

TALGO, S.A.

Financial Statements for the year
ended 31 December 2019 and
Directors' Report, together with
Independent Auditor's Report

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

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of TALGO, S.A.,

Report on the Financial Statements

Opinion

We have audited the financial statements of TALGO, S.A. (the Company), which comprise the balance sheet as at 31 December 2019, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2019, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of investments in Group companies

Description

As indicated in Note 5 to the accompanying financial statements, the balance of "Long-term financial investments in group companies and associates" includes the cost of the ownership interest held by TALGO, S.A. in the share capital of Patentes Talgo, S.L.U., an entity that is not listed on regulated markets.

This investment is the main item in the financial statements of TALGO, S.A., representing approximately 91.8% of total assets.

As indicated in Note 3-a to the financial statements, TALGO, S.A. assesses the possible existence of impairment losses by comparing the equity of Patentes Talgo, S.L.U. with the carrying amount of the ownership interest. If there is a risk of impairment, because the carrying amount is higher, the directors estimate the recoverable amount by taking into account, where appropriate, the future cash flow projections of Patentes Talgo, S.L.U.

The measurement of this ownership interest was identified as a key matter in our audit due to, among other factors, the large amount that the cost of the investment represents in the context of the financial statements taken as a whole.

Procedures applied in the audit

Our audit procedures to address this matter included: i) the analysis of the methodology used by TALGO, S.A. as the basis for estimating the impairment, if any, of the ownership interest; and ii) the replication of the calculation in order to verify the accuracy of the measurement performed by TALGO, S.A.

In addition, we evaluated and reviewed the audit work performed in relation to the financial information of Patentes Talgo, S.L.U. and its subsidiaries, in order to obtain sufficient appropriate evidence of the carrying amount of the aforementioned ownership interest in the financial statements of TALGO, S.A., and, furthermore, we obtained the audited separate and consolidated financial statements of Patentes Talgo, S.L.U. and verified the consistency of the financial information used in the process to measure the investment with that contained in those financial statements.

Also, we checked that the disclosures included in Note 5 to the accompanying financial statements in connection with this matter were in conformity with those required by the applicable accounting regulations.

Provisions for tax contingencies

Description

As indicated in Note 2-c, when calculating the provision for income tax, the Company assesses whether there is an uncertainty as to the acceptability by the taxation authorities of the tax treatment afforded to any specific transaction or circumstance. For those cases in which it is considered unlikely that the tax treatment will be accepted, the Company recognises a provision based on its best estimate. In the other cases, no provision is recognised, and the possible contingencies or uncertainties are disclosed in the notes to the financial statements.

The aforementioned assessment, and the determination, as the case may be, of the provision to be recognised, is subject to a significant level of judgement and, therefore, the directors and management are advised by experts in the subject.

As described in Note 13, in 2019 the Company and its subsidiary, Patentes Talgo, S.L.U., received tax assessments that they signed on a contested basis and against which they filed an economic-administrative appeal. They also assessed, together with their external tax advisers, the uncertainty associated with the various matters in dispute, with each entity recognising the corresponding provisions in their financial statements (EUR 10.1 million in the Company's financial statements), and the Company derecognised deferred tax assets amounting to EUR 8.3 million and disclosed the other contingencies in the notes to the financial statements.

The significance of the associated tax contingencies and of the judgements and estimates made in the calculation of the aforementioned provision meant that this matter was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the obtainment and analysis of the tax assessments and the reports of the tax experts engaged by the Company, on which management and the directors relied to assess the uncertainty associated with the matters in dispute and to determine the impacts on the tax assets and tax provisions to be recognised.

In this connection, with the assistance of our internal experts in the tax area, we:

- Obtained an understanding of the matters in dispute, as well as the opinions, on each of them, of the tax experts engaged by the Company.
- Conducted a review of the reasonableness of the conclusions reached by said experts on the possible outcomes.
- Reviewed the method adopted by the Company (most likely amount) to determine the associated tax assets and liabilities, as well as the reasonableness of their quantification.

Lastly, we verified that the notes to the financial statements (Notes 2-c, 6 and 13) contained the required disclosures on these matters.

Other Information: Directors' Report

The other information comprises only the directors' report for 2019, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the information contained in the directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we observed that the information described in section a) above was provided in the directors' report and that the other information in the directors' report was consistent with that contained in the financial statements for 2019 and its content and presentation were in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit Committee for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditor's report. This description, which is included below, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 27 February 2020.

Engagement Period

The Annual General Meeting held on 21 May 2019 appointed us as auditors for a period of one year from the year ended 31 December 2018, i.e., for 2019.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of three years and have been auditing the financial statements uninterrupted since the year ended 31 December 2013 and, therefore, since the year ended 31 December 2015, the year in which the Company became a Public Interest Entity.

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



Carmen Barrasa Ruiz
Registered in ROAC under no. 17.962

27 February 2020

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the entity's audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

TALGO, S.A.

Annual Accounts and Directors' Report for the year ended 31 December 2019

**Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted auditing standards in Spain (see Note 20). In the event of a discrepancy, the Spanish-language version prevails*

TALGO, S.A.

BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(Expressed in thousands of euros)

ASSETS	<u>2019</u>	<u>2018</u>
NON-CURRENT ASSETS	152 435	159 051
Long-term financial investments in group companies and associates (note 5)	151 317	150 317
Investments in group companies	151 317	150 317
Deferred tax assets (note 6)	1 118	8 734
CURRENT ASSETS	12 447	14 907
Short-term financial investments in group companies and associates (note 5)	-	10 000
Other financial assets	-	10 000
Trade debtors and other accounts receivable (note 7)	3 006	1 525
Receivables from Public Administrations	3 006	1 525
Cash and cash equivalents (note 8)	9 441	3 382
TOTAL ASSETS	<u>164 882</u>	<u>173 958</u>
LIABILITIES AND SHAREHOLDER'S EQUITY	<u>2019</u>	<u>2018</u>
EQUITY	42 131	64 318
Equity (note 9)	42 131	64 318
Share capital	41 105	41 105
Share premium	6 784	6 784
Legal reserve	8 237	8 237
Treasury Stock	(62 562)	(4 046)
Other Reserves	(4 518)	(4)
Results from previous years	-	(1 372)
Result for the financial year	53 085	13 614
NON CURRENT LIABILITIES	85 166	100 401
Long term provisions (note 13)	10 124	-
Long-term debts (note 10)	75 042	100 401
Debts with financial institutions	-	38 675
Debts with group companies and associates	75 042	61 726
CURRENT LIABILITIES	37 585	9 239
Short-term debts (note 11)	37 461	9 161
Debts with financial institutions	32 902	7 554
Debts with group companies and associates	4 559	1 607
Short-term creditors and other accounts payable	124	78
Other creditors	124	78
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>164 882</u>	<u>173 958</u>

Notes 1 to 20 of these annual accounts form an integral part of the balance sheets at 31 December 2019.

TALGO, S.A.

**INCOME STATEMENT ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2019
AND 2018**

(Expressed in thousands of euros)

CONTINUING OPERATIONS	2019	2018
Net turnover (notes 5 and 12)	55 000	15 000
Other operating expenses	(1 028)	(943)
External services (note 12)	(260)	(222)
Other current operating expenses (note 12)	(768)	(721)
OPERATING RESULT	53 972	14 057
Financial expenses (note 12)	(1 525)	(906)
FINANCIAL RESULT (note 12)	(1 525)	(906)
PROFIT BEFORE TAX	52 447	13 151
Income tax (note 13)	638	463
EARNINGS FROM CONTINUING OPERATIONS	53 085	13 614
RESULT FOR THE YEAR	53 085	13 614

Notes 1 to 20 of these annual accounts form an integral part of the income statement accounts at 31 December 2019.

TALGO, S.A.

**STATEMENT OF RECOGNIZED INCOME AND EXPENSES FOR THE YEARS 2019
AND 2018**

(Expressed in thousands of euros)

STATEMENT OF RECOGNIZED INCOME AND EXPENSES

	<u>2019</u>	<u>2018</u>
Result from the income statement	53 085	13 614
Direct assignment to equity		
Cash flow hedge	-	-
Grants, donations and bequests received	-	-
Other income and expenses	<u>(67)</u>	<u>(4)</u>
	(67)	(4)
Transfers to the income statement		
Cash flow hedge	-	-
Grants, donations and bequests received	<u>-</u>	<u>-</u>
	-	-
TOTAL RECOGNIZED INCOME AND EXPENSES	<u>53 018</u>	<u>13 610</u>

Notes 1 to 20 of these annual accounts form an integral part of the statement of recognized income and expenses at 31 December 2019.

TALGO, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2019 and 2018
(Expressed in thousands of euros)

TOTAL STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Legal reserve	Treasury stock	Negative results from previous financial years	Other Reserves	Result for the financial year	Total
Balance at 31 December 2017	41 105	6 784	8 237	(121)	169	-	(1 541)	54 633
Total recognized income and expenses	-	-	-	-	-	(4)	13 614	13 610
Equity instruments acquisition (share buyback plan, note 9)	-	-	-	(3 925)	-	-	-	(3 925)
Distribution of results for 2017	-	-	-	-	(1 541)	-	1 541	-
Balance at 31 December 2018	41 105	6 784	8 237	(4 046)	(1 372)	(4)	13 614	64 318
Total recognized income and expenses	-	-	-	-	-	(67)	53 085	53 018
Equity instruments acquisition (share buyback plan, note 9)	-	-	-	(58 516)	-	-	-	(58 516)
Other movements (note 13)	-	-	-	-	-	(17 689)	-	(17 689)
Distribution of results for 2018	-	-	-	-	1 372	12 242	(13 614)	-
Other movements (management incentive plan, note 9)	-	-	-	-	-	1 000	-	1 000
Balance at 31 December 2019	41 105	6 784	8 237	(62 562)	-	(4 518)	53 085	42 131

Notes 1 to 20 of these annual accounts form an integral part of the total statement of changes in equity at 31 December 2019.

TALGO, S.A.

CASH FLOW STATEMENT FOR THE YEARS 2019 AND 2018
(Expressed in thousands of euros)

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES	61 721	22 851
Result for the financial year before taxes	52 447	13 151
Adjustments to the result	1 525	936
- Financial expenses	1 525	936
Changes in working capital	(14)	(112)
- Creditors and other accounts payable	(14)	(112)
Other cash flows from operating activities	7 763	8 876
- Interest payments	(742)	(936)
- Dividends	10 000	5 000
- Payment/Collection of Corporate Income Tax	(1 495)	4 812
CASH FLOW FROM INVESTING ACTIVITIES	-	-
CASH FLOW FROM FINANCING ACTIVITIES	(55 662)	(19 840)
Collections and payments on equity instruments	(58 917)	(3 259)
- Equity instruments acquisition	(58 917)	(3 259)
Collections and payments on financial liability instruments	3 255)	(16 581)
- Payment of debt with credit institutions and other debts	(13 000)	(6 500)
- Debt with group companies and associates	16 255	(10 081)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	<u>6 059</u>	<u>3 011</u>
Cash and cash equivalents at the beginning of the year	3 382	371
Cash and cash equivalents at the end of the year	9 441	3 382

Notes 1 to 20 of these annual accounts form an integral part of the cash flow statement for the financial year 2019.

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

1. General Information

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

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

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

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

The corporate purpose of the Company is as follows:

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

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

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

2. Basis of presentation

a) Applicable regulatory financial reporting framework

These annual accounts for 2019 have been prepared on the basis of the Company's accounting records and are presented in accordance with the applicable regulatory framework for financial information, in order to show a fair presentation of the equity, financial position and results of the Company. The regulatory framework is based on:

- The Commercial Code and other commercial legislation.
- The General Accounting Plan, approved by Royal Decree 1514/2007 and its modifications, as well as the amendments made to it as a result of RD 1159/2010 and RD 602/2016. As well as the circulars issued by CNMV (Stock Market National Commission).
- The compulsory standards approved by the Accounting and Audit Institute as part of the development of the General Accounting plan and its supplementary rules.
- Other Spanish accounting regulations that may apply.

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

b) Fair presentation

These annual accounts have been prepared from the Company's accounting records and are presented in accordance with the applicable regulatory framework and, accordingly, present fairly the Company's equity, financial position, results of operations and cash flows for the related year.

On February 27, 2020, the Directors formulated the annual accounts for the financial year 2019. The deposit of the annual accounts is made at the Commercial Registry of Madrid.

c) Critical aspects of the valuation and estimation of uncertainty

The preparation of annual accounts requires the use, by the Company, of certain future estimates and judgments that are continually assessed and based on historical experience and other factors, including expectations for future events that are believed reasonable under the present circumstances and in particular those relating to the recoverability of the value of the shares (note 3.a), as well as to the tax risks (note 3.d).

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

Although these estimates have been made on the basis of the best information available at the end of 2019, it is possible that events that may take place in the future will make it necessary to modify them (upwards or downwards) in the coming years, which would be carried out prospectively if necessary.

At the end of 2019, the Company has a negative working capital of €25,138 thousand, derived from the bank debt short-term maturity. This liability will be met through dividends to be received from its subsidiary Patentes Talgo, S.L. in financial year 2020 (note 19), so the aforementioned negative working capital does not entail any liquidity risk for the Company.

In determining the provision for income tax, and the related tax assets and/or liabilities, the Company assesses whether there is any uncertainty as to the acceptability of the tax treatment of any particular transaction or circumstance. If the Company considers that it is likely that the tax authorities will accept the uncertain tax treatment, it determines the taxable profit (loss) and related tax assets and/or liabilities in a manner consistent with that tax treatment. Conversely, if the Company concludes that it is not likely that the tax authorities will accept the uncertain tax treatment, it will reflect the effect of the uncertainty in determining taxable profit (loss) and related tax assets and liabilities by one of the following methods:

- The most likely amount, if the possible outcomes of the uncertainty are dual or concentrated in a single value.
- The expected value, i.e. the sum of amounts weighted by their probability over a range of possible outcomes, in cases other than the above.

As described in note 13, on 10 July 2017 the Company and its subsidiary Patentes Talgo, S.L.U. received notification from the tax authorities of the partial review of Income Tax for the years 2012 to 2015 and Personal Income Tax for the periods from May 2013 to December 2015. Because of the aforementioned procedure, in October 2019 assessments were signed in disagreement, which were confirmed by settlement agreements notified in November 2019. At the end of 2019, the directors evaluated the matters under discussion, taking into account the opinion of their tax advisors, and the Company recorded the associated tax assets and liabilities, considering the most likely amount to be derived from these assessments. The doctrine on the matters under discussion is scarce and disparate.

The Company's directors are not aware of the existence of significant uncertainties not disclosed in the financial statements, relating to events or risks that could lead to significant changes in the value of assets and liabilities at the end of 2019.

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

d) Non-mandatory applicable accounting principles

The Board of Directors of the Company have formulated these annual accounts by taking into consideration all of the applicable compulsory accounting principles and regulations that have a significant effect on these annual accounts. None of the compulsory or significant accounting principles has ceased to apply.

e) Grouping items

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

f) Comparison of information

The information contained in these annual accounts pertaining to the year 2018 is presented for comparative purposes only, alongside the information for 2019.

3. Accounting principles

The main valuation principles used by the Company in preparing its financial statements for 2019, in accordance with the General Accounting Plan in force, are as follows:

a) Financial assets

Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are reported within current assets, with the exception of those that have maturity dates that fall more than 12 months after the year-end date, which are classified as non-current assets. Loans and accounts receivable are included within "trade debtors and other accounts receivable".

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

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

The amount of the loss due to impairment is the difference between the book value of the asset and the present value of the estimated future cash flows, discounted at the effective

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

interest rate at the time of initial recognition. These corrections in value, along with their subsequent reversal where appropriate, are recognized in the income statement.

