
Cover oil tank and recycling center	6
TOTAL INVESTMENTS	<u>6</u>

The breakdown of the investments incurred during 2015 to protect and improve the environment was as follows:

	<u>€ in thousands</u>
System for automatic chlorination of drinking water	5
Painting equipment	26
Samoa improvement tool for oil change	5
Shopping for new container ships	10
TOTAL INVESTMENTS	<u>46</u>

33. Fees for audit and other services provided

During 2015 and 2014, the fees regarding the services provided for the audit of annual accounts and non-audit services by the Company's auditor Deloitte, S.L. or by any other company related to the auditor by means of common ownership, control or management, are as follows:

Description	2015	2014
Audit fees	252	121
Other assurance services	398	179
Total of audit and audit related services	650	300
Tax consultancy services	6	-
Total of professional services	656	300

34. Subsequent events

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

TALGO, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL
YEAR 2015**

(Expressed in thousands of euros)

35. Explanation added for translation to English

These consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Certain accounting practices applied by the Company that conform with these standards may not conform with generally accepted accounting principles in other countries.

TALGO, S.A. AND SUBSIDIARIES

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

Organizational structure

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

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

Strategy

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

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

Business model

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

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

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

Business development

A new contract for the manufacturing of 2 Talgo 250 trains for Uzbek railways UTY has been signed during the financial year 2015, in addition to the 2 Talgo 250 trains which currently operate on the Tashkent-Samarkand line since 2011.

Furthermore, the American subsidiary has signed an agreement with Wisconsin regarding the two trains manufactured in previous financial years, keeping its ownership in Talgo INC subsidiary company and concluding the contract economically.

TALGO, S.A. AND SUBSIDIARIES

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

The maintenance equipment activities have implied a significant percentage in the order book during this financial year, particularly the contracts signed for selling pit lathes and measurement equipment in countries such as Germany, Algeria, Argentina, Spain, Saudi Arabia or Denmark, among others, and for clients such as Deutsche Bahn, Rheinbahn, SBASE, STNF, ANSALDO Metro Riyadh, Aarhus Tramways Alstom and Renfe KSA in Arabia.

Concerning the railway stock remodeling activities, it is important to highlight the achievement of the contract negotiated in 2015 for Phase II in the contract for performing mid-life operations in 15 RENFE's Talgo Series VI trainsets.

The Group has continued with the manufacturing and certification tasks of the 7 trains (140 passenger cars) for Russian railways RZD throughout 2015. The fourth of the seven trains started its commercial operation in June, in the 440 km long Moscow-Nizhny Novgorod line, reducing the travel time between those cities significantly. The remaining three trainsets from the seven units contracted by RZD in 2011 will come into service next year in the international line Moscow-Berlin. By using Talgo's gauge change system, changing from the Russian gauge (1,520 mm) to the standard gauge (1,435 mm) in the Belarusian city of Brest will be possible.

Moreover, the manufacturing and delivery of the remaining 153 passenger cars of the 436-car project for Kazakhstani railways KTZ through the subsidiary in Kazakhstan, Talgo LLP, has been completed in this period. Cars in this project operate currently in the lines connecting the main Kazakhstani cities, such as Astana, Almaty, Aktobe, Atyrau, Shymkent, etc. Besides, the manufacturing of the 603 wide body cars continues in Rivabellosa (Álava) and Las Matas II (Madrid) plants, within the renewal process of the passenger cars fleet in Kazakhstan. 76 semi-finished units in different stages have been sent to Tulpar Talgo, LLP for its assembling and/or certification in Kazakhstan so far.

The development and manufacturing of the 36 Talgo High Speed trains for Saudi Arabia railways within the consortium project for the Mecca-Medina line has continued in 2015. During this year, the dynamic tests for trains in Arabia have started and 2 additional trains have been sent to the country, apart from the first train sent the previous year.

Regarding the trains maintenance activities, Talgo has continued to execute multiannual contracts in those countries where the company is established, such as Spain (RENFE and ADIF), Kazakhstan (KTZ), Uzbekistan (UTY), United States (Amtrak and Oregon State), Germany (Deutsche Bahn and other railway operators) and Russia (RZD). In some of these countries, new plants for the maintenance tasks have been created due to the increase of the operating fleet, such as Astana and Moscow plants.

As for the maintenance equipment activity, the production of lathes and measurement equipment has continued during this year. The Group has carried on maintaining and selling spare pieces for all over the world.

Finally, Phase I of the mid-life operations in RENFE Series VI cars has been completed.

TALGO, S.A. AND SUBSIDIARIES

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

The 4 remaining trainsets and the 4 cars transformed into seats cars pending modification have been delivered.

Business performance

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

The Group's adjusted EBITDA at the end 2015 amounted to €120.5 million, compared to €90 million in the previous period. That improvement reflects the increase in productivity and the growth that the Group has experienced in 2015 with respect to the previous year.

The Group's adjusted EBIT at the end of 2015 amounted to €104.3 million, compared to €78.8 million in the previous period.

The profit after tax at the end of 2015 amounted to €59.6 million, compared to €38.5 million in the previous period, an improvement of 55%.

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

- Expenses relating to the IPO: €5.4 million in 2015. No such costs were incurred during the first half of 2014.
- Expenses accrued in relation to the share compensation plan: €3.2 million in 2015 (€18.4 million in 2014). This amount also included the cost of the free allocation of shares to employees of Patentes Talgo S.L.U., which amounted to €5.2 million in the first half of 2015. No such costs were incurred in 2014.
- Other minor adjustments amounting to €2.5 million relating to other compensation payments and costs (€1.9 million in 2014).