Investments in group companies, multigroup and associates

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

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

b) Financial liabilities

Debts and accounts payable

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

Borrowings are initially recognized at fair value, net of any directly attributable transaction costs and are subsequently measured at amortized cost in accordance with the effective interest rate method. This effective interest rate is understood to be the rate that equals the book value of the instrument with all of its estimated future cash flows until maturity.

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

c) Equity

The share capital of the Company is represented by shares. The costs of issuing new shares are disclosed directly against equity, as a reduction in reserves.

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

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

d) Current and deferred taxes

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

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

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

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

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

The Company recognizes liabilities for eventual tax claims depending on the estimate of whether additional taxes will be required. Where the final tax result is different from the amounts initially recognized, such differences shall have effect, on the income tax and deferred tax provisions, in the year of such determination.

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.

The negative tax result not offset by the companies of the group is recognized in the company to which it corresponds recording for a deferred tax asset if it is reasonably expected that the tax group as a whole will generate in the future taxable profits.

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e) Revenue recognition

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

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

Income from the Company's financial activity (dividends) in 2019 has been considered as an ordinary activity in accordance with the consultation nº 2 of the Spanish Accounting and Audit Institute (ICAC), published in bulletin 79 in 2009, therefore it has been registered in the income statement for the financial year 2019 under the heading "Net turnover".

f) Related party transactions

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

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 Company consider that there is no significant risk that any significant liabilities may arise in the future for this concept.

g) Provisions and contingent liabilities

Provisions are recognized when the Company has an existing obligation, legal or implicit, as a result of past events, that will likely require an outflow of resources to settle the obligation and when that amount can be estimated reliably. No provisions are recognized for future operating losses.

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

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

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

Meanwhile, contingent liabilities are considered those potential obligations arising as a

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result of past events, whose materialization depends on the occurrence of future events lying beyond the will of the Company. Such contingent liabilities are not registered in the accounting records.

h) Foreign currency transactions and balances

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

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

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

i) Benefits to the employees of the Group - Remuneration with equity instruments

During 2019, the Company has agreed to launch a Long Term Incentive Plan, with a three-year time horizon (2019-2021), as a variable remuneration system aimed at both executive directors and members of the management team of the Company or its subsidiaries (eligible group). This share-based remuneration plan is linked on the one hand to the fulfilment of strategic objectives linked to the consolidated Group's business plan (EBITDA, gross margin, cash flows, backlog) and on the other hand to the increase in the value of the share, all of which is linked to the permanence until the end of the aforementioned time horizon. The plan may be paid in cash or in Company shares, at the Company discretion, three years after the start of the plan, with the best estimate being that it will be paid with Company shares at the end of 2019. The maximum amount under the plan approved by the Company's shareholders at the Annual General Meeting is €3.1 million.

Pursuant to consultation 7 of the Official Bulletin of the Institute of Accounting and Accounts Auditing (BOICAC) 75, the Company recognised the contribution to the subsidiary Patentes Talgo, S.L.U. as an Investments in group companies with a balancing entry in equity under the heading Other Reserves (see notes 5 and 9.f), consisting of the service received by Patentes Talgo, S.L.U. and which is settled by the delivery of the Company equity instruments for no consideration. Since there is no accounting standard applicable to this specific situation, the Company's directors recognised the transaction in full in 2019 using the fair value of the equity instruments at the time the contribution.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

4. Information on the nature and level of risk

In view of the activity carried out by the Company, there are not significant risks additional to those related in note 2.c.

The financial risk management is centralized through the Directors of the Company, who have established the means to control the exposure to interest rates and exchange-rate variations, as well as credit and liquidity risks.

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

The movement during 2019 in "Investments in group companies" is the following:

	€ in thousands			
	Balance at 31.12.18	Additions	Disposals	Balance at 31.12.19
Investments in group companies	150 317	1 000	-	151 317
	150 317	1 000	-	151 317

The additions recognised during 2019 relate to the equity-based payment transaction between the subsidiary Patentes Talgo, S.L.U. and its employees (note 3.i).

The total balance registered in this caption, relates to the investments that Talgo, S.A. holds in the company Patentes Talgo, S.L.U., being this stake of 100% for the years 2019 and 2018.

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

The amounts of share capital, reserves, result for the financial year and other relevant information as shown in the individual audited annual accounts of subsidiary company at 31 December 2019 are shown as follows in thousands of euro:

Company	Share Capital	Reserves	Result 2019	Other items	Operating Results	Net book value in parent company books
Patentes Talgo, S.L.U.	51 914	261 117	25 943	1 000	31 343	151 317

The amounts of share capital, reserves, result for the financial year and other relevant information as showed in the standalone audited annual accounts of subsidiary company at 31 December 2018 are shown as follows in thousands of euro:

Company	Share Capital	Reserves	Result 2018	Other items	Operating Results	Net book value in parent company books
Patentes Talgo, S.L.U.	51 914	313 095	3 022	-	15 086	150 317

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NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

On March 4 and July 3, 2019, the subsidiary Patentes Talgo, S.L.U approved the distribution of a dividend charged to reserves amounting to €25,000 and €30,000 thousand, respectively, which has been registered in the "Net Turnover" caption given the activity holding of the Company. The dividend has been fully collected during the year 2019. Likewise, during the year 2019 the dividend pending to be collected of the previous year was collected in the amount of €10,000 thousand.

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

Talgo, S.A. consolidated annual accounts for the financial year 2019, have been prepared by the Directors of the Company at the meeting of the Board of Directors held on 27 February 2020, in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and filed in the Commercial Registry of Madrid. They show that the Group recorded equity of €291,726 thousand, a profit of €38,466 thousand, total assets of €882,897 thousand and net turnover of €401,695 thousand.

The consolidated annual accounts of Talgo S.A. corresponding to 2018 were approved at the General Meeting of the Shareholders of the Company on 21 May 2019 and deposited in the Commercial Registry in Madrid.

6. Deferred tax assets

The breakdown of this heading at 31 December 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax assets	1 118	8 734
	<u>1 118</u>	<u>8 734</u>

The deferred tax assets indicated above have been recorded in the balance sheet because the Company's directors consider that, in accordance with the best estimate of the Company's future results, it is likely that these assets will be recovered.

This caption contains the deferred tax asset related to the negative tax basis generated during the year 2018 and 2019 and pending to offset at year-end 2019. During 2019 the Company has derecognised tax losses generated in 2015 (a base of €33,107 thousand and a tax liability of €8,277 thousand) as a result of the tax assessments signed in disagreement explained in note 13, although the Company does not waive possible future compensation in the event that the economic-administrative claims filed are in its favour.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

7. Trade debtors and other accounts receivable

The breakdown of this heading at 31 December 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Receivables from Public Administrations	3 006	1 525
	<u>3 006</u>	<u>1 525</u>

This caption contains at year-end the refunds of corporate tax of the consolidated Tax Group for the year 2019, which correspond in full to the payments on account made during the financial year 2019.

8. Cash and cash equivalents

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

	<u>2019</u>	<u>2018</u>
Cash	9 441	3 382
	<u>9 441</u>	<u>3 382</u>

The balance included in this caption is entirely freely available.

9. Equity

a) Share capital

As at 31 December 2019 and 2018 the Company's share capital amounted to €41,105,342 and comprised 136,562,598 shares with a nominal value of €0.301 each.

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in the share capital of the Company, both directly and indirectly, which individually exceeded 3% of the share capital as at 31 December 2019:

Company	<u>% of share</u>
Trilantic Capital Investment GP Limited	35.5%
Santa Lucia S.A. Insurance Company	5%
	<u>40.5%</u>

TALGO, S.A.

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The percentage stake of the shareholders with more than 3% of the Share Capital at year-end 2018 was as follows:

Company	% of share
Trilantic Capital Investment GP Limited	35.5%
MCH Inversiones Industriales S.A.R.L.	4.7%
MCH Iberian Capital Fund III, FCR	4.3%
Santa Lucia S.A. Insurance Company	5%
	49.5%

b) Share Premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to the availability of this balance.

c) Legal reserve

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

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

At 31 December 2019, the legal reserve had reached the legally required minimum.

d) Result for the year

The proposed distribution of the result which will be presented to the shareholders at the Company's Annual General Meeting is as follows:

	2019
To reserves	53 085
	53 085

e) Treasury stock

On 15 November 2018, the Board of Directors of the Company agreed to carry out a repurchase program of their own shares (the "Repurchase Program") in accordance with the authorization conferred on them by the General Shareholders' Meeting held on 10 May 2018, under item 7 on the agenda and pursuant to the provisions of Regulation 596/2014 and Delegated Regulation (EU) 2016/1052 from the Commission, dated 8 March 2016, which supplemented Regulation (EU) n° 596/2014 concerning market abuse with regards to the regulatory technical standards relating to the conditions applicable to repurchase programs and stabilization measures.

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NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

In accordance with the provisions of that resolution, the Repurchase Program aims to reduce the Company's share capital through the redemption of shares, following the agreement subjected to and approved by the General Shareholders' Meeting and in the terms that it decides, in a manner to contribute to the remuneration policy for the Company's shareholder by increasing the earnings per share.

The Repurchase Program, in accordance with the terms approved as indicated in the preceding paragraphs, will affect a maximum of 22,500,000 shares, representing approximately 16.5% of the current share capital of Talgo S.A. and its maximum monetary amount amounts to €100,000,000. The Buy-Back Program will remain in force until May 19, 2020. The program will be automatically suspended until the corresponding capital reduction is carried out if the Company should become the holder at any time during the life of the Program of 9.99% of the Company's subscribed capital with voting rights. At the date of preparation of these financial statements, this has not occurred.

During the year 2019, the Company acquired a total of 10,437,560 shares for the amount of €58,516 thousand, being pending to be settled an amount of €266 thousand at the closing year, which were settled on the first days of the 2020 financial year.

During the year 2018, the Company acquired a total of 768,367 shares for the amount of €3,925 thousand, being pending to be settled an amount of €666 thousand at the closing year, which were settled on the first days of the 2019 financial year.

As at 31 December 2019 the Company holds 11,228,358 treasury shares, at 31 December 2018 the Company hold 790,798 treasury shares. The breakdown of the latter is as follows:

	<u>Nr. Shares</u>	<u>Acquisition Price</u>	<u>Quotation</u>	<u>Stock price</u>	<u>%</u>
Treasury shares at 31.12.2019	11 228 358	5.6	6.1	68 380	8.22%
Treasury shares at 31.12.2018	790 798	5.1	5.3	4 215	0.58%

f) Other reserves

The heading Other reserves include undistributed profits from previous years, the equity component mentioned in note 5 amounting to €1,000 thousand and, conversely, the allocation to provision for tax assessments signed in disagreement amounting to €17,689 thousand explained in note 13.

TALGO, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

10. Long-term debts

The breakdown of this heading at 31 December 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Debts with financial institutions (note 11)	-	38 675
Debts with group companies and associates	<u>75 042</u>	<u>61 726</u>
	<u>75 042</u>	<u>99 700</u>

a) Debts with group companies and associates

The Company received on 2015 a loan from its subsidiary Patentes Talgo, S.L.U. for an initial amount of €45,423 thousand, it being extended during the last years. At year-end 2019 the debt with the subsidiary, which amounted to €75,042 thousand, has a long-term maturity depending on the cash flows generated to reimburse it.

11. Short-term debts

The breakdown of this balance item at 31 December 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Debts with financial institutions	32 902	7 554
Debts with group companies and associates	<u>4 559</u>	<u>1 607</u>
	<u>37 461</u>	<u>9 161</u>

a) Debts with financial institutions

On April 16, 2015, the Company, together with its subsidiary Patentes Talgo, S.L.U., entered into an initial loan agreement with a credit institution of €100,000 thousand, which accrues a fixed market interest rate. On that starting amount, the share of the Company amounted to €65,000 thousand. As of February 28, 2019, the Company, together with its subsidiary Patentes Talgo, S.L.U., partially repaid the aforementioned loan in the amount to €6,500 and €21,000 thousand, respectively.

At the end of the 2019 financial year, the Company's debt to the aforementioned loan amounted to €32,500 thousand with a maturity stipulated on 16 April 2020, reduced by the costs of formalization of debts that at the end of 2019 amount to €15 thousand. In addition, accrued and unpaid interest in the short term is of €151 thousand as well as the undisbursed portion of the purchase of shares for €266 thousand (note 9).

b) Short-term debts to group companies and associates

The balance of debts to Group companies includes mainly the balances recorded with the subsidiary Patentes Talgo, S.L.U. for income tax.

TALGO, S.A.

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12. Revenues and expenses

a) The breakdown of the "Net turnover and other Operating income" is as follows:

	<u>2019</u>	<u>2018</u>
Net turnover (note 5)	55 000	15 000
	<u>55 000</u>	<u>15 000</u>

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

	<u>2019</u>	<u>2018</u>
Professional services	(260)	(222)
Other current operating expenses	(768)	(721)
	<u>(1 028)</u>	<u>(943)</u>

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

	<u>2019</u>	<u>2018</u>
Financial expenses:		
Other financial expenses	(1 525)	(1 074)
Financial result	<u>(1 525)</u>	<u>(1 074)</u>

In addition to the interest accrued on debts to credit institutions, financial expenses include €711 thousand relating to interest on arrears derived from the provision for tax assessments explained in note 13.

d) Personnel expenses

The Company has not employees for the years 2019 and 2018.

13. Income tax and the fiscal situation

The Company files an annual income tax return. Profits, as determined in accordance with tax legislation, are subject to taxation at the rate of 25%. Notwithstanding, certain deductions may be applied to the resulting tax liability. Due to the different treatment permitted by fiscal legislation for certain transactions, the accounting profit may differ from taxable income.

TALGO, S.A.

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

The Company and its subsidiaries Patentes Talgo, S.L.U. and Talgo Kazajstán, S.L. are included in the Consolidated Tax Group 65/06. The Company Motion Rail, S.A.U. has left the Consolidated Tax Group in 2019 as part of the shareholding held by the subsidiary Patentes Talgo, S.L.U. has been sold, leaving the shareholding at the end of 2019 at 46.25%.

The reconciliation between profits before tax and taxable income for 2019 is as follows:

	<u>Increases</u>	<u>Decreases</u>	<u>31.12.19</u>
Result before tax			52 447
Permanent differences:	-	(55 000)	(55 000)
Timing differences:	-	-	-
Expenses recognized in equity	-	(89)	(89)
Taxable income for the year (Tax Result)			(2 642)
Income tax			(638)

At 31 December 2019, the negative tax bases pending offsetting are as follows:

Year	<u>€ in thousands</u>
2018	1 855
2019	2 642
	<u>4 497</u>

As established by the legislation in force, taxes cannot be considered to be definitively settled until the returns submitted have been reviewed by the tax authorities or until the statute of limitations four years period has expired. The company and its subsidiary Patentes Talgo S.L.U. received on 10 July 2017 notification from tax authorities about partial verification of income tax of the years 2012 to 2015 and the withholdings and payments on account (employment and professional income) of Personal Income Tax for the periods from May 2013 (the Company)/ April 2013 (its subsidiary) to December 2015.

As a result of the aforementioned procedure, in October 2019 tax assessments were signed in disagreement by both companies (for Personal Income tax) and by the Company, as the parent of the tax group (for Income tax), which were confirmed by settlement agreements notified in November 2019.

The Personal Income Tax settlements do not give rise to any debt, while the Income Tax settlement gives rise to a debt of €21.2 million, of which €17.9 million is the tax payable

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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
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and €3.3 million is late payment interest.

The debt of €21.2 million from the settlement corresponds to adjustments to the taxable income of Patentes Talgo S.L.U. and adjustments to the Company's taxable income. The contribution of both companies to this debt is €13.9 million and €7.3 million, respectively.

In December 2019, the Company filed economic-administrative claims against the aforementioned settlement agreements. In addition, a request has been made (January 2020) for the automatic suspension of debt enforcement through the provision of a bank guarantee amounting to €21.2 million. The suspension has been granted.

Since the Income tax settlement eliminates part of the tax loss carryforward generated in 2015 by the tax group, which the group used in 2016 and 2017, if the settlement is confirmed by the courts, it will have an effect of €3 million on the tax payable in 2016 and 2017. In addition, the tax loss carryforwards for 2015, amounting to €33.1 million and corresponding to a tax liability of €8.3 million, would be eliminated.

The Company's Directors and its tax advisers consider that they correctly declared the adjusted taxes and have therefore filed the aforementioned claims. However, as indicated in note 2.c), after evaluating the uncertainty associated with the matters under discussion, derived from the scarce and disparate doctrine existing in relation to the issues discussed, the directors have derecognised tax assets amounting to €8.3 million (note 6) and have recorded a provision of €10.1 million under long-term provisions for the adjustments corresponding to the Company. Of the aforementioned amounts, €0.7 million relates to interest on arrears recorded as financial expenses and the remaining €17.7 million has been recorded as a charge to retained earnings as it relates to items recognised directly in equity in prior years (NRV 13.4 del PGC).

Also, the subsidiary Patentes Talgo, S.L.U. recorded a provision in its financial statements of €1.4 million in relation to the adjustments to the company's taxable profit.

In addition, the Company has the last four years open for inspection for all other applicable taxes. The Company's Directors consider that the aforementioned taxes have been properly settled and, accordingly, that even if discrepancies arise in the interpretation of current legislation as regards the tax treatment of the transactions, any resulting liabilities, if any, would not materially affect these financial statements.

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NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

14. Other information

a) Foreign currency

The Company does not hold foreign currency balance sheet items during 2019 and 2018; furthermore, foreign currency transactions have not been made during 2019 and 2018.

b) Transactions with related parties

	<u>2019</u>	<u>2018</u>
Service delivery		
Patentes Talgo, S.L.U.	15	15
Expenses	<u>15</u>	<u>15</u>

b) Information on average period of payment

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.

	<u>2019</u>	<u>2018</u>
Average Suppliers payment period (days)	19	10
Paid operations ratio (days)	21	10
Pending to be paid operations ratio (days)	<u>12</u>	<u>-</u>
Total payments	180	196
Total pending payments	18	-

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 "Creditors and other accounts payable" items on the current liabilities side of the balance sheet.

"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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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2019
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15. Compensation for the Senior Management and Directors

The role of member of the Board of Directors of the Company was remunerated during 2019 for an amount of €768 thousand (€721 thousand during 2018). There is no other commitment with current or previous directors.

The Company has neither regular staff nor senior management members at year-end 2019 and 2018.

16. The environment

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

17. Information on Director's conflicts of interest

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

18. Fees for audit and other services provided

During 2019, the fees regarding the services provided for the audit of the individual and consolidated annual accounts by the Company's auditor Deloitte, S.L. amounted to €25 thousand (€25 thousand in 2018). The fees for other verification services amounted to €20 thousand in 2019 (€20 thousand in 2018).

19. Subsequent events

On February 6, 2020, the subsidiary Patentes Talgo S.L.U. have approved a dividend amounting to €35,000 thousand to meet the short-term treasury needs of the Company.

20. Explanation added for translation to English

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

TALGO, S.A.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

Organizational structure

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

Business development

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

	€ in thousands	
	2019	2018
Operating result	53 972	14 057
Profit before taxes	52 447	13 151
Result for the year	53 085	13 614

Talgo stock performance

Talgo's share price reached highs of €6.31 in November and lows of €4.56 in August, closing the year at €6.09, close to its annual highs.

2019 has been a positive year in general terms for the main international stock exchanges, with record highs in the North American markets and significant growth in the European markets. However, the growth of the world economy has slowed down throughout the year, causing repeated downward revisions of that growth by governmental and international organizations with expectations of closing below 3%, levels registered in only two years within the last 20: in 2001, the year of the terrorist attacks in the USA; and in 2009, the year of the great financial crisis. The trade war between the USA and China, the uncertainty about the Brexit, and the crisis in the German car industry slowed down growth more than initially expected. While the Fed cut interest rates on several occasions to 1.75%, the ECB kept rates at 0% (lowering the deposit rate to -0.5%) while reactivating the purchase of secondary market debt, which, on the one hand, narrows the room for manoeuvre in future monetary policy to stimulate spending and investment, and on the other, continues to provide liquidity with reduced rate expectations for 2020.

In 2019, Spain stood out from the average European country, with expected growth of over 2%, lower unemployment rates and a record number of social security members in more than a decade, stable domestic consumption and solid tourism exports, one of the country's main economic drivers.

In the area of capital markets, the Ibex-35 advanced 11.8% in the year, while the Ibex Medium Cap, made up of Spanish mid-cap companies including Talgo, recorded gains of 8.4%. The domestic markets, however, recorded lower growth than the main international indices, with the Eurostoxx rising 24.8% for the year and the S&P 500 up 28.9%.

TALGO, S.A.

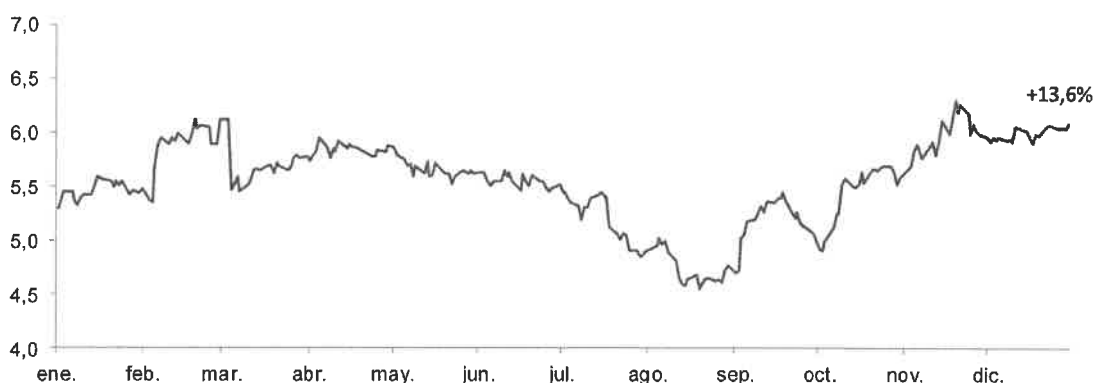
DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

Talgo shares, on the other hand, recorded a year of positive evolution, closing the year at €6.09, which meant a 13.6% revaluation in the period. This evolution was mainly backed by the company's commercial success, with the achievement of a project with the German state operator Deutsche Bahn to manufacture 23 trains for €550 million being particularly noteworthy. In addition, Talgo was awarded other significant projects in Spain, Egypt, the United States and Uzbekistan, leading the company to record a volume of orders close to historical highs, with the highest degree of diversification of manufacturing projects recorded to date. In addition to the above, the good performance of the projects in progress, both in terms of execution and management of collections from the main projects, and the correct execution of the share buyback plan approved in November 2018 for a value of €100 million, reflects the company's confidence in the course of the projects and in medium and long-term business expectations, as well as the company's commitment to remunerating its shareholders.

Talgo's average daily trading volume for the year increased by 20.0% to 270,074 shares, outperforming the Ibex-35 (-3.1%) and Spanish companies with similar capitalization (-17.4% of the Ibex Medium Cap). The average volume of small and mid-cap companies was affected by economic uncertainties, with capital fleeing to large-cap companies and other alternative assets. Talgo, however, managed to not only maintain but increase volume during the period.

The Company's market capitalization at year-end reached €832 million, leading to a price-to-earnings ratio of 20.6x.

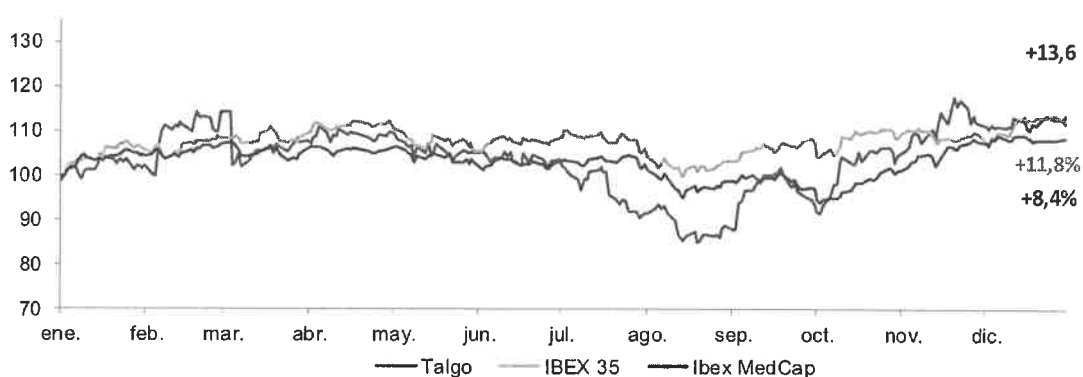
Talgo stock performance for the period January-December 2019



TALGO, S.A.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2019 (Expressed in thousands of euros)

Price evolution Talgo vs. Ibex 35 vs. Ibex MedCap in 2019



Talgo key trading data at December 31, 2019

Number of publicly traded shares	136,562,598
Average number of shares in 2019	136,562,598
Share price (€)	6.09
Market capitalization (€m)	831.7
Earnings per share (€) LTM	0.30
PER ¹ over profit last 12 months (LTM)	20.6x

(1) Calculated over the average number of shares in 2019

Talgo key trading data in 2019

% change in Share price for the year 2019	13,6%
Number of trading days (days)	255
Maximum share price (€)	6,31
Minimum share price (€)	4,56
Weighted average share price (€)	5,54
Average daily volume (# shares)	270.074

Significant events after the balance sheets date

The subsequent events that may have a significant influence on these annual accounts are detailed in note 19.

Research and development activities

The Company, as a holding company and given that its main purpose is holding shares in other companies, has not undertaken any R&D investment during 2019.

Risk policy

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

TALGO, S.A.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2019
(Expressed in thousands of euros)**

as to the uncertainties related to the tax liabilities arising from the tax assessments signed in disagreement (note 13).

The financial risk management is centralized through the Directors of the Company, who have established the means to control the exposure to interest rates and exchange-rate variations, as well as credit and liquidity risks.

Quality and the environment

The Company has not undertaken any investment that could have impact in the environment and is not aware of the existence of any litigation for environment issues that may affect the Company.

Information about delaying payments to suppliers

The Company, pursuant to the ICAC (Accounting And Audit Institute) Resolution of 29 January 2016, discloses the information to provide in the annual accounts (note 14).

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

Annual Corporate Governance Report

The Annual Corporate Governance Report forms an integral part of this Directors' Report and it will be published in the CNMV web, www.cnmv.es, on February 27, 2020.

Own shares

The Company holds, at 2019 year-end, 11,228,358 treasury shares (note 9.e).

Use of financial instruments

The Company did not make use of derivative financial instruments which could affect to the correct valuation of the assets or liabilities recorded in the balance sheets.



**ANNUAL CORPORATE GOVERNANCE
REPORT
FOR PUBLIC AND LISTED
COMPANIES**

THE ISSUER'S IDENTIFICATION DETAILS

Reference year end date: 31/12/2019

TAX ID: A84453075



ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLIC AND LISTED COMPANIES

Corporate name:

TALGO, S.A.

Registered address:

PASEO DEL TREN TALGO, 2 (LAS MATAS) MADRID - SPAIN

A. OWNERSHIP STRUCTURE

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

Last modification date	Share capital (€)	Number of shares	Nº of voting rights
04/08/2017	41,105,342.00	136,562,598	136,562,598

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

Yes

No

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	% voting rights attributed to the shares		% voting rights through financial instruments		Total percentage of voting rights
	Direct	Indirect	Direct	Indirect	
SANTA LUCIA S.A. COMPAÑIA DE SEGUROS Y REASEGUROS	5.02	0.00	0.00	0.00	5.02

Detail of the indirect participation:

Name or corporate name of the indirect shareholder	Name or corporate name of the direct shareholder	% voting rights attributed to the shares	% voting rights through financial instruments	Total percentage of voting rights
No data available				

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

Most significant movements

- Sale of the shares held by MCH Inversiones Industriales SARL (4.7%) and MCH Iberian Capital Fund III (4.3%)

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

Name or corporate name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		Total percentage of voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. IGNACIO MATAIX ENTERO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. SEGUNDO VALLEJO ABAD	0.87	0.00	0.00	0.00	0.87	0.00	0.00
MR. JOSÉ MARÍA DE ORIOL FABRA	1.28	0.00	0.00	0.00	1.28	0.00	0.00
MR. CARLOS DE PALACIO Y ORIOL	0.87	0.00	0.00	0.00	0.87	0.00	0.00
MR. ANTONIO OPORTO DEL OLMO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JUAN JOSÉ NÁRDIZ AMURRIO	0.02	0.00	0.00	0.00	0.02	0.00	0.00
MR. FRANCISCO JAVIER BAÑON TREVIÑO	0.13	0.00	0.00	0.00	0.13	0.00	0.00
PEGASO TRANSPORTATION INTERNATIONAL SCA	35.49	0.00	0.00	0.00	35.49	0.00	0.00

% of total voting rights held by the Board of Directors

38.66

Details of the indirect participation:

Name or corporate name of Director	Name or corporate name of the direct shareholder	% voting rights attributed to the shares	% voting rights through financial instruments	Total percentage of voting rights	% voting rights that can be transmitted through financial instruments
No data available		N/A	N/A	N/A	N/A

A.4. Indicate, if applicable, the relationships of a family, commercial, contractual or corporate nature that exist among the holders of significant shareholdings, insofar as they are known by the company, unless they are scarcely relevant or derive from ordinary business or commercial traffic, except those reported in section A.6:

Name or corporate name of related body	Type of relationship	Brief description
No data available		

A.5. Indicate, if applicable, the relationships of a commercial, contractual or corporate nature that exist among the holders of significant shareholdings, insofar as they are known by the company, unless they are scarcely relevant or derive from ordinary business or commercial traffic:

Name or corporate name of related body	Type of relationship	Brief description
No data available		

A.6. Describe the relationships, unless they are scarcely relevant for the two parties, that exist between the significant shareholders or those represented on the Board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group will be stated, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of Board Members, or representatives of directors, of the listed company, who are, in turn, members of the administrative body, or their representatives, in companies that hold significant stakes in the listed company or in entities of the group of such significant shareholders:

Name or corporate name of the director or representative, linked	Name or corporate name of the significant shareholder, linked	Corporate name of the company of the significant	Description relationship / position
Mr. FRANCISCO JAVIER BAÑON TREVIÑO	PEGASO TRANSPORTATION INTERNATIONAL, SCA	PEGASO TRANSPORTATION, S.A.R.L.	Mr. Bañon is a legal person representative of Pegaso Transportation International, SCA, a significant shareholder of Talgo, S.A. In turn, Mr Bañon is a member of the Board of Directors of Pegaso Transportation, S.A.R.L., which controls 100% voting rights of Pegaso Transportation International, SCA.
NUEVA COMPAÑÍA DE INVERSIONES, S.A.	PEGASO TRANSPORTATION INTERNATIONAL, SCA	PEGASO TRANSPORTATION INTERNATIONAL, SCA	Nueva Compañía de Inversiones, S.A. is a representative Director of Pegaso Transportation International, SCA, a significant shareholder of Talgo, S.A. Nueva Compañía de Inversiones, S.A is, in turn, a shareholder of Pegaso Transportation SCA, through the company Torreal Sociedad de Capital Riesgo, S.A.