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

At the end of the year 2015, the Group's order backlog amounted to €3,117 million; that figure was in line with the end last year, when the backlog amounted to €3,703million. This portfolio continues to ensure the normal performance of the Group's activity.

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

TALGO, S.A. AND SUBSIDIARIES

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

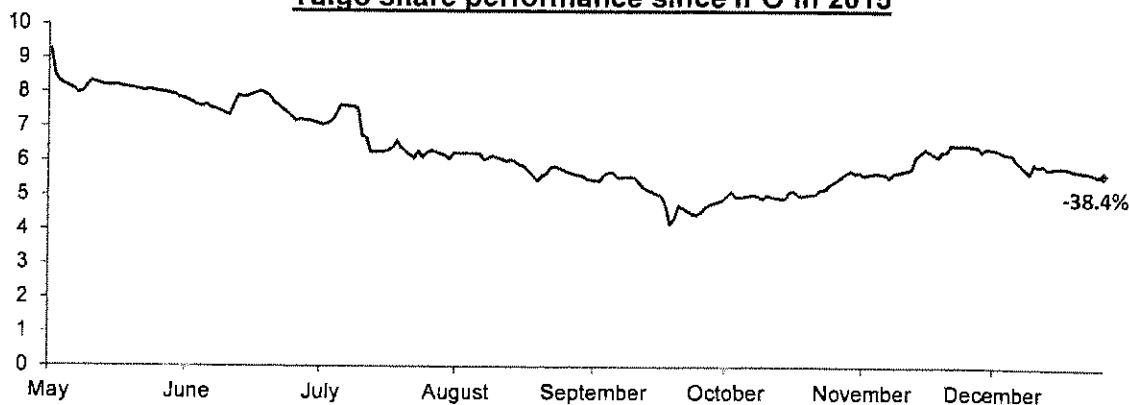
shareholders positions, including Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, MCH Inversiones Industriales S.a.r.l. and the Oriol's family.

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.

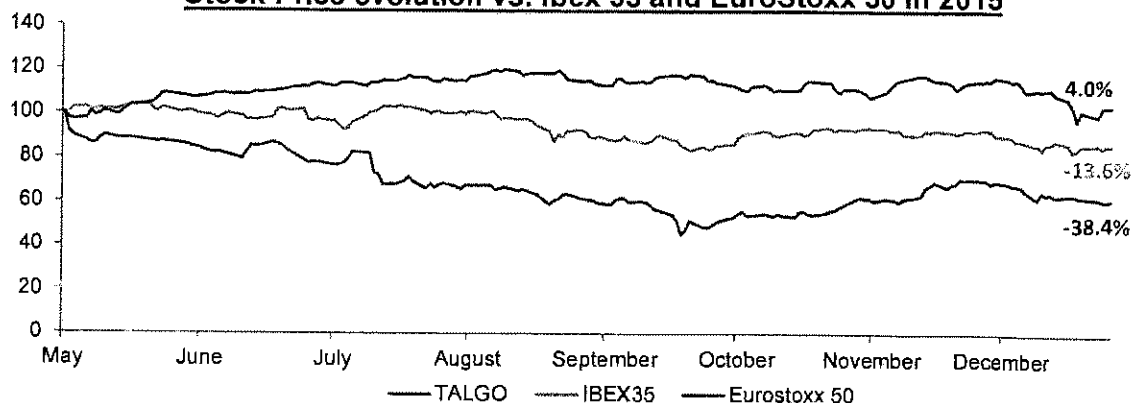
Thus, at December 31, 2015 Talgo's share price stood at € 5.69 (-38.4% since IPO), with an average daily volume of over 289 thousand shares (excluding the first 10 days of trading) for a total in excess of € 1,400 million for the year. The market cap at year close was € 779 million.

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. AND SUBSIDIARIES

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 are detailed in note 34.

Research and development activities

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

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

TALGO, S.A. AND SUBSIDIARIES

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

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

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

- Developing new products and services to ensure sustainable growth and to gain market share;
- Increasing the reliability of our products;
- Improving the management of innovation;
- Promoting a culture of innovation within the organization;
- Supporting open innovation.

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

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

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

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

TALGO, S.A. AND SUBSIDIARIES

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

Risk policy

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

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

Quality and the environment

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

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

To that end, the Group is committed to delivering products and services in perfect conditions and not causing any environmental impact; meeting the applicable regulations and standards; establishing actions to eradicate the source of the identified problems as well as preventing them to occur again and promoting both a continuous training and the professional capacities of the personnel.

This commitment is promoted and encouraged at all the levels of the organization and across all of the countries in which the Group has a presence. This is evidenced by the process that the Group is performing at their foreign subsidiaries, adjusting the existing processes to the new requirements and always ensuring they are applied on a standardized basis.

Additionally, the Group's certification according to the requirements included in the railway-related IRIS quality is a key tool for improving all the processes. Thanks to a careful analysis, the areas to be improved in the processes are clearly identified, enhancing the efficiency and competitiveness levels. A clear reflection of this fact is the Group's internationalization.

Moreover, the Quality and Innovation Management Systems implemented act as a tool covering all the processes of the Group, organizing them and making them improve on a daily basis to finally reach the professional and industrial excellence. This is one of the Group's most important commercial strategies.

The breakdown of the expenses incurred by the Group to protect and improve the environment is disclosed in note 22. The costs relating to the prevention of risks form part of the costs of the projects.

TALGO, S.A. AND SUBSIDIARIES

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

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

Information about delaying payments to suppliers

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

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

Own Shares

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

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%
UNIVERITIES 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
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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 Capital 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.

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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.

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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.

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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.

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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.

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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