A.7. Indicate any shareholders' agreements that have been reported to the Company, in accordance with the provisions of Articles 530 and 531 of the Spanish Capital Companies Act. Where applicable, briefly describe these agreements and list the shareholders involved in them:

[√] Yes
[] No

Participants in shareholders' agreement	Percentage of share capital affected	Brief description of the agreement	Expiration date of the agreement, if any
MS. MARÍA DOLORES CASTILLEJO ORIOL, MS. CASILDA CASTILLEJO ORIOL, MR. JUAN PEDRO DE ORIOL MUÑOZ, MS. MARÍA GRACIA DE ORIOL FABRA, MS. ESPERANZA MACARENA DE ORIOL FABRA, MR. ALFONSO DE ORIOL FABRA, MR. LUIS IGNACIO RECASENS CASTILLEJO, MS. MARÍA GRACIA RECASENS CASTILLEJO, MR. CAMILO PEDRO DE ORIOL FABRA, MR. JUAN CASTILLEJO ORIOL, MS. MARÍA DEL DULCE NOMBRE CASTILLEJO ORIOL, MS. CATALINA CASTILLEJO ORIOL, MR. MIGUEL DE ORIOL YBARRA, MR. LUCAS MARÍA DE ORIOL LOPEZ-MONTENEGRO, MR. IGNACIO MARÍA DE ORIOL MUÑOZ, MS. MARÍA BEGOÑA DE ORIOL E YBARRA, MR. ALFONSO CARLOS DE ORIOL MUÑOZ, MR. SANTIAGO MARÍA DE ORIOL MUÑOZ, MS. MARÍA MAGDALENA DE ORIOL MUÑOZ, MS. ALEJANDRA PAULA DE ORIOL PASTEGA, MR. EDUARDO SERRA ARIAS, MS. MARÍA DEL DULCE NOMBRE DEL RÍO Y ORIOL, MS. MARÍA DE LAS NIEVES DE ORIOL PASTEGA, MR. GONZALO DEL RÍO Y ORIOL, MR. NICOLÁS DOMECC ORIOL, MS. BLANCA DEL RÍO Y ORIOL, MR. CARLOS DEL RÍO Y ORIOL, MS. LUISA FERNANDA DEL RÍO Y ORIOL, MR. JAIME DEL RÍO Y ORIOL, MR. MARIO DE ORIOL PASTEGA, MS. MARÍA SACRAMENTO DE PALACIO GUERRERO, MR. LUIS MARÍA DE PALACIO GUERRERO, MR. LUIS FELIPE DE PALACIO DELATTRE, MS. ISABEL MARÍA DE PALACIO DELATTRE, MS. LEONOR MARÍA DE PALACIO DELATTRE, PATRIMONIAL ORLESA S.A., E.D.T., S.A., CASA CUNA S.L., SAN IGNACIO S.L., DR.L.I. RECASENS S.L., PROYECTOS DUNBAR S.L., MR. JOSÉ MARÍA DE PALACIO Y ORIOL	43.26	It regulates aspects regarding the governing bodies of the company and the transmission and sale of shares. The validity of this shareholders' agreement will end after the second anniversary of the date of the Company's admission onto the stock market (a condition that is no longer relevant since that anniversary has passed), or on the date on which PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. no longer holds a significant stake in the Company (according to the current legislation: 3%), whichever occurs first. Notwithstanding the above, in the event that the termination of the validity of the agreement is a consequence of the indicated two-year period having elapsed, the drag-along right granted by the shareholders signing the agreement in favour of PEGASO TRANSPORTATION INTERNATIONAL, S.C.A. shall remain in force as long as the latter company holds a significant stake in the Company's capital.	Once the second anniversary has elapsed since the date of the Company's admission onto the stock market (a term that expired at the end of 2019), or when PEGASO TRANSPORTATION INTERNATIONAL, SCA no longer holds a significant stake in the Company (in accordance with current legislation: 3%), whichever occurs first.

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

Yes
 No

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

Not applicable

A.8. 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 Act. In this case, identify that person or entity:

Yes
 No

A.9. 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
11,228,358		8.22

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
No data available	

Explain the significant variations during the year:

On 15 November 2018, the Board of Directors of Talgo agreed to repurchase some own shares up to a maximum amount of €100,000,000 during a maximum period of 18 months, in accordance with the agreement of the Ordinary General Shareholders' Meeting of Talgo, held on 10 May 2018 as the seventh item on the agenda.

Under the framework of the aforementioned agreement, the Board of Directors of Talgo has agreed to establish an own share buy-back program (the "Buy-Back Program" or "Program") in accordance with the aforementioned authorization granted by the General Shareholders' Meeting.

In this regard and under the terms of that Buy-Back Program, Talgo S.A. acquired 10,437,560 own shares, representing 7.64% of the Company's Share Capital during 2019.

A.10. Describe the terms and conditions of current mandate 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 held on May 10, 2018, agreed to expressly authorize the Board of Directors, with express power of substitution, in accordance with the provisions of article 146 of the Spanish Capital Companies Act, for the derivative acquisition TALGO, SA (the "Company") shares, under the following conditions:

- Acquisitions may be made directly by the Company or indirectly through its subsidiaries in the same terms of this agreement.
- Acquisitions will be made through purchase and sale transactions, exchange or any other permitted by law.
- Acquisitions may be made, at any time, up to the maximum amount allowed by law.
- Acquisitions cannot be made at a higher price than that which results in a stock exchange or lower than the nominal value of the share.
- This authorization is granted for a period of five years from the adoption of this agreement.

(f) As a result of the acquisition of shares, including those that the Company or the person acting in its own name but on behalf of the Company had previously acquired and held in its portfolio, the resulting net equity may not be reduced below the amount of the capital plus the legal or statutorily unavailable reserves, all of them as provided in letter b) of article 146.1 of the Spanish Capital Companies Act.

In said agreement it was expressly stated that the shares acquired as a result of this authorization may be used both for their sale or amortization and for the application of the remuneration systems contemplated in the third paragraph of letter a) of article 146.1 of the Spanish Capital Companies Act, as well as the development of programs that encourage participation in the Company's capital, such as, for example, dividend reinvestment plans, loyalty bonds or other similar instruments.

This agreement revoked and cancelled, in the amount not used, the authorization for the derivative acquisition of treasury shares granted to the Board of Directors by the General Shareholders' Meeting held on March 28, 2015.

A.11. Estimated free float capital

	%
Estimated free float capital	48.11

A.12. Indicate whether any restrictions exist over the transfer of shares and/or the transfer of voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorization or prior notice systems that, over acquisitions or transfers of instruments, will be communicated. of the company, are applicable by sectoral regulations.

Yes

No

Description of the restrictions

See section A.7 above

A.13. 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.14. Indicate whether the Company has issued shares that are not traded on a regulated European market.

Yes
 No

Where applicable, indicate the different types 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 Spanish 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 Spanish Corporate Law (LSC) for the adoption of resolutions and, where applicable, provide details:

Yes
 No

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 amendment of the bylaws, as well as, where applicable, the rules set out for the protection of the shareholders' rights in the amendment 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 285 et seq of the Spanish 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:

Attendance figures

General meeting date	% physical presence	% proxy	% absentee ballot	Electronic vote	Other	Total
09/05/2017	3.63	61.89	0.01	0.83		66.36
Of which floating capital	0.83	11.99	0.01	0.83		13.66
10/05/2018	2.02	62.93	0.00	0.03		64.98
Of which floating capital	1.19	17.12	0.00	0.03		18.34
24/07/2018	3.75	63.96	0.00	0.03		67.74
Of which floating capital	2.02	19.43	0.00	0.03		21.48
21/05/2019	2.62	56.87	0.24	1.11		60.84
Of which floating capital	1.34	14.32	0.24	1.11		17.01

B.5. Indicate whether at the general meetings held during the year there was any item on the agenda that, for any reason, has not been approved by the shareholders:

- Yes
 No

B.6. Indicate if there are any statutory restrictions that establish a minimum number of shares required to attend the general meeting, or to vote by absentee ballot:

- Yes
 No

B.7. Indicate whether it has been established that certain decisions, other than those established by law, involving an acquisition, transfer, contribution to another company of essential assets or other similar corporate operations, must be submitted for approval by the general meeting of shareholders:

- Yes
 No

B.8. Indicate the address and mode of access to the Company's website, specifically, the link to information about corporate governance and other information about General Shareholders' Meetings that should be made available to shareholders through the Company's website:

www.talgo.com > investors> corporate governance

At this same address you can access information regarding the past general meetings held by the Company:

www.talgo.com > investors> general shareholders meeting

C. STRUCTURE OF THE COMPANY'S BOARD

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors contemplated in the bylaws and the number set by the general meeting:

Maximum number of Directors	15
Minimum number of Directors	5
Number of Directors set by the Board	13

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	First appointment date	Last appointment date	Election procedure
MR. IGNACIO MATAIX ENTERO		Independent	DIRECTOR	24/07/2018	24/07/2018	CO-OPTING
MR. SEGUNDO VALLEJO ABAD		Other External	DIRECTOR	24/07/2018	24/07/2018	CO-OPTING
MR. JOSE MARÍA DE ORIOL FABRA		Executive	CEO	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
MR. CARLOS DE PALACIO Y ORIOL		Executive	CHAIRMAN	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
MR. ANTONIO OPORTO DEL OLMO		Independent	DIRECTOR	20/09/2018	20/09/2018	CO-OPTING
MR. RAMÓN HERMOSILLA GIMENO		Other External	DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
MR. JUAN JOSÉ NÁRDIZ AMURRIO		Independent	DIRECTOR	29/09/2015	29/09/2015	CO-OPTING
MR. EMILIO NOVELA BERLÍN		Independent	INDEPENDENT COORDINATOR DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT

MR FRANCISCO JAVIER BAÑÓN TREVIÑO		Proprietary	DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
NUEVA COMPAÑÍA DE INVERSIONES, S.A.	MR. MIGUEL ABELLÓ GAMAZO	Proprietary	DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
PEGASO TRANSPORTATION INTERNATIONAL SCA	MR. JAVIER OLASCOAGA	Proprietary	DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
MR. JOHN CHARLES POPE		Independent	DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT
MR ALBERTUS MEERSTADT		Independent	DIRECTOR	28/03/2015	21/05/2019	GENERAL SHAREHOLDERS MEETING AGREEMENT

Total number of Directors

13

Indicate the departures that, whether due to resignation, dismissal or for any other reason, have taken place on the Board of Directors during the period subject to information:

Name or corporate name of Director	Category of Director at the time of termination	Date of last appointment	Termination Date	Specialized committees of which he was a member	Indicate whether the termination occurred before the end of the mandate
MR. MICHEL MOREAU	Independent	28/03/2015	28/02/2019	Strategy Committee and Audit Committee	YES
MR. JOSE MARIA MUÑOZ DOMÍNGUEZ	Proprietary	27/03/2015	28/02/2019	Audit Committee	YES

Reasons for the departures and other observations

- Mr. Michel Moreau resigned in February 2019 for personal reasons.
- Mr. José María Muñoz resigned in February 2019 after the shareholders with significant positions, which proposed him as a proprietary director, specifically, MCH Inversiones Industriales SARL and MCH Iberian Capital Fund III, FCR, exited the shareholding of Talgo, S.A. during the year and therefore ceased to be shareholders of the Company.

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	Position in the Company's organisational chart	Profile
Mr. JOSÉ MARÍA ORIOL FABRA	CEO	Mr. Oriol Fabra has been the CEO of Talgo since 2002 and has 33 years of experience in the railway industry. He joined Talgo in 1987 and since then has been involved in the Group assuming different positions, among others, Procurement Manager, CFO and General Director of different subsidiaries of Talgo. Previously, he worked as a Credit Analyst at Citibank. In addition, he has extensive experience as a Director of different companies, including Montalbán XIV and Iberrail, a company that provides transport services to rail passengers, and has been a member of the BBVA Advisory Board. Mr. Oriol Fabra holds an EMBA from the Instituto de Empresa and a degree in Business Administration from Saint Louis University. Additionally, he was awarded the "Dostyk II" in 2011 by the Prime Minister of the Republic of Kazakhstan and the "Command of the Order of Civil Merit" in 2012 by His Majesty the King of Spain.

MR. CARLOS DE PALACIO Y ORIOL	Chairman	Mr. Palacio Oriol is Chairman of Talgo since his appointment in 2002. From 1998 to 2002, he was a Director representing his family branch and as an institutional representative at a European level. Previously, Mr. Palacio acquired professional experience in the area of Community Law as a member of the Legal and Competition Services of the European Commission and as a lawyer in Spain and the United Kingdom. Additionally, he combined his professional experience with teaching as a professor at the European College of Bruges (Belgium)
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Total number of Executive Directors	2
% of total Board	15.38

EXTERNAL PROPRIETARY DIRECTORS		
Name or corporate name of Director	Name or corporate name of the significant shareholder that he presents or that appointed him	Profile
MR. FRANCISCO JAVIER BAÑÓN TREVIÑO	PEGASO TRANSPORTATION INTERNATIONAL SCA	Mr. Bañón is one of the three founding partners of Trilantic Europe and is currently a Board Member of Pacha and Vertex Bioenergy. Before joining Lehman Brothers Merchant Banking in 2004 as Co-Head of Merchant Banking in Europe, Mr. Bañón was Managing Director of DB Capital Partners and Bankers Trust Private Equity Group, responsible for the creation, execution, supervision and monetization of transactions of private capital in Latin America. Prior to DB Capital Partners, Mr. Bañón was CFO of the industrial division of IF Group, a privately-owned group with industrial and financial operations in Spain, the United States and Latin America. Previously, he was Deputy General Director of Serpeska Group, a Spanish group dedicated to the processing and distribution of food. Mr. Bañón also practiced as a lawyer.
NUEVA COMPAÑÍA DE INVERSIONES S.A.	PEGASO TRANSPORTATION INTERNATIONAL SCA	n/a
PEGASO TRANSPORTATION INTERNATIONAL SCA	PEGASO TRANSPORTATION INTERNATIONAL SCA	n/a

Total number of Proprietary Directors	3
% of total Board	23.08

INDEPENDENT EXTERNAL DIRECTORS	
Name or corporate name of Director	Profile
MR. IGNACIO MATAIX ENTERO	Mr. Mataix Entero is the General Director of Defence, Transport and Air Traffic in Indra. Previously, he was the General Director of Industry of Turbo Propellers (ITP), being also Chairman and member of the Board of Group companies. Previously, Mr. Mataix Entero was General Director of Corporate Development of the Sener Engineering Group (SGI), where during that period and later he was a Director of Sener Engineering Group and Sener Systems Engineering. Previously, he was Managing Director of ABN AMRO Bank, responsible for the area of investment banking in Spain and CEO of ABN AMRO Sociedad de Valores y Bolsa. In addition, he was Co-Managing Director of ABN AMRO - Rothschild Equity Capital Markets, responsible in London for structured products for Structured Finance in Europe, and Director of Corporate and Structured Finance in Spain. Mr. Mataix Entero holds a degree in Law and Economic and Business Sciences from the Universidad Pontificia de Comillas (ICADE E-3), and completed the IESE CEO International Program.
MR. ANTONIO OPORTO DEL OLMO	Mr. Oporto del Olmo has been a Member of the Board of Directors of the European Bank for Reconstruction and Development (EBRD) in London, chairing the Committee on Budgets and Administration and the Committee on Operations and Financial Rules, he was also a member of its Audit Committee. Additionally, he has been a board member in other public and private companies, among which the Spanish Arab Bank, Compañía Sevillana de Electricidad, ACS / Dragados, Eolia, Carboex and Talgo (during the years 2012 to 2013). In addition, Mr. Oporto del Olmo was General Secretary of the Círculo de Empresarios, CEO of Corporación Llorente and Chairman of Alstom Spain. He was also a director of the SEPI / INI public group, forming part of the Executive Committee as Commercial and International Relations Director. Mr. Oporto del Olmo held a position in the Ministry of Economy and Finance after joining the Corps of Commercial Technicians and State Economists, and has been a part-time professor at the University of the Witwatersrand (Johannesburg) and Professor of Economic Theory at the University of Málaga. He is also Knight of the Order of Merit of the French Republic and has been Protector of the Royal Academy of the History of Spain since, regular member of the Washington Corporate Circle of Stanford University, member of the Economic and Social Council of the Kingdom of Spain, member of the Energy and Transport Advisory Board and Transport of the European Commission and patron of the COTEC Foundation (Spain and Technology). Mr. Oporto del Olmo has a degree in Economics from the University of Málaga, is a State Commercial Technician, holds a diploma in international business from the Whartfon Business School and has a doctorate in Economic and Business Sciences with cum laude qualification from the University of Málaga. He has also completed a seminar on international economics at Harvard University.
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, Expansion Director and Business Development Director 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 foundry and automotive industries. He has extensive experience and expertise in developing relationships in the North-and South American, European, Chines and Indian markets. 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 Sales Administration from the École des Études Économiques in Montpellier.

INDEPENDENT EXTERNAL DIRECTORS	
Name or corporate name of Director	Profile
MR. EMILIO NOVELA BERLÍN	Mr. Novela currently represents Banco Santander on the Board of the Spanish Association of Private Banking and is also a member of the Board of Merlin Properties and Openbank, SA. In addition, Mr. Novela holds important positions, among others, in the Confederation of Empresarios de Madrid (CEIM), Reyal Urbis, SA and in Dixi Media Digital, SA Mr. Novela has extensive experience holding positions in the boards of other Spanish financial institutions such as Banco Banif Banca Privada (Santander Group), Banco de Jerez, Banco Urquijo, Blackrock Global Funds, Hispamer, Central Hispano Generali, Banesto, Banco Mercantil, Citileasing 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, he was also named CFO of Repsol, the leading Spanish oil company, and the first Vice-Chairman of Vallehermoso, a leading Spanish real estate and construction company.
MR. JOHN CHARLES POPE	Currently Mr. Pope is the Chairman of the PFI Group, LLC and Chairman of the Board of Directors of R.R.Donnellely & Sons, Inc. Previously, he was chairman of the Board of Waste Management, Inc. and the Board of MotivePower Industries, Inc. Prior to joining MotivePower, Mr. Pope was Chairman, Chief Operating Officer and a member of the Board of United Airlines and UAL Corporation until it was acquired by his employees in July, 1994. He formerly served as senior Vice President, Finance, Chief Financial Officer and treasurer for American Airlines and its parent company, AMR Corporation. Mr. Pope is currently director of The Kraft Heinz Company, RR 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. ALBERTUS MEERSTADT	Mr. Meerstadt is Managing Partner of the CMR agency. Previously, Mr. Meerstadt was Vice President of the Supervisory Board of Lucas Bols and Supervisory Board member of ABN AMRO. 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. Mr. Meerstadt started his career at McKinsey & Company. Mr. Meerstadt has a Certification of the International Director's Programme and a Masters Degree in Business Administration from INSEAD European Business School and a MSc Degree in Architectural Engineering from Delft University of Technology.

Total number of Independent Directors	6
% of total Board	46.15

Indicate whether any of the Independent Directors receive any monies or benefits 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.

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	Motivated statement
MR. IGNACIO MATAIX ENTERO	n/a	n/a
MR. ANTONIO OPORTO DEL OLMO	n/a	n/a
MR. JUAN JOSÉ NÁRDIZ AMURRIO	n/a	n/a
MR. EMILIO NOVELA BERLÍN	n/a	n/a
MR. JOHN CHARLES POPE	n/a	n/a
MR. ALBERTUS MEERSTADT	n/a	n/a

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 ties, be they with the Company, its Directors or its shareholders:			
Name or corporate name of Director	Reasons	Company, director or shareholder with whom it maintains the tie	Profile
MR. SEGUNDO VALLEJO ABAD	<p>Article 8 of the Board of Directors' Regulations of TALGO, in its section 5 establishes that in no case may employees who have been Executive Directors of group companies be appointed as Independent Directors, unless 3 or 5 years have elapsed, respectively, since the termination of that relationship. In this sense, Mr. Vallejo Abad held the position of Industrial General Director of Talgo until 2018.</p>	PATENTES TALGO S.L.	<p>Mr. Vallejo Abad has 42 years of experience in positions of responsibility in the railway sector. He was Industrial General Director of Talgo from 2003 to 2018, covering the technical direction, manufacturing management, maintenance management, project management, as well as relations with the Renfe customer and unions. During the years of Mr. Vallejo Abad's responsibility in Talgo, Talgo 350, Talgo 250, Talgo 250 hybrid, Talgo Kazakhstan, Talgo USA (Series 8), Talgo Bosnia, Talgo Uzbekistan have been developed, manufactured and / or put into operation Talgo Russia, Talgo Saudi Arabia and prototype Avril. The coincidence of several development, manufacturing and maintenance projects with different clients worldwide stands out. Additionally, he has been responsible for the design and start-up of Talgo's new factories and maintenance centres around the world. From 2008 to 2013 Mr. Vallejo Abad was Chairman of Tarvia, SA, a railway maintenance company owned by Renfe (49%) and Talgo (51%), whose purpose was to maintain the 46 Talgo 350 trains, successfully completing the whole trajectory of this company. Mr. Vallejo Abad holds the degree of Industrial Engineer in mechanical specialty by the School of Engineering of ICAI.</p>

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 ties, be they with the Company, its Directors or its shareholders:			
Name or corporate name of Director	Reasons	Company, director or shareholder with whom it maintains the tie	Profile
Mr. RAMÓN HERMOSILLA GIMENO	The firm RAMON HERMOSILLA ABOGADOS, where the Director is founding partner, render legal services to the Group of the Company TALGO, S.A. and subsidiaries.	PATENTES TALGO S.L.	<p>Mr. Hermosilla has been one of the managing partners and founder of the law firm Ramón Hermosilla Abogados since 2015.</p> <p>He began his professional career as a lawyer at the law firm Melchor de las Heras (currently Albiñana & Suárez de Lezo). Additionally, he was Chairman of the law firm Ramón Hermosilla & Gutiérrez de la Roza, SLP until December 2014. Mr. Hermosilla has extensive experience in the areas of Arbitration and Litigation, Mergers and Acquisitions and Capital Markets, among others. He is currently Secretary of</p> <p>The Board and legal counsel of several companies that operate in different segments of activity.</p> <p>Additionally, he has carried out teaching and doctoral activities. He has been Professor of Commercial Law at the Federico de Castro School of Practice and at the Center for Superior Legal and Business Studies (CESJE). Currently, he lectures in the Master of Commercial Law at the University Catholic Institute of Business Administration and Management of the Universidad Pontificia de Comillas (ICADE) and the Instituto de Empresa (IE), among others. In relation to his most significant publications,</p>

OTHER EXTERNAL DIRECTORS			
Proprietary will be the other External Directors and explain the reasons why they cannot be considered as Proprietary or identified Independent Directors, as well as their ties, be they with the Company, its Directors or its shareholders:			
Name or corporate name of Director	Reasons	Company, director or shareholder with whom it maintains the tie	Profile
			it is necessary to highlight chapter 2 "Request and judicial declaration of Bankruptcy" for 2009-2010 and 2011-2012 Memento Práctico Concursal, as well as their collaborations in the book "Treaty of Regulation in the Electric Field" in 2009. Mr. Hermosilla has a degree in Law from the Complutense University of Madrid and has completed an Executive Advanced Management and Leadership Program at the University of Oxford.

Total number of Other External Directors	2
% of total Board	15.38

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
No data available			

C.1.4 Fill in the following table with the information relating to the number of female directors over the last 4 years, as well as the category of such female directors:

	Number of female Directors				% over the total number of directors in each category			
	Year 2019	Year 2018	Year 2017	Year 2016	Year 2019	Year 2018	Year 2017	Year 2016
Executives					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent			1	1	0.00	0.00	7.69	7.69
Other External					0.00	0.00	0.00	0.00
Total			1	1	0.00	0.00	7.69	7.69

C.1.5 Indicate whether the company has diversity policies in relation to the Company’s Board of Directors with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized entities, in accordance with the definition contained in the Accounts Auditing Law, will have to inform, at least, of the policy they have established in relation to gender diversity.

- Yes
 No
 Partial policies

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results in the year. The specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee should also be indicated in order to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why not.

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained

The Board of Directors of TALGO SA, approved at its meeting on February 22, 2018 a Diversity Policy (attached to this document) for the composition of the Board of Directors and selection of candidates for directors, in order to ensure that the Proposals for the appointment of directors in the Company are based on a prior analysis of the needs of the Board of Directors and guarantee that the Board of Directors has a diversity of skills, knowledge, experiences, origins, nationalities, age and gender. The Company's Appointments and Remuneration Committee is working on the search for specific mechanisms that allow the effective implementation of the Diversity Policy approved by the Board of Directors. In the context of the Diversity Policy, the Appointments and Remuneration Committee of the Company is entrusted with the search for candidates to propose to the Board of Directors its designation as a Director that covers the vacancies that may arise in this body. It is considered advisable to increase the number of women who are part of the Board of Directors and believes that the ideal profile is that of a woman with technical training and experience in the business area to which the company is dedicated, manufacture and/or maintenance of railway equipment.

TALGO S.A. also has a Code of Ethics that aims to establish the values and vision that should guide the actions of companies that integrate the Group in the sense established by law in the framework of a global, dynamic and complex environment. The Talgo Group promotes the non-discrimination of race, color, nationality, social origin, age, sex, marital status, sexual orientation, ideology, public opinion, religion or any other personal, physical or social condition of its professionals, as well as equal opportunities between them. Likewise, promotes the right to dignity of the person, the free development of personality and the protection of their physical and moral integrity, without, in no case, situations of discrimination based on sex, marital status, family status, birth, ethnicity, age, religious beliefs, sexual orientation, opinion, disability, union membership or any other personal or social condition or circumstance.

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 purposely seeks out and includes women on the list of potential candidates when they fulfil the professional profile sought:

Explanation of the measures

In December 2019, the Appointments and Remuneration Committee agreed to draw up a list of female candidates who, given their training, professional experience and technical qualifications, would be eligible to form part of the Board of Directors with the aim of covering the two vacancies that currently exist on that body through the appointment of two female directors.

The Company, with the aim of promoting gender diversity in the composition of the governing body, has decided not to propose the appointment of any other director until the aforementioned list has been drawn up.

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

Explanation of the reasons

The Appointments and Remuneration Committee remains committed to its intention of finding female directors to cover the vacancies that may arise on the Board of Directors.

C.1.7 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 Appointments and Remuneration Committee has the will and objective of finding female directors who, in line with the selection process expressed in the Board of Directors' Diversity Policy (attached document), will fill the vacancies that arise on the Board of Directors.

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:

Name or corporate name of the shareholder	Rationale
No data available	

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

C.1.9 Indicate, where they exist, the powers and the powers delegated by the Board of Directors to directors or board committees:

Name or corporate name of Director or Committee	Brief description
CARLOS DE PALACIO Y ORIOL	These Directors have been delegated all of the legal and statutorily delegable powers: (i) Severally for operations that do not exceed 3 million EUR. (ii) Jointly for operations of an amount exceeding 3 million EUR and less than 18 million EUR.
JOSÉ MARÍA ORIOL FABRA	These Directors have been delegated all of the legal and statutorily delegable powers: (i) Severally for operations that do not exceed 3 million EUR. (ii) Jointly for operations of an amount exceeding 3 million EUR and less than 18 million EUR.

C.1.10 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 Director	Corporate name of the group entity	Position	Does he perform executive tasks?
MR. JOSÉ MARÍA ORIOL FABRA	Talgo Inc.	Chairman	NO
MR. JOSÉ MARÍA ORIOL FABRA	Motion Rail SA	CEO	YES
MR. JOSÉ MARÍA ORIOL FABRA	Patentes Talgo S.L.	CEO	YES
MR. JOSÉ MARÍA ORIOL FABRA	Talgo Deutschland GMBH	CEO	YES
MR. CARLOS DE PALACIO Y ORIOL	Motion Rail SA	Chairman	YES
MR. CARLOS DE PALACIO Y ORIOL	Patentes Talgo S.L.	Chairman	YES
Mr. RAMÓN HERMOSILLA GIMENO	Patentes Talgo S.L.	Secretary General	NO
PEGASO TRANSPORTATION INTERNATIONAL SCA	Motion Rail SA	Member	NO
MR. ALBERTUS MEERSTADT	Motion Rail SA	Member	NO

C.1.11 List, where appropriate, the directors or representatives of directors who are legal persons of their company, who are members of the board of directors or representatives of legal persons of other companies listed on official securities markets other than their group, that have been communicated to society:

Name or corporate name of Director	Corporate Name of the Public Corporation	Position
Ignacio Mataix Entero	Indra Sistemas, S.A.	DIRECTOR

C.1.12 Indicate and, if applicable, explain if the company has established rules on the maximum number of board of directors of which its directors may be a part, identifying, where appropriate, where it is regulated:

Yes
 No

Explanation of the rules and identification of the document that regulates it

In accordance with the provisions of Article 31(xii) of the Board of Directors' Regulations, 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 Appointments 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.1.13 Indicate the amounts of the following items relating to the overall remuneration of the board of directors:

Remuneration accrued in the year in favour of the board of directors (thousand euros)	2,178
Amount of total remuneration for current Directors corresponding to accumulated pension rights (thousand euros)	545
Amount of total remuneration for former Directors corresponding to accumulated pension rights (thousand euros)	

The accumulated pension rights are outsourced through an insurer.

C.1.14 Identify the members of senior management who are not Executive Directors and indicate the total amount of remuneration accrued by them during the year:

Name or corporate name of related body	Position/s
MR. JESÚS ARANDA BAYONA	Maintenance Systems Director
MR. JOSE IGNACIO GARCÍA BUENDÍA	Projects Director
MS. MARÍA DE LAS MERCEDES IZARRA HERMOSO	Organization Director
MR. FERNANDO AZNAR ALONSO	Business Development Director
MR. ROBERTO MARTÍNEZ ESPINOSA	Manufacturing Director
MR. DIEGO SOBRÓN JIMÉNEZ	Administration and Treasury Director
MS. YOLANDA JUANAS GARRIDO	Human Resources Director
MR. EMILIO GARCÍA GARCÍA	Innovation Director
MR. LUIS ALFONSO HENAR PÉREZ	Maintenance Director
MS. MARÍA LÓPEZ PACHECO	Internal Audit Director
MR. FRANCISCO JAVIER BORREGUERO DOMINGUEZ	COO
MR. EDUARDO FERNÁNDEZ-GOROSTIAGA CAMERA	Chief Financial Officer (CFO) (until 18/12/2019)
MS. LOURDES NOREIDA MUSSO MENDOZA	Customer Projects Director (until 15/03/2019)
Mr. ALVARO SEGURA ECHANIZ	Chief Financial Officer (CFO) (since 18/12/2019)
Total senior management remuneration (thousand euros)	
	2,597

C.1.15 Indicate whether there have been any changes to the Rules of the Board during the year:

Yes
 No

Description of the modifications

At the meeting of the Board of Directors held on 24 July 2019, a resolution was approved to modify Article 14, point three, which regulates the cases in which Directors are able to serve on the Board, in this sense, modifying the maximum age for serving as a Director from 73 to 76 years old.

C.1.16 Indicate the procedures for selecting, appointing, re-electing 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-opting procedure, on a temporary basis, until the next General Shareholders' Meeting is held. The following may not be appointed as Directors, nor, where the case may be, legal entity natural person representatives of a Director: (i) companies, national or foreign, or those whose significant, direct or indirect,

shareholder has directly or indirectly a participation of a society of the railway sector or other sectors, competitors of the society, as well as managers or Senior Executives and persons who, in their case, were proposed by the same status as shareholders. (ii) persons who, in the two (2) years prior to his possible appointment, had occupied senior positions in public administration incompatible with the performance of their functions as Director in a listed company in accordance with state or regional legislation, or positions of responsibility in any sector in which the company develops its activity. (iii) the natural or legal persons that are falling in any other case of incompatibility or prohibition regulated in the rules of a general nature, including those who in any form have interests opposed to those of the society or any society of the Group. (iv) the Board of Directors - and the Appointments and Remuneration Committee within the scope of their powers shall ensure that the proposals of candidates that they raise to the General Shareholders' Meeting for their appointment or re-election as directors, and the appointments it makes directly for the coverage of vacancies in the exercise of its powers of co-option, fall on good, honourable people and of recognized solvency, competence, experience, qualification, training, availability and commitment to their 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's Bylaws and in the Board Regulations 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 process of elaboration of which a proposal will necessarily be part (in the case of Independent Directors) or a report (in the case Of the other Directors) issued by the Appointments and Remuneration Committee, which will evaluate the quality of the work and the dedication to the position of the Directors proposed during the previous term, as well as, expressly, the honourability, suitability, solvency, competence, availability and commitment to their role. In any case, the ratification and re-election of the Directors must comply with the provisions of the law and the Corporate Governance System Rules of the company.

3. - EVALUATION OF DIRECTORS

Article 21.8 of the Board of Directors' Regulations establishes an annual action plan, which requires the Board of Directors 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; as well as on the basis of the previous report from the Appointments and Remuneration Committee, the review and evaluation on an annual basis 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-Chairman 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

The Directors shall leave office when the period of which they are appointed has elapsed or when so decided by the General Shareholders' Meeting in its exercise of the power 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 termination 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.

The Diversity Policy norms approved by the Board of Directors at its meeting held on February 22, 2018, will be observed - along with those already existing in the company - both by the Remuneration and Appointments Committee and by the Board of Directors. Administration in all process of appointment, re-election, evaluation and removal of directors

C.1.17 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:

Description of the modifications

The Board of Directors has implemented an evaluation system for monitoring the work of each Director individually and the board in a collective way that will improve its activity and its evaluation. During the financial year 2019 no deficiencies have been detected that have given rise to aspects of improvement, having been evaluated satisfactorily.

Describe the evaluation process and the areas evaluated by the board of directors assisted, where applicable, by an external consultant, regarding the operation and composition of the board and its committees and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated

n/a.

C.1.18 Breakdown, in those years in which the evaluation has been assisted by an external consultant, the business relationships that the consultant or any company of its group maintains with the company or any company of its group.

n/a

C.1.19 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's Bylaws or the Board of Directors' Regulations.
- (ii) 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. (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 76 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.1.20 Are qualified majorities required for any kind of decision, other than those prescribed by law?

Yes
 No

Where appropriate, describe the differences.

C.1.21 Explain if there are specific requirements, different from those relating to directors, to be appointed chairman of the board of directors:

Yes
 No

C.1.22 Indicate whether the bylaws or the Rules of the Board establish any age limit for Directors:

Yes
 No

	Age limit
Chairman	76
CEO	76
Director	76

C.1.23 Indicate whether the bylaws or board regulations establish a limited mandate or other requirements more stringent than those legally provided for independent directors, other than that established in the regulations:

Yes
 No

C.1.24 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 bylaws of the company establish that directors may only be represented at the meetings of the Board of Directors by another director and that the representation be conferred by letter addressed to the Chairman. Likewise, the Board Regulations establish that, when exceptionally the directors cannot attend the meetings of the Board in person, they will seek to transfer their representation to another member who has the same status, including the appropriate instructions. External directors may only delegate their representation to another external director. The representation must be conferred in writing on a special basis for each session.

C.1.25 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	10
Number of Board meetings held without the Chairman's attendance	0

Indicate the number of meetings held by the coordinating director with the rest of the directors, without the assistance or representation of any executive director:

Number of meetings	0
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Indicate the number of meetings that the different Board committees have held during the year:

Number of meetings of the Audit Committee	6
Number of meetings of the Strategy Committee	5
Number of meetings of the Appointments and Remuneration Committee	5

C.1.26 Indicate the number of meetings the board of directors has held during the year and the attendance data of its members:

Number of meetings attended by at least 80% of the directors	10
% attendance in person on total votes during the year	96.46

Number of meetings with face-to-face attendance, or representations made with specific instructions, of all the directors	7
% of votes cast with face-to-face attendance and representations made with specific instructions, on total votes during the year	96.46

C.1.27 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.1.28 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.

The Audit Committee hold meetings periodically with the external auditor in which among other topics, conclusion of the work performed in such meetings is reviewed, and in addition, in accordance with the provisions of the Board of Directors' Regulations 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.1.29 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
MS. MARÍA JOSÉ ZUECO PEÑA	

C.1.30 Indicate the specific mechanisms established by the company to preserve the independence of the external auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

In accordance with the provisions of the Board of Directors' Regulations 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:

- Ensure that the remuneration received by the external auditor for his work does not compromise his quality or his 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, examine the circumstances that have given rise to his resignation.

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

- Yes
 No

In the event that there were any disagreements with the outgoing auditor, explain their content:

- Yes
 No

C.1.32 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	Companies in the Group	Total
Fees for non-audit work (thousand euros)	19	18	37
Fees for non-audit work / Fees for audit work (in%)	76	5.37	10.28

C.1.33 Indicate whether the audit report for the annual accounts last year contained any reservations or qualifications. If so, indicate the reasons given to the shareholders at the General Shareholders' Meeting by the Chairman of the Audit Committee to explain the content and scope of said reservations or qualifications.

- Yes
 No

C.1.34 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:

	Individual	Consolidated
Number of uninterrupted years	7	7

	Individual	Consolidated
Number of years audited by the current audit firm / Number of years that the company or its group has been audited (in%)	63.64	63.64

C.1.35 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

The Directors have a specific computer application that facilitates the performance of their duties and the exercise of their right to information. In this application, the necessary and adequate information is incorporated for the preparation of the meetings of the Board of Directors according to the agenda specified in the calls and the materials and presentations related to them.

C.1.36 Indicate and where appropriate, provide details as to whether the Company has established rules that force 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 Board of Directors' Regulations, 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.1.37 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 Spanish Capital Companies Act:

- Yes
 No

C.1.38 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 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 236.5 million euros.

C.1.39 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.

Number of beneficiaries	2
Type of beneficiary	Agreement description
Executive Directors	Executive Directors are entitled to compensation in accordance with the following assumptions: 1) in the event of improper dismissal, the equivalent of twelve (12) months of salary, in addition to the annual bonus provided that the corresponding financial year has ended, 100% of the loyalty bonus and 100% of the performance bonus; 2) for business reasons, the same as in case 1) excluding the performance bonus; 3) without due cause, the loyalty bonus and the performance bonus accrued until the termination date.

Indicate whether, beyond the cases stipulated in the regulations, these contracts have to be communicated and / or approved by the bodies of the company or its group. If so, specify the procedures, foreseen assumptions and the nature of the bodies responsible for their approval or making the communication:

	Board of Directors	General Shareholders' Meeting
Body authorizing clauses	V	V
	Yes	No
Is the general meeting informed about the clauses?	V	

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:

Audit Committee		
Name	Position	Category
MR. EMILIO NOVELA BERLÍN	CHAIRMAN	Independent
MR. IGNACIO MATAIX ENTERO	MEMBER	Independent
PEGASO TRANSPORTATION INTERNATIONAL SCA	MEMBER	Proprietary

% of Executive Directors	0.00
% of Proprietary Directors	33.33
% of Independent Directors	66.67
% of External Directors	0.00

Explain the functions, including, where appropriate, those additional to those legally provided, that this Committee has attributed, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether in the law or in the statutes or other social agreements.

In terms of the information and internal control systems, the following duties correspond to the:

- A) Audit Committee:
- Direct a unit or department in the Company that assumes the internal audit function and that ensures the effective operation of the information and internal control systems.
 - Supervise the process for the preparation, presentation and integrity of the mandatory financial information relating to the Company and, where appropriate, the Group.
 - Review the internal control and risk management systems on a periodic basis.
 - Supervise the effectiveness of the Company's internal controls, internal audit function and risk management systems, including those relating to tax.
 - Establish and supervise a mechanism that allows employees to communicate, confidentially and, if they deem appropriate, anonymously, any irregularities of potential significance, especially those of a financial and accounting nature, that they notice within the Company.
 - Ensure that the Board of Directors seeks to present the accounts to the General Shareholders' Meeting without limitations or qualifications in the audit report.
- B) In relation to the External Auditor:
- Raise to the Board of Directors for submission to the General Shareholders' Meeting proposals for the selection, appointment, re-election and replacement of the External Auditor of the accounts, as well as the conditions for their engagement.
 - Receive regular information from the external auditor about the audit plan and results of its execution, and verify that senior management take their recommendations into account.
 - Ensure the independence of the external auditor.
 - Establish appropriate relationships with the auditors of the accounts and the audit companies in order to receive information about those matters that may place the independence of them at risk, for consideration by the Audit Committee, and any others related to the process for auditing the accounts, as well as any other communications established in the legislation for the audit of accounts and in the auditing standards.
 - Issue a report that expresses an opinion about the independence of the auditors of the accounts or the audit companies, on an annual basis, prior to the issue of the audit report.
 - Where appropriate, encourage the group auditor to take responsibility for the audits of the companies that comprise the group.
- C) Report to the Board of Directors, prior to its adoption of the corresponding decisions reserved for the Board of Directors about the following matters:
- The financial information that, given its status as a listed company, the Company must publish periodically. The Audit Committee must ensure that the interim accounts are formulated in accordance with the same accounting criteria as the annual accounts and, to that end, should consider the appropriateness of a limited review by an external auditor.
 - The brochures for issuance, admission and other documentation relating to the issue or admission of shares.
 - The creation or acquisition of stakes in special purpose vehicles or in entities domiciled in countries or territories that are considered tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, could undermine the transparency of the group.
 - Related party operations, unless, by virtue of these Regulations or subsequent decisions by the Board of Directors, they correspond to another committee.
- D) In relation to the internal audit function
- The Company shall have an internal audit function that, under the supervision of the Audit Committee, ensures the effective operation of the information and internal control systems;
 - The person responsible for the internal audit function will present his/her annual work plan to the Audit Committee;
 - The Audit Committee will ensure the independence and effectiveness of the internal audit function.

- E) In relation to the control and risk management policy, the Audit Committee must identify:
- (a) The various types of risk (operational, technological, financial, legal, reputational, etc.) facing the Company, including in the area of financial and economic risks the contingent liabilities and other off-balance sheet risks.
 - (b) Set the risk level that the Company deems 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 the contingent liabilities and 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 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, from some Executive belonging to the Corporation or even without any Executive at all. The Audit Committee will perform in an annual basis, an annual report comprising all the activities carried out by it.

Identify the members of the Audit Committee that have been appointed taking into account their knowledge and experience in accounting, auditing or both and report on the date of appointment of the Chairman of this committee in office.

Names of experienced directors	MR. EMILIO NOVELA BERLÍN
Date the Chairman was appointed to his position	28/03/2015

Strategy Committee		
Name	Position	Category
MR. JOSÉ MARÍA ORIOL FABRA	MEMBER	Executive
MR. ANTONIO OPORTO DEL OLMO	CHAIRMAN	Independent
MR. JUAN JOSÉ NÁRDIZ AMURRIO	MEMBER	Independent
PEGASO TRANSPORTATION INTERNATIONAL SCA	MEMBER	Proprietary

% of Executive Directors	25.00
% of Proprietary Directors	25.00
% of Independent Directors	50.00
% of External Directors	0.00

Explain the functions attributed to this Committee, and describe the procedures and rules of organization and operation thereof. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether in the law or in the statutes or other social agreements.

This Committee was created in May 2016 under the provisions of Article 23.3 of the Board of Directors' Regulations and is governed by the same with respect to: the appointment of its members, the appointment of its Chairman and Secretary and their functioning -and, in particular, with regard to the convening of the meetings, delegation of representation through another member of the relevant committee, incorporation, non-convened meetings, holding of a meeting, system for adopting resolutions, voting in writing and without a session ("por escrito y sin session") and approval of the minutes of the meetings available for the members of the Board of Directors.

The functions of this Committee are consultative and shall act duly coordinated in order to safeguard the company's interest, contributing towards the good corporate governance of the Company, according to what is established in the Company's Bylaws and in the Regulations of the Board of Directors.

The Strategy Committee is an internal committee of Talgo and pursues its activity under the direct indications of the Chairman of the Board of Directors and of the Chief Executive Officer of the company that, furthermore, will be members of it. This Committee will:

- (i) Support the Board of Directors in the coordination and organization of Talgo's strategy through the dissemination, implementation and monitoring of the general strategy.
- (ii) Provide information and managing services with regard to the supervision and monitoring services as well as to the planning of the business strategy, which shall be determined by the Board of Directors of the Company and executed and boosted by its Chairman and its Chief Executive Officer, thereby enabling the development of the business strategy of Talgo.
- (iii) Establishes methodologies, analysis systems, decision supervision procedures and control instruments, in the interest and benefit of all the companies integrated in the group, always respecting the scope of ordinary management and effective management that corresponds to the governing and management bodies.
- (iv) Promotes the establishment of internal standards (on investments and divestments, purchases, corporate services, etc.) that serve as instruments of coordination at the service and interest of all Group companies, facilitating in this regard the supervision and monitoring of the decisions, in order to ensure compliance with the management strategies and guidelines established by the Board of Directors of the Company, as the parent company of the Group.

Appointments and Remuneration Committee		
Name	Position	Category
MR. FRANCISCO JAVIER BAÑON TREVIÑO	MEMBER	Proprietary
MR. JOHN CHARLES POPE	MEMBER	Independent
MR. ALBERTUS MEERSTADT	CHAIRMAN	Independent

% of Executive Directors	0.00
% of Proprietary Directors	33.33
% of Independent Directors	66.67
% of External Directors	0.00

Explain the functions, including, where appropriate, those additional to those legally provided, that this Committee has attributed, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether in the law or in the statutes or other social agreements.

1.- FUNCTIONS

Evaluate the necessary skills, knowledge and experience on the Board of Directors, define, accordingly, the necessary functions and skills in the candidates that must fill each vacancy, and evaluate the time and dedication necessary for them to adequately perform their duties. The Commission performs the functions assigned by law and by the standards that make up the company's Corporate Governance System:

- Evaluation of the degree of compliance with the objectives set to the Group's senior management for the year 2019.
- Analysis of the remuneration system of the members of the Board of Directors.
- Proposal regarding the approval of a new long-term incentive plan for executive directors and company executives.
- Analysis of the current structure of company executives. Action plan and proposals for its development and for the reinforcement of certain areas.
- Preparation of the legally required reports related to the appointment of new directors by the General Shareholders' Meeting and for the appointment by co-optation of directors to fill vacancies produced within the Board of Directors.
- Submit suggestions to the Board of Directors that allow for the best compliance with current legislation regarding the composition of this governing body and its operation.
- Establishment of the objectives for 2020 of the Group's senior management.

2.- PROCEDURES, RULES OF ORGANISATION AND OPERATION

The Board of Directors shall establish a permanent Appointments and Remuneration Committee composed of between three (3) and five (5) members, who shall be

external Directors. At least two (2) Independent Directors shall form part of the Appointments and Remuneration Committee. The Chairman of the Appointments and Remuneration Committee will be appointed from among the Independent Directors who are part of it.

The appointment of 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 an absolute majority. Its renewal will be made in the time, form and number decided by the Board of Directors of the Company.

The Secretary of the Appointments and Remuneration Committee may be one of its members or the Secretary or Deputy Secretary of the Board of Directors. In the latter case, the Secretary may not be a member of the Appointments and Remuneration Committee.

The Appointments and Remuneration Committee shall meet as often as necessary, in the opinion of its Chairman, for the exercise of its powers.

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

Notwithstanding the above, the Appointments and Remuneration Committee shall meet whenever the Board of Directors requests the issuance of a report or the approval of proposals within the scope of its powers and whenever, in the opinion of the Chairman of this committee, it results convenient for the proper development of its purposes. The Appointments and Remuneration Committee shall be validly constituted when the majority of its members attend the meeting, present or represented.

The resolutions shall be adopted by an absolute majority of the concurrent Directors (present or represented) to the Session, being the vote of the Chairman in case of a tie the casting vote. Similarly, any Board Member of the Company may also request that the Appointments and Remuneration Committee take into consideration, due to its suitability, potential candidates to fill vacancies as a Director.

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							
	Financial Year 2019		Financial Year 2018		Financial Year 2017		Financial Year 2016	
	Number	%	Number	%	Number	%	Number	%
Audit Committee	0	0.00	0	0.00	0	0.00	0	0.00
Strategy Committee	0	0.00	0	0.00	1	20.00	1	20.00
Appointments and Remuneration Committee	0	0.00	0	0.00	0	0.00	0	0.00



ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLIC AND LISTED COMPANIES

C 2.3 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 Board of Directors' Regulations and which are made available to interested parties on the Company's website: www.talgo.com/es/investors/

D. RELATED PARTY TRANSACTIONS AND INTRA-GROUP OPERATIONS

D.1 Explain, if applicable, the procedure for approving related party and intra-group transactions.

Article 40 of the Board of Directors' Regulations 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:

- D.1 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.
- D.2 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.
- D.3 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

Name or corporate name of the significant shareholder	Name or corporate name of group company or entity	Nature of the relationship	Type of operation	Amount (thousand euros)
No data available				N/A

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

Name or corporate name of managers or directors	Personal or corporate name of the related party	Link	Nature of the operation	Amount (thousand euros)
No data available				N/A

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.

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

Corporate name of the group entity	Short description of operation	Amount (thousand euros)
No data available		N/A

D.5 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:

Corporate name of the related party	Short description of operation	Amount (thousand euros)
No data available		N/A

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 Board of Directors' Regulations 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.

(v) 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.

(vi) 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

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 Board of Directors' Regulations 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 2019, 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 Department, 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' Regulations 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 termination 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 tax risks and to the extent that the risks of corruption are significant (understood as the latter with the scope of Royal Decree Law 18/2017), which may affect the achievement of business objectives:

The Group is exposed to different risks inherent in the different countries in which it operates that may impede achieving its objectives.

Therefore, Talgo has implemented a risk management model, approved and monitored by the Audit Committee, applicable to all subsidiaries and permanent establishments in all the countries where it carries out its activity that ensures that the main risks are identified, valued and prioritized and, on the other hand, to establish the mechanisms and basic principles to achieve a level of risk that allows: (i) sustainable growth of the business, (ii) protect the reputation of the Group and encourage good practices at Corporate Governance and (iii) deliver a product and provide a quality service in all those geographies where trains and Talgo auxiliary machines operate.

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:

- 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, negotiating financing contracts with fixed rates of interest.

Likewise, it is exposed to possible modifications of fiscal regulatory frameworks and uncertainties due to possible interpretative differences of the current tax legislation, specifically in those cases in which the existing doctrine relating to certain issues is scarce or disparate. To mitigate this, the Company employs qualified personnel as well as external advisors from first-rate firms in all of the countries in which it is established.

*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. The Group's Compliance Unit proactively watches over the effective functioning of the Group's compliance system.

*Criminal liability risks

The amendments 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 as well as an anti-corruption and anti-fraud policy, to introduce the necessary measures to prevent crimes from being committed in the business environment and to exempt from responsibility the different companies that compose the Group.

E.4 Identify if the entity has risk tolerance levels, including for the tax risk:

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:

No additional material or extraordinary risks arose during 2019, including tax risks, besides those details in the annual accounts, 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, as well as the procedures followed by the company to ensure that the board of directors responds to the new challenges that arise:

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 effects on the financial profitability of the Group.

The Economic and Financial Department of the Group 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 and tax risks.

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 are to try to avoid the impact of the variations in the currencies in the different contracts signed, so that the Group's results are a true reflection of its industrial and service activities.

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 itself against 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

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 supposes a consumption of financial resources that is managed with the opportune financing sources.

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, as well as negotiating financing at fixed interest rates.

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.

f) Tax risks

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.

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.

Crime Prevention and Detection Model

During the year 2019 the Talgo Group has continued to consolidate the Crime Prevention Model as established in article 31 bis of the Penal Code reformed after the approval of the Organic Law 5/2010, of June 22nd. In this regard, it is a duty of the Group to adopt and execute as efficiently as possible organizational and management procedures, which include surveillance and control measures to prevent any criminal activity in the organization and which guarantee at all times, the legality of the acts that, in the exercise of professional activities, carry out all the workers and managers of the Group.

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 What bodies and / or functions are 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's Bylaws and the Regulations 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 Group management, and specially the Economic and 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 Board of Directors' Regulations, 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 dismissal of the Directors that report directly to the CEO.

Meanwhile, the CEO, with the assistance of the Human Resources Director, 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 Human Resources Director.

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 Talgo Group's operations. All employees can access the updated organisational chart through the Talgo 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.

The Talgo Group has a Code of Conduct approved by the Board of Directors, which incorporates the values ethics that are to govern all the activities that are carried out, which includes those principles and values that govern the financial responsibility for the registration of operations, financial preparation and compliance with the applicable regulations.

The control of the implementation of the code of conduct corresponds to the compliance unit, which operates to ensure compliance with this code.

This code has been disseminated throughout the Group and with on-line training. It is available at Intranet of the Group, as well as on the website www.talgo.com

Talgo also has a whistleblowing channel managed by an external company that, in coordination with the members of the Compliance Department, analyses the possible infractions that have been communicated, suggesting if appropriate the application of the disciplinary regime applicable for that purpose. 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.

- 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.

Additionally, the management of the "Ethical Channel" or "Complaints Channel" has been outsourced through an independent company specialized in this area, in order to provide it with greater independence for communication to the Compliance Unit about possible irregularities of potential transcendence. The sender of this communication must be identified, although the system guarantees the confidentiality and 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 department 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 regular updating 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 Talgo 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 and its calendar.

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 courses and seminars. In addition, update 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 2019 were as follows:

- Courses related to new NIIF (IFRS - International Financial Reporting Standards). NIIF 9, NIIF 15 and NIIF 16 identified as standards with the most significant impact and changes in the short term.
- Specific training in relation to the Internal Control System for Financial Reporting (SCIIF).
- Specific training of the Crime Prevention and Detection Model.
- Training in Spanish and international taxation.
- Training in management control.
- Finance for non-financial.
- IT training on all upgrades, new SAP modules and new tools that help improve the control of financial information (SAP GRC, Government, Risk and Compliance)
- New 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 and 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 Talgo Group has carried out an analysis of the risks of financial information that may affect the true and fair view of the information it publishes. To do so, based on the financial statements at the end of the year, those transactions and material transactions have been identified, determining the relevant processes on which periodic monitoring and supervision is to be carried out.

From the identification and analysis of the risks associated to the achievement of the objectives of the reflection of the faithful image of the Talgo Group's financial information, the implemented controls are identified as well as the additional controls to be implemented.

The identification of the risks of the financial information is carried out through an understanding of the type of transactions carried out in the organization, determining their complexity and the applicable regulations, the volume of the same, the quantitative importance of the affected items, the complexity of the calculations, the need to use estimates and projections, the application of judgments and the unusual operations performed during the period under review.

- 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 happened during the period.

The process covers all of the financial reporting objectives, 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:
 - Existence and Occurrence: Registered transactions that are not valid, because they do not correspond to the exercise or due to lack of authorization (of the client, of the responsible with powers etc.).
 - Integrity: Operations and balances that must be registered are not.
 - Cutting of operations: Transactions recorded in different accrual periods.
 - Registration: Operations registered with errors in the data imputation (amounts, etc.).
 - Valuation: Transactions (assets, liabilities, expenses, income and commitments) recorded in which the amounts are not correct because the valuation has not been adequate.
 - Presentation, breakdown and comparability: Incorrect classifications and breakdowns in the different lines of the financial statements as well as in the accompanying explanatory notes.
 - Rights and obligations: Transactions involving the recording of the appropriate provisions derived from the operation itself.

2. In addition, as an internal control system, the Talgo Group Internal Control System focuses on the following objectives, in addition to the objective of obtaining reliable financial information:

- Efficiency in operations: search for the realization of operations through the necessary resources, but with adequate efficiency.
 - Compliance: avoiding non-compliance with applicable regulations and / or obligations acquired with third parties due to normal operations and that may give rise to claims and therefore possible losses for the company.
 - Asset safeguard: It is related to assets acquired or liabilities incurred (or cancelled) that have not been authorized in the corresponding level.
3. Explicit assessment of the probability of an error with material impact caused by fraud. To do so, the following guidelines are taken into account, making revisions mainly of:
- Agreements signed with third parties (suppliers, customers, etc.)
 - Persons authorized to sign agreements, contracts, etc.
 - The people who hold the powers in the organization
 - Valuations that are made based on judgments and / or estimates and have a significant impact on the generation of financial information.
 - Non-recurring transactions and transactions.
 - Review according to the Annual Internal Audit Plan established in the supervision process, the reliability and integrity of the IT systems that respond to the generation of financial information.
 - Continuous review of the best practices of the sector and the situation in the associations to which the Group is associated because of its relation with the evolution of the sector, etc.
4. Additionally, the possibility of risk of error is considered in certain processes not linked to specific transaction classes, but especially relevant in view of their importance in the preparation of the reported information, such as the trial review process and significant accounting policies or the closing and consolidation process. In this regard, and in order to cover the risks of these processes, the Group has appropriate control activities.
5. Conduct a periodic review of existing controls with those responsible for the generation of financial information in order to identify variations with respect to the previous period.
6. Periodic review of the control activities in each of the organization's processes that result in the financial information, establishing the recommendations detected, if necessary, for their implementation, as well as establishing those controls that are considered necessary.
- 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 Talgo Group has a process in place for identifying the consolidation perimeter, which is performed by the consolidation team that forms part of the Economic and Financial Department in collaboration with the Department for Oversight of Subsidiaries, and this information is identified and updated at each monthly close.

- a) The entry of new companies into the Talgo 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) Removal of Talgo Group companies.
- 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.

- 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 Talgo Group has descriptive documentation in place about the main processes which indicate the main flow of activities and the names of the people responsible for performing the various control activities. All this is documented through the SAP GRC software.

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
- Human Resources management
- Recognition of Revenues and Expenses
- Billing and Clients
- Procurement (materials and services)
- Investments
- Taxes
- Treasury
- Costs monitoring

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. The update of this system is continuous and adapts according to the identified risks.

In relation to the review of relevant judgments and estimates, the Talgo Group reports in its annual accounts in one of the notes of the memory of those most relevant areas in which there are estimates and important accounting judgments, as well as, of the key hypotheses contemplated with respect to them.

In this sense, the main estimates made refer to:

- Estimated loss of goodwill
- Investments in investees
- Income tax, and assets and liabilities of a fiscal nature
- Recognition of income using the percentage of realization method
- Useful lives of property, plant and equipment and intangible assets
- Provisions

The procedures for reviewing and authorizing the financial information of the Talgo Group that is published in the markets are initiated by its review by the Economic and Financial Management of each company, in the Consolidation Area, with the corresponding controls being established by the Economic and Financial Division of the Talgo Group. This process is controlled and supervised by the Internal Audit Department of the Talgo Group as part of its functions.

The individual and consolidated annual accounts and the quarterly financial reports are reviewed by the Audit Committee, as a preliminary step to their formulation by the Board of Directors, as established in the Regulations of the latter. In accordance with the provisions of the Board of Directors' Regulations, the Audit Committee proceeds to read and review the information, as well as its discussion, with the Internal Audit Department and with the External Auditors (in the case of annual accounts), as a preliminary step to forwarding it to the Board of Directors. Once the Audit Committee has reviewed this information and gives its agreement and observations to be incorporated, the annual accounts are signed by the Board of Directors.

In relation to the quarterly information, the Audit Committee reviews the critical financial information (financial information, changes in results, details on the main areas, changes in cash flows, etc.) prior to the forwarding of this information to the Board of Directors and later to the Market.

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

The Talgo 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 Talgo Group has developed appropriate systems involving access restrictions, protection plans, recovery, etc. in order to safeguard its operations.
- Security: the Talgo 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 formalized (acquisition, development, amendments and maintenance, indicating the people responsible, approvals, evidence, etc.).

The Talgo Group receives advice and support from independent external professionals who are experts in this field to ensure the suitability of the processes and controls implemented. In particular, during the year the new version of its ERP (Enterprises Resources Process) was updated to ensure, among other things, the safeguarding of information, data integrity, as well as greater efficiency in the daily operation of the Talgo Group.

Likewise, the Group is in the process of implementing the GRC module of its IT tool to ensure its excellence in matters of Corporate Governance, Risk Management and Regulatory Compliance.

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 Talgo 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.

Occasionally, valuations have been requested from independent experts (valuation of assets and liabilities). 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 ties held by the external professional with the organisation for the purposes of assessing their independence. Additionally, the results obtained by the third party are evaluated as well as the data used for their evaluation.

During the fiscal year, valuations (valuation of assets and liabilities) and reports to independent experts have been required. In these cases, it is the Group's policy to work with firms of recognized reputation and independence as well as to execute the necessary controls to supervise compliance with the work of these experts, intended to verify their competence, training, accreditation or independence, as well as the validity of the data and methods used and the reasonableness of the hypotheses used.

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 Talgo 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 companies of the Talgo Group, with which a direct and open relationship is maintained through the controllers and financial managers assigned to each subsidiary. The Economic and Financial Department is in charge of identifying, defining and communicating the accounting policies that affect the Talgo Group, and all of this is included 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 relevant departments have access.

In addition, the Talgo Group has a set of documents that are adapted to the needs, requirements and size of the Group, in which the rules for the preparation of financial information are determined and explained and how these standards should be applied to the operations of the entity called the Information Package. These documents not only explicitly refer to the rules that apply to each type of transaction, but also to develop and explain the interpretation of the same to fit exactly each type of transaction. These documents are updated periodically and at least annually, and incorporate the applicable rules for the corresponding year. The significant modifications made are communicated to the dependent companies to which they are applicable via e-mail, videoconference or from the holding of specific meetings with those responsible for them.

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.

On an annual basis, a schedule with the information needs for the preparation of the financial information of the following year is established, containing all the documents, responsible for them and dates of delivery of the documentation. This information report is made through the Financial Information Packages prepared by the Economic and Financial Department. These packages include the information necessary for the subsidiaries to report to the parent company in preparation for the Consolidated Financial Statements as well as the information to be included in the accompanying notes.

The process of consolidation and preparation of the financial information is carried out centralized in the subsidiary Patentes Talgo, there being a consolidation process broken down in which all the existing subprocesses are evidenced, personnel involved, locations, documentation used support and periodicity of the activities and controls that are carried out, among others. In this process, the financial statements reported by the subsidiaries of the Talgo Group in the established formats are used, as well as the rest of the financial information required for both the accounting homogenization process and the coverage of the established information needs.

The Talgo Group has a series of controls implemented in the financial information packages as well as adequate blocks that allow to assure the reliability and correct treatment of the information received from the different subsidiaries. It is worth noting the centralized performance of the various consolidation entries, analysis of changes in all equity items and results, changes in results obtained over previous periods and on approved budgets, analysis of the evolution of events and most relevant variables.

F.5. Supervision of the operation of the system.

State indicating the main features of at least:

F.5.1 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 Head of the 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 content of the annual work plan is reviewed and updated on an on-going basis for its subsequent approval by the Audit Committee.

On the basis of this plan, the Head of the 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 sent to the Committee.

In 2019, 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 annual plan of the company and identification of the main risks on the financial information.
- Fiscal audit for the period 2012-2015 and its impact on the following years.
- Review of the financial information sent to the CNMV on a quarterly basis, together with a review of the correct execution of the main control activities of the accounting, consolidation and information processes and of the principal judgments and estimates.
- Supervision of the process of formalization and documentation of all existing control activities in the main business cycles of the Talgo Group. This documentation complies with the criteria established in the recommendations made by the CNMV in its guide for the preparation of the description of the internal control system on financial information, and the Internal Control System for Financial Reporting is in place and in operation.
- Supervision of advice by technological experts in relation to the following areas within the management of the Company's information systems: governance of information systems, information, operations and network security and change implementation and application development, including GDPR, taking into account all the recommendations detected and implementing a plan of action and improvement in the short term.
- Audit of the financial information generation processes and the main subsidiaries, according to a rotation plan.
- Review of the critical processes of the Group focusing in the following areas: Procurement, HR, Logistics and Sales.
- Monitoring the status of proposed action plans in the face of weaknesses detected.
- Presentation of the results of the work carried out to the Audit Committee and to the Board of Directors in those cases in which it is deemed necessary by the Audit Committee.

F.5.2 Whether a procedure is in place for discussion whereby the auditor of 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 2019, 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.

Additionally, in the framework of the external audit, it meets with the external auditors to present the conclusions of their audit work (which include significant aspects detected in the scope of internal control). The Committee met four times with the external auditors in 2019, and obtained information about regulatory updates, and the progress and results of the external audit.

Meanwhile, the auditor of the Talgo 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 Talgo 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 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 2019.

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 CNMV (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) The respective areas of activity and possible business relationships between them, as well as those of the dependent company listed with 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.

 - c) The specific reasons why the company does not follow any of the recommendations of the Code of Corporate Governance and, if they exist, of the alternative rules that apply in that matter.

Compliant Partially compliant Explain

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

The company prepares all the reports indicated above, although only those that are mandatory in order to hold the Shareholder's General Meeting are published.

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

Compliant Explain

The Company publishes all of the information relating to the final Quorum, the composition of the General Shareholders' Meeting, and the results of the votes held on the resolutions immediately after the Meeting has finished.

8. The Audit Committee ensures 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.

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

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) Make public the attendance card model or absentee ballot or proxy delegation form with the necessary modifications so that the new items on the agenda and alternative proposals can be voted on according to the same terms as those proposed by the board of directors.
 - c) Submit all those points or alternative proposals to vote and apply the same voting rules than those formulated by the board of directors, including, in particular, presumptions or deductions regarding 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) Ensure that the proposals for appointment or re-election are based on a prior analysis of the Board of Directors.
 - b) 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.

These criteria may be relaxed:

- a) In companies with large capitalization in which there are few shareholdings that have legally considered significant.
- b) In the case of companies in which there is a plurality of shareholders represented in the board of directors and have no ties with each other.

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) Other boards of directors to which they belong, whether or not they are listed companies, as well as about the other paid activities that you do whatever your 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 ties.

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 force the Directors to report and, where applicable, resign in those cases that may harm the Company's credibility and reputation and, in particular, that force 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

The Appointments and Remuneration Committee periodically reviews the degree of performance of the functions attributed to the directors who, in turn, perform executive functions, as well as their degree of satisfaction - that of the directors. It also periodically analyses the profile of the board - the number of its members and the profile of each of them - in the light of the different challenges that the company has to face in order to detect in due time aspects that should eventually be reinforced. or correct

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.

Complies 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.

Complies 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

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 []

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 with the information and 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 termination 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.

Compliant [X] Partially compliant [] Explain []

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 [X] 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 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.

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 risk control and management systems and, in particular, that all important risks that affect society 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.

Compliant Partially compliant Explain

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 contracts of senior management.

b) Check compliance with the remuneration policy established by the Company.

c) Periodically review the remuneration policy applied to the Directors and Senior Executives, 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 information on the remuneration of directors and Senior Executives contained in the different corporate documents, including the annual report on directors' 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 Executives.

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

53. 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.
 - g) 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.
- Compliant [] Partially compliant [] Explain []

The functions included in letters a), b), g) and h) are assigned to the Audit Committee and those included in letter e) to the Strategy Committee.

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 [X] 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.

Complies [X] Partially compliant [] Explain []

Information on corporate social responsibility is provided through the Management Report and the Non-Financial Information Statement of the Group's consolidated annual accounts.

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 [X] 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 shares that Directors need to transfer, where applicable, to meet the costs relating to their acquisition.

Compliant [X] Partially compliant [] Explain []

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) They are configured on the basis of a balance between compliance with short, medium 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 a 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

Criteria a) and c) are met since objectives are established for the accrual of the variable that are determined and measurable, and the achievement of medium and long-term objectives (for example, MIPs) is also taken into account.

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.

Complies Partially compliant Explain Not applicable

The General Shareholders' Meeting held on May 21, 2019, approved the execution of a long-term incentive plan that includes, amongst others, the Executive Directors. The Plan contemplates the obligation, by the Collective of Beneficiaries, to dedicate a % of the Net Amount received to the acquisition of shares of the Company.

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

The variable remuneration of the Executive Directors is accrued and paid according to the objectives achieved in line with the parameters established to measure the business and personal performance objectives. Once the variable components have been measured, agreed upon and paid, it is not contemplated in the Directors contracts to claim the reimbursement of such amounts.

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 RELEVANT INFORMATION

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, any other information, clarification or meaning related with the foregoing sections of the report may be included here provided they are relevant and not reiterative.

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, it will mention if it has adhered to the Code of Good Tax Practices, of July 20th, 2010:

The Group to which the Company belongs supports the United Nations Global Compact.

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

27/02/2020

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

Yes
 No

TALGO, S.A.

ANNUAL ACCOUNTS AND DIRECTORS' REPORT FOR 2019

Carlos de Palacio y de Oriol
Chairman

Antonio Oporto del Olmo
Director

José María de Oriol Fabra
CEO

Ramón Hermosilla Gimeno
Director

Francisco Javier Bañón Treviño
Director

Ignacio Mataix Entero
Director

Emilio Novela Berlín
Director

Albertus Meerstadt
Director

Segundo Vallejo Abad
Director

NUEVA COMPAÑÍA DE INVERSIONES, S.A.
Represented by Miguel Abelló Gamazo

Juan José Nardiz Amurrio
Director

PEGASO TRANSPORTATION INTERNATIONAL, S.C.A.
Represented by Javier Olascoaga

John C. Pope
Director

The Board of Directors in their meeting of 27 February 2020 have prepared these annual accounts and directors' report in compliance with the requirements settled in the article 253 of the Law of Capital Companies and the Art. 37 of the Commercial Code, with a view to their approval by the General Shareholders' Meeting. These annual accounts and directors' report are set out on 91 pages, all of which have been signed by the Secretary, the last page being signed by all the directors.

Signed: María José Zueco Peña
Secretary

**DIVERSITY POLICY OF THE BOARD OF DIRECTORS
OF TALGO S.A. AND DIRECTOR CANDIDATE
SELECTION POLICY**



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I. Introduction

The Board of Directors of TALGO S.A. (hereinafter, the “**Company**” or “**TALGO**”) recognises transparency in all of its actions, as one of the key elements of its corporate governance strategy, including the process for selecting candidates for the Board of Directors and the diversity of the Board of Directors.

On 18 February 2015, the Board of Spain’s National Securities and Exchange Commission approved the Code of Good Governance for Listed Companies.

In its Recommendation 14, the aforementioned Code of Good Governance establishes that *“the Board of Directors approves a selection policy for directors that: a) is specific and verifiable; b) ensures that nominations for appointments and re-elections are grounded in a prior analysis of the needs of the Board of Directors and; c) promotes diversity in terms of knowledge, experience and gender”*.

Similarly, on 25 November 2017, Royal Decree Law 18/2017, dated 24 November, was published in the Official State Gazette, which modified the Commercial Code, the revised text of the Capital Companies Act approved by Royal Decree Law 1/2010, dated 2 July, and Law 22/2015, dated 20 July, governing the Audit of Accounts in terms of non-financial information and diversity.

In this regard, and in accordance with the new wording of Article 540.4.c, subsection 6 of the Capital Companies Act, listed limited companies must include in their Annual Corporate Governance Report *“a description of the diversity policy applied in relation to the Board of Directors, including its objectives, the measures adopted, the manner in which those measures have been applied and the results thereof during the reporting period, as well as the measures that, where appropriate, the Appointments Committee has agreed in this regard”*.

In this context, the Board of Directors of TALGO S.A. has approved this diversity policy for the composition of the Board of Directors and the public selection of director candidates, which is specific and verifiable, and which ensures that nominations for

the appointment of Company directors are grounded in a prior analysis of the needs of the Board of Directors and guarantees that the Board of Directors is characterised by diversity in terms of knowledge, experience, origins, nationalities, age and gender.

II. Purpose and scope of application

The Diversity Policy for the Board of Directors of TALGO, S.A. and the Selection of Directors has the aim of ensuring that nominations for the appointment and re-election of Directors are grounded in a prior analysis of the needs of the Board of Directors of the Company and promote diversity in terms of knowledge, training and professional experience, age and gender, without suffering from implicit biases that may imply discrimination of any kind, in particular, due to gender, disability or any other personal condition.

To this end, this Diversity Policy shall be applied to the election of director candidates who are physical persons and, in the event that director candidates are legal persons, to the election of the physical persons who act as their representatives.

III. Selection process

The selection of candidates for TALGO's Board will follow the principles detailed below:

1. The Board of Directors shall have a balanced composition, with an ample majority of non-executive directors and an appropriate split between proprietary and independent directors.
2. The Board of Directors shall ensure that the selection process for directors promotes diversity in terms of knowledge, training, professional experience, age and gender, without suffering from implicit biases that may imply discrimination of any kind. All of this, to ensure that the Board of Directors has a diverse and balanced composition that, as a whole: (i) enriches analysis and

debate; (ii) contributes diverse points of view and positions; (iii) facilitates decision-making; and (iv) enjoys absolute independence.

Likewise, the Board will ensure that candidates for non-executive director positions have sufficient time available to be able to properly perform their functions.

3. Similarly, the process for selecting candidates for the Board shall be based on a prior analysis of the needs of the Company and the Group. This analysis shall be carried out by the Board of Directors of the Company, on the basis of advice and following a mandatory justification report from the Appointments and Remuneration Committee, and as established in the Regulations governing the Board of Directors of the Company.

4. This justification report from the Appointments and Remuneration Committee shall be published when the General Shareholders' Meeting to which the ratification, appointment or re-election of each director shall be submitted is convened.

5. Each year, the Appointments and Remuneration Committee shall verify compliance with the Diversity Policy for the Board of Directors of TALGO, S.A. and the selection of directors and shall report its findings in the Annual Corporate Governance Report and in those other documents that it deems appropriate.

IV. Director candidates.

1. The Board of Directors – and the Appointments and Remuneration Committee - shall ensure, within the scope of their remit, that nominations for candidates that are submitted to the General Shareholders' Meeting for appointment or re-election as Directors, and appointments that are made directly to cover vacancies in the exercise of their powers of co-optation, shall fall to honourable and suitable people, with recognised solvency, competence, experience, qualifications, training,

availability and commitment to their function. It shall also ensure that the selection of candidates achieves an appropriate balance across the Board of Directors as a whole, to enrich decision-making and contribute diverse points of view to the debates held about the matters within its remit.

2. In the event that a director is a legal person, the physical person that represents it, in the exercise of the duties inherent to the position of director, shall be subject to the same requirements indicated in the previous section. The incompatibilities and enforceable duties established for directors in the Corporate By-Laws, in the Regulations governing the Board of Directors and in this present document, shall also be applicable to him/her in a personal capacity.

In relation to this, director candidates shall be persons of recognised prestige, solvency, training and professional experience, especially in the fields of railway services, economics-finance, technology (either in IT or mechanical train sense), accounting, audit, legal, risk management and/or business administration, with leadership in teams formed by people belonging to different areas of activity, and extensive knowledge in large companies.

V. Diversity in the composition of the Board

Efforts shall be made to ensure that the selection of candidates achieves a diverse and balanced composition of the Board of Directors as a whole, to enrich decision-making and contribute diverse points of view to the debates held about the matters within its remit.

In this sense, the Board of Directors assumes the commitment to promote diversity in its composition and, to that end, the director candidate selection process shall assess candidates with profiles whose appointment favours the diversity of the director group in terms of their abilities, knowledge, experience, origins, nationalities, age and gender.

The criteria of diversity shall be chosen on the basis of the nature and complexity of the businesses carried out by the Company and its Group, as well as the

social and environmental context in which it is present. In addition, depending on the needs of the Board of Directors, other criteria may also be taken into consideration.

The candidate selection process shall avoid any type of bias that may imply discrimination of any kind, including for reasons of gender, ethnic origin, age or disability, amongst others. In particular, any type of bias that hinders the appointment of female directors and that may prevent the fulfilment of the objective established by the National Securities and Exchange Commission, whereby the number of female directors shall account for at least 30% of all Board members by 2020, shall be avoided.

The Board of Directors shall periodically evaluate the degree of compliance and effectiveness of the National Securities and Exchange Commission, its Diversity Policy and, in particular, the percentage of female directors on the Board at any given time. Moreover, the Annual Corporate Governance Report will include a detailed description of that Policy, as well as of the objectives set in that regard and the results obtained.

VI. Grounds for incompatibility established by Law or by the Corporate Governance System

People who are subject to any legal incompatibility for the performance of their role may not be considered as director candidates, nor may those who do not meet the requirements established by the Company's Corporate Governance System, included in the Regulations governing the Board of Directors to become directors. In particular, the following persons may not be considered as director candidates:

- a) Companies, domestic or foreign, and those whose major shareholder, directly or indirectly, holds a stake, directly or indirectly, in a company that operates in the railway sector or other sectors, as a competitor of the Company, as well as directors or senior managers thereof and persons who, where appropriate, were nominated by them in their capacity as shareholders.
- b) Persons who, in the two (2) years prior to their possible appointment, have held senior positions in public administrations that are incompatible with the

performance of their duties as a director of a listed company, in accordance with regional or state legislation, or have held positions of responsibility in any sector in which the company carries out its activity. In any case, the appointment, ratification and re-election of directors must comply with the provisions of the law and the Rules governing the Company's Corporate Governance System.

c) Physical or legal persons that are subject to any other case of incompatibility or prohibition governed by the general rules, including those who may have interests that are opposed to those of the Company or any of the companies in the Group, in any way.

VII. External validation

The Company may rely on collaboration from external advisors to validate that director candidates meet the conditions referred to in Section IV and that they are not subject to any of the impediments set out in Section VI.

The Company's policy for the selection of directors is contained in the Regulations governing the Board of Directors, approved by the General Shareholders' Meeting held on 28 March 2015, and was expanded and amended by agreement of the Board of Directors on 22 February 2018.